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STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

March 23, 2005

Ms. Ruth Ann Pickering
President
Homeless Housing and Assistance Corporation
40 North Pearl Street
Albany, NY 12240

Re: Internal Controls over Major
Financial Operations
Report 2004-S-19

Dear Ms. Pickering:

Pursuant to the State Comptroller's authority as set forth in Article X, Section 5 of the State Constitution and Section 2803 of the Public Authorities Law, we audited the Homeless Housing and Assistance Corporation's internal controls over its major financial management functions for the period April 1, 2002 through March 31, 2004.

A. Background

Chapter 61 of the Laws of 1983 established the Homeless Housing and Assistance Program (HHAP) in response to the growing problem of homeless families and single persons throughout New York State. The Office of Temporary and Disability Assistance's (OTDA) Bureau of Housing Services (Bureau) administers the HHAP, which provides capital grants and loans to not-for-profit corporations, charitable organizations, municipalities, and public corporations so they can acquire, construct, or rehabilitate housing in order to expand the supply of housing for low income persons who are, or would otherwise be, homeless.

In 1990, the New York State Legislature established a public benefit corporation, the Homeless Housing and Assistance Corporation (HHAC), to oversee the HHAP. HHAC is comprised of a three-member Board of Directors (Board), which at the time of our review were the Commissioner of OTDA, the Commissioner of the Division of Housing and Community Renewal, and the Vice President of the New York State Mortgage Agency.

The daily operation of the HHAP is managed by various Bureau and OTDA employees. For example, HHAC's President and Vice-President are employees of the Bureau and primarily focus on overseeing the efficiency and effectiveness of projects funded by the HHAP. HHAC's Treasurer and Assistant Treasurer are employees of OTDA's Finance Unit who, along with a small number of other OTDA staff, are responsible for accounting for HHAC's business activity, including its

investment activities. The Division of the Treasury of the Department of Taxation and Finance (Treasury) serves as the fiscal agent for HHAC. The Treasury is the custodian of HHAC's banking and investment accounts and processes all financial transactions at the direction of HHAC Finance staff.

The HHAP's primary source of funds is a State appropriation that is typically \$30 million annually. Since its inception in 1983, the State Legislature has appropriated over \$500 million to HHAP, which the Bureau and HHAC have used to fund over 500 projects throughout the State.

B. Audit Scope, Objectives, and Methodology

The objectives of our audit were to determine whether HHAC has established policies and procedures that provide an appropriate level of internal control over its basic financial operations and to determine whether HHAC employees follow those policies and procedures. Our audit covered the period April 1, 2002 through March 31, 2004.

The audit focused on seven basic aspects of HHAC's financial operations: 1) Board Governance; 2) Revenue and Collection Activities; 3) Accounting and Information Systems; 4) Cash and Investments; 5) Payroll; 6) Procurement and Contracting; and 7) Equipment and Asset Management. To accomplish our objectives, we interviewed appropriate HHAC staff, reviewed applicable policies and procedures for each of the seven financial operations, and conducted limited compliance testing to provide reasonable assurance that HHAC staff complied with established policies and procedures.

We conducted our audit in accordance with Generally Accepted Government Auditing Standards. Such standards require that we plan and perform our audit to adequately assess those operations of HHAC that are within our audit scope. Further, these standards require that we understand HHAC's internal control structure and its compliance with those laws, rules and regulations that are relevant to the operations included in our audit scope. An audit includes examining, on a test basis, evidence supporting transactions recorded in the accounting and operating records and applying such other auditing procedures as we consider necessary in the circumstances. An audit also includes assessing the estimates, judgments and decisions made by management. We believe that our audit provides a reasonable basis for our findings, conclusions and recommendations.

In addition to being the State Auditor, the Comptroller performs certain other constitutionally and statutorily mandated duties as the chief fiscal officer of New York State, several of which are performed by the Division of State Services. These include operating the State's accounting system; preparing the State's financial statements; and approving State contracts, refunds, and other payments. In addition, the Comptroller appoints members to certain boards, commissions and public authorities, some of whom have minority voting rights. These duties may be considered management functions for purposes of evaluating organizational independence under Generally Accepted Government Auditing Standards. In our opinion, these management functions do not affect our ability to conduct independent audits of program performance.

C. Results of Audit

In our opinion, HHAC has adequate internal controls in place to provide assurance that it achieves its goals and objectives. However, we identified some areas in which HHAC could strengthen its internal controls or improve compliance with its existing policies and procedures by implementing our recommendations. Internal control is the integration of the activities, plans, attitudes, policies and efforts of the people of an organization to provide reasonable assurance that the organization will achieve its objectives and mission. Specifically, internal controls should:

- Promote orderly, economical, efficient and effective operations; and produce quality products and services consistent with the organization's mission;
- Safeguard resources against loss due to waste, abuse, mismanagement, errors and fraud;
- Ensure adherence to laws, regulations, contracts and management directives; and
- Develop and maintain reliable financial and management data, and accurately present that data in timely reports.

1. Board Governance

The Board is actively involved in overseeing HHAC operations.

The Board takes an active role in overseeing the operations of HHAC. The HHAC Board has established corporate By-Laws that require the Board to meet at least once during each year, with other meetings held at the discretion of the Board. The By-Laws also identify the operational responsibilities of the Board members and officers and require the annual independent audit of HHAC's financial statements. During our audit period, the Board met twelve times, which is ten more times than required by their By-Laws. The Board annually approves all HHAC housing grant awards, which is HHAC's primary business function. Prior to approving an award, the Board is provided with a significant amount of detail on the proposed project, including its operating plan and budget. All modifications to grant awards also require Board approval. During Board meetings, members are also provided with information on the status of previously funded projects along with any problems being experienced with award recipients. In addition, the Board is provided with financial reports which include detailed information on HHAC finances, including breakdowns on revenues and expenses, cash balances, payroll costs, and interest income.

There are two areas where we believe the Board could take additional actions. One area is the adoption of a formal Code of Ethics. A key concern in public authorities and public benefit corporations is the transparency of entity business activities and the independence of board members and officers in the stewardship of public funds. To that end, authorities should institute a formal Code of Ethics that provides the framework for acceptable business practices beyond the financial disclosure requirements and other provisions imposed by the 1987 New York State Ethics in Government Act. The Code of Ethics should prescribe how the corporation expects its board members and employees to deal with actual and potential conflicts of interest, appearances of impropriety, and potential violations of the State Public Officers law. While we found no evidence of unethical behavior at HHAC, we recommend that the HHAC Board develop and adopt a formal

Code of Ethics to lessen the risk of unethical behavior in the future.

The second area relates to the review of internal control assessments. Sections 2931 and 2932 of the Public Authorities Law require the governing board of each public authority and public benefit corporation to establish internal control guidelines and a program of internal control review. OTDA annually completes a vulnerability assessment of HHAC's internal controls. The 2003 and 2004 assessments of HHAC identified that the HHAC functions reviewed have a high overall vulnerability risk. However, the Board was not provided with the results of either of OTDA's assessments. In addition, these assessments lacked an essential step; the development, implementation, and monitoring of internal controls to mitigate any areas in which the vulnerability was assessed as high or for which specific internal control weaknesses were identified. We believe that the Board should review these assessments and request HHAC management to identify the follow up actions taken to address any weaknesses.

(In responding to our draft audit report, HHAC officials stated that they will provide the internal control review conducted by OTDA to the HHAC Board.)

HHAC officials indicated that employees receive general training provided by OTDA and are occasionally e-mailed information on some policies and procedures. However, employees do not receive training on internal control standards or evaluation techniques specific to their job duties with HHAC. The Board should insure that all officers and employees are provided with training on internal control standards and the techniques for evaluating internal controls.

(In responding to our draft audit report, HHAC officials pointed out that turnover of both Board members and employees is negligible and policy and procedures materials currently exist, however, this information is not contained in one discrete manual that can be distributed to members and employees.)

2. Revenue and Collection Activities

HHAC generally has no billable revenue. In fact, HHAC only had one active accounts receivable during our audit period. The account's repayment terms were defined in a loan agreement with the payer and this account was repaid to HHAC in accordance with the loan's terms. Accordingly, HHAC has not developed policies and procedures for revenue billing and collecting accounts receivable, including past due accounts. HHAC deems such policies unnecessary and we agree.

3. Cash and Investments

HHAC's policies and procedures for cash receipts provide adequate assurance that its cash is properly safeguarded, accounted for, and deposited into the appropriate account.

HHAC generally only receives cash from its State appropriation. HHAC draws down funds from its appropriation as needed to cover operational costs. The draws are initiated by OTDA's Budget Office, acting on behalf of HHAC. The Budget Office prepares a memo which it sends to HHAC's Finance Office when a draw is necessary. The Finance Office then prepares a voucher and

batch transmittal which it sends along with the budget memo to OTDA's Accounts Payable Office, which submits the request to the State Comptroller's Office (Comptroller). Checks are sent to the Treasury which deposits them into HHAC's checking account. During its monthly bank reconciliations, HHAC's Finance Office verifies that all deposits in the bank account match the deposits on HHAC's books. HHAC's Finance Office also gets a copy of all deposit slips from its bank which it can also use to verify deposits.

HHAC's internal controls provide adequate assurance that cash disbursements are properly authorized and recorded.

All disbursements require a warrant which must be reviewed and approved by either the HHAC President or Vice-President and the HHAC Treasurer or Assistant Treasurer. HHAC program staff review back-up documentation for each warrant to ensure expenses are accurate and adequately supported. HHAC Finance Office staff review each warrant for accuracy and verify that sufficient cash is available in the HHAC checking account to cover the disbursement. If so, HHAC Finance Office staff record the disbursement in the accounting system. At the end of each week, HHAC Finance Office staff compile all approved disbursements and submit a transmittal letter along with each of the warrants to the Treasury authorizing them to issue the checks. Each month, HHAC's Finance Office staff reconcile its approved disbursements to its bank statements and accounting system to ensure that the Treasury issued only authorized checks.

We tested a sample of 10 disbursements and found that all 10 were properly authorized and recorded in accordance with HHAC's established controls.

HHAC's investment policy provides adequate assurance that its investments are properly safeguarded and accounted.

HHAC has an investment policy which it created in 1990. It has not been modified since that time. The Treasury, as HHAC's fiscal agent, invests available HHAC funds in relatively low risk seven-day repurchase agreements with historical yields of about 1.4 to 1.5 percent. The Treasury is required to receive authorization from the HHAC Treasurer prior to investing any of HHAC's funds. All of HHAC's investments are fully collateralized in government-backed securities, the principal and interest of which are guaranteed. HHAC prepares annual investment reports and has its investments independently audited each year, as required by the Public Authorities Law.

4. Payroll

The policies and procedures HHAC follows for time and attendance provide adequate assurance that employee time and attendance records are accurate as long as supervisors are following these policies and procedures.

HHAC follows OTDA's policies and procedures for time and attendance. Employee time and attendance records are maintained by OTDA's Human Resources Office. The supervisor of each HHAC employee reviews and approves timesheets for processing. Supervisors are required to document all employee absences using Authorization of Leave forms. Supervisors must maintain

these forms for a period of one year. OTDA's Human Resources Office uses a computer system to automatically calculate HHAC employees' leave accruals.

During a recent State Comptroller's Office audit of OTDA (report 2004-S-35), it was determined that OTDA needs to improve compliance with its time and attendance policies (particularly with regard to supervisory review and approval of timesheets). Since HHAC follows OTDA's policies, we did not test HHAC's compliance with these policies, in order to avoid duplicating the efforts of the prior auditors. We recommend that HHAC officials ensure they implement the relevant recommendations of that audit, if they have not done so already.

HHAC generally has adequate procedures in place to ensure that payroll changes (additions and deletions) are processed accurately and timely. However, HHAC has not documented its procedures for adding new employees to its payroll system.

HHAC follows standard OTDA procedures for adding and deleting employees from its payroll system. The personnel liaison for HHAC ensures the proper paperwork is completed and forwards this information to OTDA's Personnel Office. The Personnel Office makes changes to OTDA's and the State's payroll system. However, we noted that the procedures for deleting employees from the payroll are documented while the procedures for adding new employees to the payroll system are not. HHAC should ensure that the procedures it uses for adding new employees to the OTDA payroll system are documented.

(In responding to our draft audit report, HHAC officials indicated that adding staff to the HHAC payroll is carried out by OTDA's Bureau of Budget Management (BBM). While BBM technical procedures for adding staff to their payroll system are not currently documented, they are standardized for all agency positions, and are centrally administered by BBM staff.)

We tested HHAC's compliance with its procedures for deleting employees from its payroll system; however, we did not test HHAC's adding of employees to payroll, as HHAC had no new employees during our audit period. We found that HHAC complied with its procedures for payroll deletions for each of the five employees deleted from its payroll system during the 2003-04 State fiscal year.

HHAC's policies and procedures for overtime appear to provide adequate assurance that overtime is properly authorized and processed accurately and timely.

Overtime for HHAC employees is very rare. Each quarter, OTDA's Budget Office estimates how many hours of overtime HHAC employees will work. This estimate includes the list of employees eligible for overtime and a limit on the number of hours allowed. If HHAC employees exceed their overtime limits, the estimate is amended. In addition, HHAC employees' supervisors approve overtime as part of their review of the employee's time sheet each pay period. These procedures appear to provide adequate controls over overtime. However, since the amount of overtime HHAC employees received was relatively small (overtime amounted to only about three percent of HHAC's total personnel service costs for fiscal year 2003-04), we did not test HHAC's compliance with its policies and procedures for overtime.

5. Procurement and Contracting

HHAC procedures for purchases provide adequate assurance that purchases are properly authorized, received and recorded.

Any purchase request over \$2,000 must receive prior approval from the Board. For purchases under \$2,000, the Board passed a resolution authorizing the President, Vice President, Comptroller or the Board Chairman (or designee) to approve these expenditures. HHAC made two purchases of computer-related equipment during our audit period. Both purchases received proper authorization from either the Board or HHAC officers. In addition, HHAC had a record of receipt for both purchases and properly recorded the purchases in its accounting system.

HHAC's procedures for purchases provide adequate assurance that the purchases are economical and necessary and made in an efficient manner.

HHAC procedures are to obtain quotes from vendors and analyze them for the most cost effective/efficient proposal. HHAC staff review and approve the vendor proposal prior to presentation to the Board. The Board ultimately approves/disapproves the purchase based on the analysis and justification provided by HHAC staff. For contracts, HHAC follows OTDA's procurement guidelines. Documentation maintained by HHAC and Board meeting minutes showed that quotes were obtained and that cost comparisons were prepared for both purchases made during our audit period, which adequately justified the reasonableness and need for those purchases.

6. Equipment and Asset Management

HHAC over-reported its equipment assets in its 2003-04 financial statements.

In its 2003-04 financial statements, HHAC reported over \$63,000 in equipment as assets. However, we determined that this reported amount was too high, as HHAC had previously disposed of a large percentage of this equipment. Specifically, in May and August of 2002, HHAC officials claimed they disposed of 18 computers they had purchased in 1998 for roughly \$39,000. Even though HHAC had reportedly disposed of this equipment in 2002, HHAC still had the equipment recorded as assets in their accounting records at the time of our audit. An HHAC Finance Office official indicated that these computers were still reported as assets because HHAC program officials never notified the HHAC Finance Office that they had disposed of this equipment. HHAC needs to ensure this equipment is no longer reported as HHAC assets. In addition, HHAC needs to ensure the HHAC Finance Office is timely notified of all equipment dispositions in order to ensure such dispositions are accounted for.

HHAC needs to improve its tracking of equipment inventory and its communication and documentation of equipment disposals.

For the aforementioned 18 computers, we matched serial numbers on the original invoice for these computers to HHAC's equipment inventory records to confirm this equipment had been removed from the inventory record and found that all 18 were removed from the records. However, HHAC officials could only tell us where 12 of the 18 computers were sent to as surplus property.

HHAC officials did not know the location of the other six computers. While this may simply be a record-keeping problem, there is a risk that these six computers were not properly disposed of and could be in the possession of unauthorized individuals. HHAC should determine the actual location of the six computers they cannot account for to ensure this equipment is in the possession of only authorized parties. In addition, HHAC should maintain an adequate documentation trail to support the disposition of all equipment.

In 2003, HHAC began using a new equipment inventory tracking system developed by OTDA called the Procurement Manager Inventory System. Before then, HHAC kept track of their equipment inventory on spreadsheets. To test whether HHAC had a complete record of all equipment on hand, we conducted a physical inventory of all equipment HHAC had recorded as assets in their financial statements and had not yet disposed of. We found the serial number on one piece of equipment, a laptop, did not match the serial number listed on the inventory report HHAC provided. In addition, the laptop was not properly tagged. HHAC indicated that the serial number was erroneously provided and that the tag most likely fell off. Additionally, a review of HHAC's Procurement Manager Inventory report as of September 7, 2004 showed four items, including the laptop in question, were not entered into inventory until August 2004 - two of which were not entered until the day we conducted our physical inventory. The items in question were purchased in 2001, 2003 and March 2004. These items should have been entered into inventory when HHAC began utilizing OTDA's Procurement Manager Inventory System in 2003.

HHAC reported an inappropriate amount of depreciation expense in its financial statements for the fiscal year ended March 31, 2003.

HHAC reported full depreciation of \$7,772 for the previously mentioned 18 computers, even though they had disposed of the computers in May and/or August of 2002. The depreciation expense should have been prorated based on the date the equipment was disposed. HHAC should make necessary adjusting entries to account for the over-reporting of depreciation expense for fiscal year ended March 31, 2003. We were unable to calculate the exact amount of the necessary adjustment as HHAC officials did not provide us with adequate documentation of the dates each piece of equipment was disposed of. However, the adjustment should equal at least \$4,534, which is the amount of over-reported depreciation expense when using a conservative disposal date of August 31, 2002.

7. Accounting and Information Systems

HHAC has adequate procedures in place for backing up its accounting and information systems and for keeping the data on these systems secure.

HHAC officers and employees only have access to HHAC data needed to perform their job duties. For example, only approved HHAC Finance Office staff have access to HHAC's accounting information system. In addition, employees are required to enter a user ID and password before gaining access to HHAC systems. Employees are required to change their passwords every six months. In addition, their passwords must meet specific format requirements (capital letter, number, etc.), and cannot be used more than once within the same four-year period. The system logs users off after five minutes of inactivity. We verified that these controls exist during visual observations

of HHAC employees' computers.

None of the information in HHAC's systems is considered confidential, and therefore security of confidential information was not an issue during this examination.

OTDA's Division of Program Support and Quality Improvement, Bureau of Technology and Office Automation backs up OTDA's data systems daily on its server, including the HHAC data. This data is also backed up daily on tapes, which are stored at an off-site location. In addition, HHAC Finance Office staff keep their own separate backup of HHAC's accounting system data on disk.

HHAC generally has good controls in place to ensure data on its accounting system is accurate. However, HHAC should improve the controls over the payee name in its accounting system.

Edit/validity checks are built into some of the fields in HHAC's accounting system to help ensure data is accurately entered. We reviewed two disbursements and all State appropriation deposits made by HHAC during our audit scope and determined that all of these transactions were accurately and timely recorded in HHAC's accounting system.

However, HHAC should improve the controls over the payee field in its accounting system. In our review of data exported off of HHAC's accounting system, we identified numerous inconsistencies in the payee name field (i.e., the same payee had more than one payee name). Specifically, we reviewed roughly 10 percent of the payee names recorded on HHAC's accounting system during our audit scope. We found one payee had eight different payee names recorded, one payee had six, one payee had four, and three payees had three. HHAC should strive to ensure each specific payee's information is consistently recorded. This will enable HHAC management to better track payments made to each payee.

HHAC does not have adequate assurance its vital information systems will be timely restored in the event of a disaster.

In order to ensure operations will be successfully restored in a timely manner in the event of a disaster, agencies must not only develop a detailed disaster recovery plan, but they must periodically test the effectiveness of this plan. HHAC follows OTDA's disaster recovery plan for its information systems. We found this plan is very detailed and appears to adequately address the needs of HHAC. However, OTDA officials have not tested whether this plan would truly be effective. An OTDA official stated that OTDA does test the plan every day when it backs up data. While we agree that OTDA may be testing the effectiveness of its backup procedures, it has not tested the effectiveness of its recovery procedures. During our closing conference with HHAC, OTDA officials stated that they thought the NY State Office for Technology (OFT) may test OTDA's recovery procedures as part of their duties of running the State's data centers. However, OFT officials stated that they do not get involved with testing agency's applications unless the agency asks them to, which we found no evidence OTDA has ever done. Without such testing, HHAC cannot be assured that its data will be timely recovered in the event of a disaster. To limit the potential disruption in operations in the event of a disaster, HHAC should ensure it has an effective disaster recovery plan in place for its information systems that will enable the timely

recovery of its significant financial and programmatic data. To do so, HHAC should periodically test the effectiveness of its plan.

Recommendations

1. *Develop and distribute to all HHAC Board members, officers, and employees a formal Code of Ethics that establishes clear ethical boundaries for all involved parties.*

(HHAC officials stated that this recommendation will be discussed with the HHAC Board and HHAC Counsel to determine if, in their opinion, measures beyond those already prescribed by State law should be established.)

2. *Develop comprehensive internal control guidelines for all of HHAC's significant financial operations. Once developed, ensure all HHAC members, officers, and employees are provided with these guidelines.*

3. *Develop procedures for reviewing internal controls. If the Board wishes to rely on OTDA's vulnerability assessments as its mechanism for reviewing internal controls, the Board should ensure the assessments include a step to develop and implement internal controls to mitigate identified risks or weaknesses, and that it receives the results of each of these reviews.*

(HHAC officials stated that the internal control review conducted by OTDA will be provided to the HHAC Board and the HHAC Board will decide whether to continue to participate in the OTDA process or to have HHAP staff conduct its own review of HHAC operations. Whether it is decided to rely upon OTDA's work or to conduct its own review, the recommendation to develop and implement internal controls will be taken under advisement.)

4. *Develop a training program for all officers and employees that provides these individuals with sufficient knowledge of internal controls and methods for evaluating internal controls.*

(HHAC officials stated that the benefit of having a policies and procedures manual is recognized and one will be developed within the coming year.)

5. *Develop written procedures for adding new employees to the HHAC payroll.*

(HHAC officials indicated that procedures for adding staff will be documented in the near future as part of their succession planning efforts.)

6. *Make adjusting entries to account for the disposal of the 18 computers.*

7. *Ensure all equipment dispositions are timely communicated to the HHAC Finance Office to ensure such dispositions are properly accounted for.*

(HHAC officials agreed with recommendation number six and number seven.)

8. *Determine the actual location of the six computers unaccounted for to ensure this equipment is*

in the possession of only authorized parties.

(HHAC officials indicated that they have determined the disposition of five of the six computers cited in the draft report. According to HHAC officials, two of these computers were sent to a county social services office while three were turned over to the Office of General Service's Surplus Property for public sale. The disposition of the remaining computer is being investigated.)

9. *Ensure an adequate documentation trail is maintained to support the disposition of all equipment.*
10. *Ensure an accurate and current inventory of equipment is maintained in order to provide adequate protection over HHAC assets.*

(HHAC officials reiterated that they began using a new equipment inventory tracking system developed by OTDA in 2003 called the Procurement Manager Plus Asset Manager, which will help ensure that HHAC's assets and the disposition of equipment are properly documented.)

11. *Improve the data entry controls for the payee name field in HHAC's accounting system to provide for more consistent recording of payee information.*

(HHAC officials said that they will endeavor to ensure that records maintained in the HHAC Finance Office reflect the legal name of the payee.)

12. *Conduct periodic tests of HHAC's disaster recovery plan in order to ensure the plan will be effective in limiting the disruption of HHAC's operations in the event of a disaster.*

(HHAC officials noted that OTDA's Bureau of Technology and Office Automation (TOA) is developing a disaster recovery test and will schedule an annual disaster recovery test of the information systems managed by TOA.)

We provided HHAC officials with draft copies of this report for their review and comment. Their comments have been considered in the preparation of this report, and are included as Appendix A. HHAC officials generally agreed with most of the observations and conclusions in our report.

Within 90 days after final release of this report, as required by Section 170 of the Executive Law, the President of HHAC shall report to the Governor, the State Comptroller, and the leaders of the Legislature and fiscal committees, advising what steps were taken to implement the recommendations contained herein, and where recommendations were not implemented, the reasons why.

Major contributors to this examination were Brian Mason, Karen Bogucki, Dennis Graves, Jeff Dormond, Alex Marshall, and Wendy Matson.

We thank the management and staff of the Homeless Housing and Assistance Corporation for the courtesies and cooperation extended to our auditors during this audit.

Very truly yours,

Steven E. Sossei
Audit Director

cc: Robert Doar, Commissioner, OTDA
Robert Barnes, Division of the Budget



George E. Pataki
Governor

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Robert Doar
Commissioner

January 10, 2005

Mr. Steven E. Sossei
Audit Director
NYS Office of the State Comptroller
110 State Street
Albany, New York 12236

Re: OSC Draft Report: Internal Controls
over Major Financial Operations in
HHAC (2004-S-19)

Dear Mr. Sossei:

The following is the New York State Office of Temporary and Disability Assistance's (OTDA) response to the Office of the State Comptroller's (OSC) recommendations offered in the draft report on the Homeless Housing and Assistance Corporation's (HHAC) internal controls over its major financial management functions for the period April 1, 2002 through March 31, 2004.

The audit determined that there are appropriate internal controls in place to provide assurances that HHAC achieves its goals, and set forth recommendations to further strengthen those controls. HHAC and OTDA appreciate constructive suggestions to improve operations, and offer the following responses.

On page 8 under item number 7, there is a reference to OTDA's Program Stability Quality Improvement Unit. This should be OTDA's Division of Program Support and Quality Improvement (PSQI), Bureau of Technology and Office Automation (TOA).

*
Note

Recommendation 1: Develop and distribute to all HHAC Board Members, officers and employees a formal Code of Ethics that establishes clear ethical boundaries for all involved parties.

"providing temporary assistance for permanent change"

* State Comptroller's Note: Correction made to the report.

Response to Recommendation 1: HHAC Board Members, officers and employees are governed by the 1987 New York State Ethics in Government Act and/or the state Public Officers Law. While OSC found no evidence of unethical behavior, it suggests that a formal Code of Ethics be adopted to lessen the risk of unethical behavior by Board Members and employees. This recommendation will be discussed with the HHAC Board and HHAC Counsel to determine if, in their opinion, measures beyond those already prescribed by state law should be established.

Recommendation 2: Develop comprehensive internal control guidelines for all of HHAC's significant financial operations. Once developed, ensure all HHAC members, officers, and employees are provided with these guidelines.

Recommendation 3: Develop procedures for reviewing internal controls. If the Board wishes to rely on OTDA's vulnerability assessments as its mechanism for reviewing internal controls, the Board should ensure the assessments include a step to develop and implement internal controls to mitigate identified risks or weaknesses, and that it receives the results of each of these reviews.

Response to Recommendations 2 & 3: The audit report noted that HHAC's policies for cash receipts, disbursements and investments provide adequate assurances that funds are accounted for properly. Annually, OTDA completes an internal control review for all agency programs and functional areas, including the Homeless Housing Assistance Program (HHAP). Currently, this review identifies functions (step one) and assesses vulnerabilities (step two). The third phase of the assessment, which is under development, is the actual evaluation of the internal controls in place to mitigate the risks identified in step two.

As recommended in the audit report, the internal control review conducted by OTDA will be provided to the HHAC Board. The Board will be asked whether they want to continue to utilize OTDA's assessment or have staff responsible for administering HHAP conduct a separate assessment. In either instance, the recommendation to develop and implement internal controls will be taken under advisement.

Recommendation 4: Develop a training program for all officers and employees that provides these individuals with sufficient knowledge of internal controls and methods for evaluating internal controls.

Response to Recommendation 4: While the turnover of both Board Members and employees is negligible, and numerous orientation, policy and procedural materials currently exist, this information is not contained in one discrete manual that can be distributed to members and employees. The benefit of having a policies and procedures manual is recognized and one will be developed within the coming year.

Recommendation 5: Develop written procedures for adding new employees to the HHAC payroll.

Response to Recommendation 5: OSC tested HHAC's compliance with procedures for deleting employees from its payroll, but did not test procedures for adding employees inasmuch as no new employees were hired during the audit period. However, OSC noted that procedures for deleting employees from the payroll system are documented while procedures for adding employees are not.

OTDA's Bureau of Human Resources' agencywide procedures for adding staff to the payroll are documented and are followed by the Division of Transitional Supports and Policies (TSP), the parent organization over HHAC. Adding staff to the HHAC payroll is strictly a matter of assigning and reassigning funding, which is carried out by OTDA's Bureau of Budget Management (BBM), with written information provided to them by TSP. While BBM technical procedures for adding staff to our payroll system are not currently documented, they are standardized for all agency positions, and are centrally administered by BBM staff. These BBM procedures include processing Division of the Budget approvals of requests to fill, through the NYSTEP system. BBM procedures for adding staff will be documented in the near future as part of their succession planning efforts.

Recommendation 6: Make adjusting entries to account for the disposal of the 18 computers.

Recommendation 7: Ensure all equipment dispositions are timely communicated to the HHAC Finance Office to ensure such dispositions are properly accounted for.

Response to Recommendations 6 & 7: In May and August of 2002, eighteen computers purchased in 1998 were surplus, yet this equipment was still recorded as assets on HHAC's books during the time of the audit. As recommended by OSC, the Finance Office has made the appropriate adjustment to ensure that this equipment is no longer recorded as assets, and HHAC will timely notify the Finance Office of all future equipment dispositions.

Recommendation 8: Determine the actual location of the six computers unaccounted for to ensure this equipment is in the possession of only authorized parties.

Response to Recommendation 8: HHAC has determined the disposition of five of the six computers cited in the draft report. Two of these computers were sent to a county social services office while three were turned over to the Office of General Services' Surplus Property for public sale. The disposition of the remaining computer is being investigated.

Recommendation 9: Ensure an adequate documentation trail is maintained to support the disposition of all equipment.

Recommendation 10: Ensure an accurate and current inventory of equipment is maintained in order to provide adequate protection over HHAC assets.

Response to Recommendations 9 & 10: As noted in the audit report, HHAC began using a new equipment inventory tracking system developed by OTDA in 2003 called the Procurement Manager Plus Asset Manager. Utilization of this system will ensure that HHAC's assets and the disposition of equipment are properly documented.

Recommendation 11: Improve the data entry controls for the payee name field in HHAC's accounting system to provide for more consistent recording of payee information.

Response to Recommendation 11: While the auditors noted that HHAC has good controls in place to ensure its accounting system is accurate, several inconsistencies in the payee name field were identified. HHAC will endeavor to ensure that records maintained in the HHAC Finance Office reflect the legal name of the payee.

Recommendation 12: Conduct periodic tests of HHAC's disaster recovery plan in order to ensure the plan will be effective in limiting the disruption of HHAC's operations in the event of a disaster.

Response to Recommendation 12: As noted in OSC's report, HHAC relies on OTDA's disaster recovery plan for its information systems. While the plan was found to be quite detailed, its effectiveness has not been tested. OTDA's Bureau of Technology and Office Automation (TOA) is developing a disaster recovery test and will schedule an annual disaster recovery test of the information systems managed by TOA.

Overall the OSC audit reflects positively on HHAC and we appreciate the opportunity to comment on the recommendations to strengthen internal controls.

Sincerely,



Robert Doar