

Andrew M. Cuomo
Governor



Darryl C. Towns
Chairperson

New York State Housing Trust Fund Corporation
Hampton Plaza
38-40 State St.
Albany, NY 12207

INTERNAL CONTROL REPORT
2012-2013

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Statement on Internal Control Report

The accompanying Internal Control Certification and Internal Control Summary 2012-2013 have been prepared and certified by the internal control staff and Executive Management of New York State Homes & Community Renewal (NYSHCR), which consists of seven state agencies and public benefit corporations including the Housing Trust Fund Corporation (the Corporation) and the Division of Housing & Community Renewal (DHCR). The Corporation is administered primarily by DHCR staff; accordingly, the Corporation's internal control functions are monitored and managed primarily by DHCR personnel, and the accompanying certification includes all aspects of the Corporation's procedures. The Certification has been signed by the Corporation's President of Professional Services and DHCR's Internal Control Officer, who functions in the same capacity for the Corporation.

2012-13 INTERNAL CONTROL SUMMARY & CERTIFICATION FORM

The Internal Control Summary and Certification Form provide supporting justification for an agency's level of compliance with the requirements of the Internal Control Act (the Act) as outlined below.

This form requests information regarding specific actions taken, or needed to be taken, by agencies to comply with each of the Act's requirements as described in Budget Policy and Reporting Manual (BPRM) Item B-350.

A completed and signed Internal Control Summary and Certification Form should be submitted to the Division of the Budget (DOB) on or before **Tuesday, April 30, 2013**, via e-mail as an attached PDF file to DOB's internal control reporting mailbox at dob.sm.icreporting@budget.ny.gov.

Division of Housing &
Community Renewal
Agency Name

April 26, 2013
Date

John Battle
Completed by (Name)

518-473-0355
Phone

A. **Establish and maintain guidelines for a system of internal controls for the agency.** Internal control guidelines communicate an organization's management and programmatic objectives to its employees and provide the methods and procedures used to assess the effectiveness of its internal controls in supporting those objectives. Internal control guidelines should:

1. State the agency head's support of internal controls to provide staff with an understanding of the benefits of effective controls;
2. Identify the agency's primary responsibilities and objectives;
3. Explain how internal controls are organized and managed;
4. Define responsibilities of agency management, supervisors and staff;
5. Acknowledge that internal controls adhere to accepted standards; and,
6. Describe the organization's process for evaluating internal controls.

For this requirement, the agency is:

Fully Compliant **Partially Compliant** **Not Compliant**

Provide a thorough explanation of the specific actions your agency has taken, or which are needed, to comply with this requirement.

The Vice-President for the Office of Professional Services issued a memorandum on 4/19/12 reinforcing the importance of Internal Controls – Management Policies & Standards. The memo emphasized the need for maintaining these controls in order to accomplish the Agency's goals and missions related to providing affordable housing in New York State.

The Division of Housing and Community renewal is responsible for the supervision, maintenance and development of affordable low and moderate income housing in New York State. The Division performs a number of activities in fulfillment of this mission through the Offices of Housing Preservation, Finance and Development, Community Renewal and Rent Administration.

The Agency uses its Intranet page to describe several components of the Internal Control system. The Agency Employee handbook consists of controls related to Human Resource matters. The Internal Control section of the Intranet page provides guidance on Manager Compliance Testing, completing Manager Internal Control Review forms and Employee & Supervisory responsibilities. Employee responsibilities include following documented policies and procedures; and to bring attention to any irregularities. Employees should also look for ways to improve the efficiency and effectiveness of those procedures. Supervisor responsibilities include assuring established procedures are adhered to; and that operations are assessed for compliance. Periodic reviews should be conducted to examine risks and to take corrective action where necessary.

Internal Control Review Process

The Office of Internal Audit (OIA) uses a risk assessment survey to generate a risk ranking for approximately 27 different functions throughout 11 program areas. This ranking assist in prioritizing which functions will be reviewed. On an annual basis Program Managers complete Internal Control Review forms indicating and describing the function; the objective of the function, the risks, procedures and controls. The program area then selects a procedure to evaluate its controls and documents the results of the evaluation.

To assist in this process the testing Compliance Guide is used as well as a 4-Step process of: 1) Identifying the Function; 2) Assess the vulnerabilities; 3) Review Internal Controls; and 4) Design corrective action.

OIA uses the Manager's Internal Control forms to follow-up on the risk and internal controls identified in the forms. Through sit-down meetings with program managers and staff a plan for corrective action is determined to bring any issues into compliance.

- B. Establish and maintain a system of internal controls and a program of internal control review for the agency.** The system of internal control should be developed using the COSO (Committee of Sponsoring Organizations of the Treadway Commission) conceptual framework adopted in the *Standards for Internal Controls in New York State Government*, and should incorporate COSO's five basic components of internal control: control environment, risk assessment, control activities, information and communication, and monitoring.

The program of internal control review shall be a structured, continuing and well documented system designed to identify internal control weaknesses, identify actions that are needed to correct these weaknesses, monitor the implementation of necessary corrective actions and periodically assess the adequacy of the agency's internal controls.

Organizations can adopt a system of internal control review tailored to their needs, size and degree of centralization. The procedures for evaluating the adequacy of that system also vary, but at a minimum should:

1. Identify and clearly document the primary operating responsibilities (functions) of the agency.
2. Define the objectives of these functions so they are easily understood by staff accountable for carrying out the functions.
3. Identify/document the policies and procedures used to execute functions.
4. Identify the major functions of each of the agency's assessable units.
5. Include a process and cycle used to assess risk and review controls for major functions. *(Describe the process used to review the agency's internal controls and list all high-risk activities and indicate which were reviewed during 2012-13.)*
6. Assess the risks and consequences associated with controls failing to promote the objectives of major functions. *(Identify the significant deficiencies revealed during the 2012-13 review process. Outline the actions taken, or planned, to eliminate those deficiencies, highlighting the most important improvements made during the year.)*
7. Test controls to ensure they are working as intended (see the [Manager's Testing Guide](#) which can be downloaded from BPRM Item B-350). *(Summarize specific actions the agency has taken to install a compliance testing program. Describe actions taken during 2012-13 to verify test results and expand the testing program.)*
8. Institute a centrally monitored process to document, monitor and report deficiencies and corrective actions. *(Describe the monitoring system installed to verify that corrective actions are taken. Discuss the extent to which IT systems are used to track actions.)*

For this requirement, the agency is:

Fully Compliant **Partially Compliant** **Not Compliant**

In addition to providing a thorough explanation of the specific actions your agency has taken, or which are needed, to comply with this requirement, please describe briefly your agency's process for reviewing and testing controls and monitoring corrective actions. Also list all high-risk activities which were reviewed during the past year, and the results of those reviews.

This year 27 functions throughout 11 program areas were responsible for completing Internal Control Review forms describing their function, objectives, risks, procedure controls and results from evaluating those controls. Below is a list of those program areas and their related functions. For high risk program areas that did not submit their internal control forms, we have arranged sit down meetings with managers and staff to discuss the above mentioned items

A vulnerability risk assessment survey was performed on agency functions to determine which areas were of highest concern. Functions were ranked based on criteria such as funding, revenue collection, staffing, data security and past audits/reviews.

The major program areas and functions listed below are subject to the annual internal control review process and vulnerability risk assessment survey.

1) Office of Administration

- Budget
- Support Services
- Finance
- Human Resources
- Housing Information Systems
- Housing Trust Fund

2) Office of Housing Preservation

- Statewide Section 8 Housing Choice Voucher
- Section 8 Contract Administration
- Project Monitoring
- Housing Audits & Accounts
- Architecture & Design

3) Office of Finance & Development

- Weatherization & Energy
- Capital Programs
- Compliance Monitoring

4) Office of Community Renewal

- Community Development Block Grant
- Main Street Program

5) Office of Legal Affairs

- Legal Counsel & Advice

6) Office of Fair Housing and Equal Opportunity

- Contract Compliance
- Fair Housing

7) Office of Rent Administration

- Rent Information
- Property Management
- Overcharge/Luxury Decontrol
- Rent Control/ETPA

8) Training

- Office of Training & Professional Development

9) Inter-governmental Affairs

- Consolidated Plan

10) Policy Research & Development

- Policy

11) Public Information

- Public Information

The Office of Internal Audit (OIA) requires the above listed program areas and functions to complete a risk assessment survey. The survey identifies several areas related to funding, staffing, duties and responsibilities, data security, information technology and past audits and reviews. Once surveys are returned and reviewed a scoring is attached to each function; ranking its risk/vulnerability from a score of 1 through 27, with 1 being the highest risk. The program areas managers then complete Internal Control Review forms describing functions and their related risks, controls and test results from evaluating those controls in place.

OIA's current approach is to schedule meetings with program managers of the top ranked functions to discuss the objectives of those functions; and the risks and controls related to those functions. Some of the meetings are to discuss follow-up activities and the documentation required to close out recommendations or to show the corrective actions taken to resolve risk or control issues. Other meetings discuss issues that program areas need assistance with regarding high risk and weak controls. For those areas OIA will discuss how those controls can be strengthened and the appropriate corrective action that can be taken to mitigate the risk.

Over the past year several high risk areas have been identified and corrective action has been taken or a plan to address the risk has been put in place.

Cash Management

The agency has addressed some deficiencies in its cash management policies and procedures. Over the past year 9 program areas with collection of funds responsibilities were identified and thoroughly reviewed. The review identified risks, controls, recommendations and corrective actions to mitigate the risks involved with collection of funds. Many of the program areas were having fees or dues sent directly to individual employees in the office. There were also instances of program areas being responsible for billing and collecting of these fees and dues. Management's response was to remove many of the fund collection processes from the program areas to designated post office boxes or to bank lockbox operations. This has greatly reduced the risk of funds being lost, diverted or otherwise not reported.

Section 8 - Housing Choice Voucher

This Section 8 process includes recapturing overpayments to tenants and landlords for rent subsidies. A statewide network of approximately 45 Local Administrators (LAs) enters into repayment agreements with tenants or landlords to collect monies and forward them to the agency. These monies were sent to a single designee in the agency's NYC location. The designee was responsible for forwarding these monies to Albany for deposit. A major control weakness existed due to lack of reconciliation between the LAs and our Albany office; as well as poor segregation of duties with the NYC designee. When this weakness was clearly identified, the Section 8 office worked with our Finance Administration office to remove the designee from the process by establishing a lockbox operation. The current process allows the LAs to establish repayment agreements, but approval of all agreements rest with the agency's Section 8 office. These agreements are all entered into the agency's online database and all tenant and landlord payments are mailed directly to a designated bank lockbox operation in Albany. This revised process removes the handling of any payments by LA or Section 8 employees. It also satisfies the segregation of duties issue and makes easier the reconciliation process of repayment agreements.

Asset Management – Compliance Monitoring

The agency's Asset Management group is responsible for conducting compliance monitoring site visits for tax credit housing projects. Developers receive large tax credits for making a percentage of their housing units available to low and moderate income residents. For conducting these site visits the agency receives a monitoring fee from developers. The tax credits can be received for up to 10 years by developers, but the fees are not mandatory. When the tax credit period is up some developers stop paying the fees. By statute, the compliance monitoring must be continued by the agency. The Asset Management group continues to bill these developers, but payments are not made. The collection of these fees include turning delinquent accounts over to the Attorney General's office as well as the Department of Taxation & Finance. This process has not proved to be resourceful as the dollar amount of unpaid fees continues to increase annually. The Internal Audit office met with Asset Management to assist in the process. Currently, we are arranging meetings with our Office of Legal Affairs to discuss the possibility of engaging a collection agency to assist in collecting these fees.

Low-Income Housing Credit Application Fees

The agency's Office of Finance and Development is responsible for accepting applications from developers for housing subsidies. These developers complete an online application which is review and rated for completeness. The application fee is paid to the agency. We found that these application fees were being sent directly to individuals in the program area office. When reviewed there was a risk that checks could be lost, diverted or not reported. Program area officials were not comfortable with the risk and asked for assistance in ways to mitigate the risk. Working with the agency's Finance Office the program area was able to arrange to have checks sent directly to a post office box. The online application process now includes a directive for developers to send their fees to a designated post office, where program area staff no longer has to manually handle checks.

Compliance Testing

OIA will hold meetings with program areas to follow-up on items listed in the Managers Internal Control Review forms. Discussions will center on whether program area problems with risk and controls still exist. If problems no longer exist, we will request documentation that identifies corrective action has been taken and the issues have been resolved. Testing will be conducted on some of the key processes to determine controls are adequate and risks have been mitigated. A sample of transactions will be tested to determine compliance. Results will be communicated to program managers and a correction action plan will be developed when necessary. If problem areas still exist, we will work with the program area to develop a course of action that identifies key processes, highest risks and the key controls that need to be addressed. Once a plan and timetable for corrective action is agreed upon, OIA will follow-up on the status of action taken.

This testing compliance process will be similar for all of the program areas highest risk processes; and eventually for all 11 program areas and 27 functions. The compliance testing program of the agency's internal control system has not been executed for quite a few years and will take some time before we can fully implement on an ongoing basis. We do have a database of past years Managers Internal Control Review forms with many procedures to assess and determine where compliance testing would be most needed and add most value. Currently, our goal is to meet with program managers and staff and to collect documentation for testing purposes.

Our plan is to develop a single database containing all internal and external report findings and recommendations. This will allow us to track the status of implementation of recommendations and corrective action plans. Documentation will be required to satisfy all necessary actions. This will be an ongoing process conducted throughout the year. We are considering the purchase of some type of audit software that will allow us track and maintain this process.

- C. **Make available to each officer and employee of the agency a clear and concise statement of the generally applicable management policies and standards with which the officer or employee of such agency shall be expected to comply, along with detailed policies and procedures the employees are expected to adhere to in completing their work.** The statement should set an appropriate tone at the top, reflecting agency management's expectations. It should be issued periodically and emphasize the importance of effective internal controls to the agency and the responsibility of each officer and employee for effective internal controls.

Managerial policies and procedures for the performance of specific functions are articulated in administrative manuals, employee handbooks, job descriptions and applicable policy and procedure manuals. While it is not necessary for all employees to possess all manuals, employees should be provided with, or have access to, applicable policies and procedures for their position.

For this requirement, the agency is:

Fully Compliant **Partially Compliant** **Not Compliant**

Provide a thorough explanation of the specific actions your agency has taken, or which are needed, to comply with this requirement.

The components of the Agency's internal controls systems are described in a number of documents on the Agency's intranet page. A directive from the Vice President of Professional Services addresses the importance of internal controls for management Policies and Standards.

The Agency's Employee Handbook outlines employee responsibilities, agency policy, time & attendance, leave policies, employee benefits, travel guide & regulations, training & development, career mobility as well as employee management relations, separation and physical security.

Several other intranet documents relating to standards for internal controls, continuous internal control assessments, managers testing guide and internal control self-assessment information are available for all agency employees' use and review.

Operation manuals developed by each program area outlining their policies and procedures have been made available for all agency employees to reference.

D. Designate an Internal Control Officer (ICO), who shall report to the head of the agency or to their designee within the executive office, to implement and review the internal control responsibilities established pursuant to this Item. The designation of the ICO should be communicated to all employees. The ICO works with appropriate personnel within the agency to coordinate the internal control activities and to help ensure that the internal control program meets the requirements established by BPRM Item B-350. Although the ICO evaluates the adequacy of the internal control reviews, program and line managers are primarily responsible for conducting reviews to assure adherence to controls and for analyzing and improving control systems. The ICO should be an individual with sufficient authority to act on behalf of the agency head in implementing and reviewing the agency's internal control program. This individual should have a broad knowledge of the agency's operations, personnel and policy objectives.

For this requirement, the agency is:

Fully Compliant **Partially Compliant** **Not Compliant**

Provide a thorough explanation of the specific actions your agency has taken, or which are needed, to comply with this requirement.

The responsibility for maintaining an Internal Control Review program and providing internal control education to agency staff rests with the Internal Control Officer (ICO). The Internal Audit Director and the ICO work with program areas to address any internal control issues that are identified during audits or reviews. Once audits/reviews are complete the ICO can review findings and recommendations to address any internal control issues with follow-up on corrective action plans.

The agency has recently appointed an Internal Control Officer to be responsible for this task and the announcement should be made shortly. The Internal Audit Director is no longer serving as both titles, which will allow the agency to be in compliance with this requirement.

E. Implement education and training efforts to ensure that officers and employees have achieved adequate awareness and understanding of internal control standards and, as appropriate, evaluation techniques.

Agencies should identify staff requiring internal control training and the depth and content of that training. Such education and training should be on-going with specific courses directed at line staff, middle managers and executive management. For organizations that have established internal audit functions, training and education should be offered on the appropriate role of the internal auditor within the organization's internal control system.

For this requirement, the agency is:

Fully Compliant Partially Compliant Not Compliant

Provide a thorough explanation of the specific actions your agency has taken, or which are needed, to comply with this requirement.

With the hiring a new Training Director within the last 6 months, the agency can move forward in exploring more Internal Control training needs options. The Training Director and the Internal Control Director will discuss implementing several methods to address this requirement.

A mandatory online training course for all agency employees, which has been used in the past, will be implemented. This course can be arranged through the Statewide Learning Management System. It will allow us to monitor which employees have completed or not completed the course. Periodic postings to the agency intranet site will be developed. This will allow the agency to get messages to employees on latest internal control updates and current changes to the internal control system. Classroom training will also be explored. A course geared towards program areas and staff in high risk functions emphasizing internal controls, identifying risks and vulnerabilities will also be an option.

F. Periodically evaluate the need to establish, maintain or modify an internal audit (IA) function. If an IA function exists, it should operate in accordance with generally accepted professional standards for internal auditing.

Agencies on DOB's list of agencies required to establish IA functions – and those choosing to have an IA function – are required to comply with The Institute of Internal Auditors' [International Standards for the Professional Practice of Internal Auditing](#) (see BPRM Item B-350 Section III "IA Responsibilities").

As outlined in BPRM Item B-350, agencies are required to periodically evaluate the need to establish, maintain or modify an IA function utilizing the *Internal Audit Evaluation Criteria (Attachment C)*.

Agencies concluding that an IA function is warranted should submit their evaluation to DOB as outlined in BPRM Item B-350. Periodically thereafter, agencies with IA functions should review current operations to determine whether the function should be altered or maintained.

Agencies concluding an IA function is not warranted should periodically reevaluate the need for such a function using Attachment C, especially when organizational, operating, and fiscal, program, legal or personnel changes occur which affect the agency's exposure to risk or which could otherwise change the results of the initial assessment.

Pursuant to BPRM Item B-350, agencies required to have – and those entities choosing to have – an internal audit unit should comply with The Institute of Internal Auditors' [International Standards for the Professional Practice of Internal Auditing](#). Therefore, the IA function should comply with the guidance outlined below regarding organizational placement, independence and reporting.

1. Directors of Internal Audit (DIA) should report functionally to the agency head or audit committee and may report administratively to the designated executive deputy (or equivalent position). If the executive deputy has line or staff duties, the DIA should report directly to the agency head.
2. A current organizational chart should be available that identifies the placement of the IA function, the individual that has responsibility for overseeing the internal audit activity and other organizations/activities under the purview of the DIA.
3. The IA function should be independent of the ICO, but should work closely with the ICO. Limitations should be established on IC activities where those duties overlap. Agencies should identify impairments to the independence of the DIA that may be created where the DIA is performing the ICO function. Furthermore, IA functions should not assume operating responsibilities, perform management functions, make management decisions or assume other monitoring roles (e.g., Information Security Officer).

4. IA staff should complete an annual independence statement identifying actual/potential impairments to independence and notifying the DIA whenever a new actual/potential impairment arises.
5. The IA function should develop an annual risk-based audit plan, track the extent to which audit plans are achieved and monitor implementation of audit recommendations.
6. At a minimum, DIAs should hold quarterly meetings with agency executive management and the audit committee, where applicable, to report on audit activities and results. Final reports should be distributed to the agency head, executive deputy, auditee, ICO and the audit committee.
7. The DIA should assure that agency audit staff have the skills, knowledge and ability to perform the audit work required, and should take steps to assure that the size of the audit staff is appropriate given the size and complexity of the organization.
8. The IA function should take appropriate steps to assure sufficient audit resources are available given the size and complexity of the organization. This can be accomplished by exploring in-sourcing, outsourcing and sharing audit services.

Agencies should specifically provide the following information when presenting their explanation:

1. A current organizational chart identifying the placement of the IA function, the name and title of the IA director, other organizations/activities under the IA function's purview and the name and title of the person to whom the IA director reports.
2. A description of how the internal audit director's credentials, education and experience meet the minimum qualifications established in BPRM Item B-350.
3. A description of how continuing professional education requirements are met by the director and each staff member.
4. A description of how quality assurance review requirements are being met.
5. A description of how the IA function ensures that it does not compromise its independence if it is also responsible for other functions (i.e., internal control, information security or other duties).
6. A copy of the 2013-14 internal audit plan.
7. Documentation pertaining to the risk-assessment utilized in formulating the 2013-14 audit plan.

8. An indication of which audits in the audit plan for FY 2012-13 were not conducted, and an explanation as to why they were not conducted.
9. An estimate of the cost savings to be achieved by virtue of implementing the recommendations contained in each conducted audit described in the FY 2012-13 audit plans and any audits that were conducted during that time period that were not in the audit plan. If it is not feasible to provide a cost estimate for savings, please identify process improvements, risk mitigation, fraud prevention or cost avoidance measures that resulted from implementation of such recommendations.
10. Identify the recommendations contained in the audits described in the FY 2012-13 audit plans that were not implemented, if any, and provide a full explanation why they were not implemented.
11. Identify the recommendations contained in final audits issued by the Office of State Comptroller between April 1, 2012 and March 31, 2013 that were not implemented, if any, and provide a full explanation why they were not implemented.

For this requirement, the agency is:

- Not Applicable – This agency does not have an IA function.**
- Fully Compliant** **Partially Compliant** **Not Compliant**

Provide a thorough explanation of the specific actions your agency has taken, or which are needed, to comply with this requirement.

- 1) The current agency organizational chart has the Office of Internal Audit reporting to the Vice President of the Office of Professional Services, who reports directly to the Commissioner.
- 2) The IA director is a CIA with a bachelor's Degree in Business Administration with a major in Accounting. He has 24 years of internal and external audit experience, 10 as an internal control officer and 9 years in a supervisory capacity.
- 3) DHCR OIA staff attends various training courses for meeting continuous professional education requirements. We attend monthly NYSICA meetings and their annual Internal Control conference, the annual Conference That Counts, the Cyber Security conference; KPMG offers audit related credit courses. The NYS Forum also offers some excellent IT related training that benefits our purpose.
- 4) The last quality assurance peer review for our OIA was conducted in October 2006. The report expressed the opinion that we generally conform to standards. We should be on the list for the next round of peer reviews.

- 5) Since the role of the Internal Control Officer rest within the Office of Internal Audit, it is often discussed how not to compromise the independence of the two functions. Given the large workload in the office, at times, the ICO has to perform audit functions. Some of those functions may require following up on recommendations and corrective actions from the program areas. These duties also serve as internal control functions assuring that actions have been taken to mitigate risks. Due care is taken to assure that the ICO does not get involved with the design, installation and creation of draft procedures or operation of management systems or processes.
- 6) NYS HOMES AND COMMUNITY RENEWAL
OFFICE OF INTERNAL AUDIT
2013-14 AUDIT PLAN

GENERAL

The Office of Internal Audit planned its audit work for 2012-2013 focusing on revenues and related controls and processes as well as opportunities for oversight and monitoring improvement

RESPONSIBILITIES

The Office of Internal Audit is responsible to provide internal audit coverage to the Division of Housing and Community Renewal (DHCR) and the NYS Housing Trust Fund Corporation (HTFC).

STAFFING

As of 4/30/13 there is four fulltime staff. Expected staffing for 2013-2014 will be 5 FTEs for part of the fiscal year, based on recent Division of the Budget approval to hire a Senior Auditor. We are also pursuing another position.

RISK BASED PLAN

This plan is developed on risk based plan as well as inclusion of one audit that is being performed at the recommendation of the NYS Office of the Inspector General plus audit activity that will be related to the Agency's administration and oversight of federal disaster relief monies as a result of Superstorm Sandy.

HOURS AVAILABLE FOR AUDITS IN 2013-2014

There will be an estimated 3 FTEs available for audit work, after factoring out leave, training, supervisory and audit administration time. The audit work time will also be used for external audit liaison time for the Office of the State Comptroller, NYS Single Audit, and any federal audits.

AUDIT STRATEGY

The office is currently beginning the process to develop continuous auditing capabilities to go along with its conventional auditing. This is expected to take all of 2013-2014 and into fiscal 2014-2015.

Implementation Framework

- *Planning* – identify data and ability of data extraction.
- *Design* – audit and reporting procedures and obtaining database structure documentation.
- *Implement* – Assess risks, define and refine objectives, training for staff as needed.
- *Execute* – begin testing and investigate exceptions and validate accuracy of audit steps.

NON INTERNAL AUDIT RESPONSIBILITY

A Senior Internal Auditor is the Agency Records Officer. This time effort for this responsibility is approximately 40-45% of the available audit hours (after leave and training) annually.

NEW AUDITS

I. AUDIT ACTIVITIES – RELATED TO SUPERSTORM SANDY FEDERAL MONIES

OIA ASSURANCE SERVICES FOR ADMINISTRATION OF RELIEF FUNDS

Internal Audit staff has met regularly with CDBG staff to discuss areas where we can be of most assistance in assuring that relief funds are expended and spent in accordance with all Sandy Relief Fund regulations and requirements. Below are several actions that the OIA will take.

1. Review the Selection and Award process to assure that a written description of all selection criteria and any scoring assigned that HCR will use to competitively award its Sandy Relief funds, is adhered to.
2. OIA will perform preliminary investigative and background procedures of prospective contractors, bidders, vendors, award recipients utilizing its account with LexisNexis Accurint, as well as review of available debarment lists.
3. OIA will partner with the federal Recovery Operations Center (ROC) of the Recovery Accountability and Transparency Board) Accountability staff for Pre-Award Risk Analysis and investigative services. ROC has access to a more comprehensive data sources. ROC's expertise and information sources, as well as the fact that they are partnering with other recipients of relief funds, will greatly increase the effectiveness of all pre-award activities.

4. Review contracts and written agreements between HCR and fund recipients to ensure requirements are clearly stated; that agreements are in compliance with HUD requirements and to ensure terms and conditions of the agreements are met.
5. OIA will review supporting documentation to ensure a recipients' eligibility. This will include steps to assure recipients are not receiving a duplication of benefits. These steps will be aligned with HUD's requirements under the Federal Stafford Act for Duplication of Benefits.
6. OIA designated staff will review the approved disbursement documentation prior to actual disbursement of Funds. We will review the checklist of items and the necessary approvals used to approve vouchers for payment; along with documentation to justify the payments.
7. OIA will review the existing CDBG monitoring procedures and make any needed recommendations for improvements to those procedures. OIA will review oversight and monitoring procedures of fund recipients to ensure they meet all requirements. All monitoring reports will be reviewed for timeliness and completeness.
8. OIA will review existing relevant HTFC finance procedures and make any needed recommendations for improvements to those procedures. OIA can evaluate controls in place by testing/sampling contract payments and validity of expenditures and payments report data.
9. OIA will review, along with CDBG management, the results of the field monitoring visits by CDBG staff. OIA will monitor project progress reports to determine adherence to project and expenditure timelines. Projects not meeting scheduled timelines will be reviewed to determine the causes for delays.
10. OIA expects to conduct reviews (pre and post-payment reviews and recovery audits) of the books and records of recipients, both independently and partnering with program and or external independent auditors. The visits may be both scheduled and unannounced.
11. OIA will implement testing and analysis techniques for fraud when preparing risk analysis and the audit planning process. OIA will consider the impact and the higher risks associated with the increase of Sandy funds to the CDBG program in the process.
12. IT Systems controls will be reviewed to determine if policies and procedures are adequate to protect source data. OIA will review controls to determine if the system flags ineligible recipients correctly.
13. OIA will assist in ensuring that training is provided to necessary staff for purposes of identifying areas of fraud, waste and abuse. Possible training for Sandy Fund recipients in this area will also be explored.

OIA ROLE IN DETECTING FRAUD WASTE AND ABUSE

The OIA has a role in detecting fraud waste and abuse generally for all auditing efforts and specifically as part of the State of New York's administration of its CDBG-DR funding allocations pursuant to public law 113-2. The provisions of OMB A-123 and its appendices will be reviewed and incorporated as applicable to any prevention, detection and recovery activities. The OIA will conduct reviews to ensure compliance with contract agreements, selection and award process, monitoring and oversight, expenditures and payments, and other project related activities. Periodic on-site visits to projects in progress will be conducted; as well as periodic updates covering the above mentioned compliance areas will be provided.

II. AUDIT ACTIVITIES – RELATED TO SECTION 8 REMITTANCE REVIEW

The New York State Housing Trust Fund Corporation (the Corporation or HTFC) is seeking to contract with Certified Public Accounting individuals or firms (Contractor/s or Bidder/s) to conduct an agreed-to-procedures review of remittances to the Corporation of Local Administrators' (LA) Repayment Agreements due to a loss of funds.

LAs are under contract with the Corporation to administer and implement the U.S. Department of Housing and Urban Development's (HUD) Section 8 Housing Choice Voucher Program (HCV). One of the program elements is the provision of rent subsidies to qualifying tenants who meet certain income eligibility requirements for subsidy payments. Repayment agreements are originated when it is determined that a tenant has received subsidy payments in excess of those entitled to under governing regulations.

LAs are located throughout the State of New York. For the purposes of providing the services described in this RFP, those locations have been assigned to one of three regions. Bidders are invited to submit proposals to service one, two or all three regions, provided the proposal indicates a plan to accomplish all tasks by the completion date described below.

AGREED TO PROCEDURES

Objective

The sole objective of this engagement is to confirm, based upon a review of the LA's books and records, that amounts of Section 8 Repayment Agreement proceeds remitted by the LAs to the Corporation were deposited in HTFC's bank account. This engagement does not require providing any assurance opinions.

The overall testing process will be to examine and confirm that 100% of Section 8 checks and money orders remitted were either received by the Corporation for deposit or appear on the listing of checks and money orders that were known to be diverted and not deposited by HTFC. The Office of Internal Audit will be conducting the review of the northern upstate region LAs and will follow the agreed to procedures.

Agreed to Procedures

1. Preliminary outreach to confirm availability of required records for the three (3) year scope of this review and confirm dates for field visit.
2. Contractor will conduct an opening meeting with each LA to discuss the purpose and objective of the engagement. Representatives from HTFC Internal Audit, Section 8 Program, or other HTFC offices may also participate in certain opening meetings, at HTFC's discretion.
3. Review the schedule, or its equivalent, used by the LA to record incoming checks and money orders for its Section 8 Repayment Agreements. Copies of manual and/or electronic files that constitute the complete schedule of Repayment Agreements received for the scope should be obtained by reviewer.
4. Confirm footings and cross footings to the manual/electronic schedules of Section 8 checks and money orders. Footings should include examination of cell formulas and numeric entry for any Excel or equivalent files used to record incoming Section 8 repayment monies.
5. Obtain all subsidiary (by tenant) schedules of checks and money orders received and trace a sampling of a minimum of 30% of the subsidiary schedule's checks/money orders to entry on the primary or "master" schedule of checks and money orders.
6. For LAs that retain copies of all incoming checks or money orders, agree copies of 100% of the checks and money order copies to the schedule of Repayment Agreements monies received.
7. LA files should include a copy of a Section 8 Returned Check Form for each check and money order received, the absence of which will be reported by the Contractor. This is a Corporation document.
8. Review copy of Corporation Deposit Log to determine deposit log number for each check/money order.
9. A listing of the deposit logs should be forwarded via email to designated HTFC staff so they can begin to locate the supporting documentation.
10. For instances where a deposit log number cannot be matched, the Contractor staff will review the listing of checks and money orders that were known to be diverted and not deposited by HTFC to determine if any of the items can be so matched. A listing of any remaining unmatched checks and money orders should be compiled and immediately forwarded to HTFC staff subsequent to any quality assurance procedures deemed necessary by the Contractor.

11. Contractor and HTFC Internal Audit will discuss any unmatched amounts and determine an appropriate course of additional action or examination.

PROCEDURES – CORPORATION OFFICES

12. Designated HTFC staff will locate the documents for the deposit log numbers as identified by Contractor.

13. The supporting documentation for the deposit log will be reviewed to match items to be traced.

14. The final step will be to confirm actual deposit by examination of the bank statements. An image of the deposit may be viewable from the copy of the electronic statement.

15. Examine image of deposited cancelled check or money order, as available.

16. Note results of tests on the list provided by Contractor, to include images of relevant corroborating documentation.

17. Prepare a report on the results of the agreed to procedures review, to include an exhibit of the total amounts received and remitted by LAs, amounts confirmed, and any unconfirmed amounts. A separate report will be prepared for each local administrator reviewed.

ONGOING AUDITS

BANK ACCOUNTS AND RECONCILIATIONS – HTFC & DHCR

A review of prior audits shows that for DHCR, this has not been audited since before 2000. There have been no prior internal audits of HTFC. This audit also complements the Cash Management Review noted in VII below. There will a separate audit assignment for each entity.

- Proposed audit period to be determined but will include SFY 2012-2013.
- Obtain understanding of procedures and controls over bank deposits, account disbursements and bank reconciliations.
- Obtain understanding of the normal revenue and disbursement flows for the individual accounts.
- For selected bank accounts, select sample of months to review.
- Review deposits and disbursement activity and trace back to supporting documentation.
- Review and assess accuracy of any revenue receivable amounts.
- Review bank reconciliations.
- Investigate any exceptions or discrepancies.
- Consider impact of OGS Business Service Center service level agreement.

PERIODIC INTERNAL CONTROL REVIEW

Correlating with our Internal Control Review program, we will continuously meet with program area managers and staff to address areas of high risk and internal control weaknesses. High risk areas will be reviewed annually; Moderate risk areas on a two year basis; and Low risk areas as needed. These reviews will consist of addressing open recommendations from internal and external audits, following up on corrective action plans, testing of transactions and key controls. We will also assist program areas in addressing risks and internal control issues brought to our attention.

REVIEW OF AGENCY MONITORING ACTIVITIES

OIA will review the monitoring activities of program areas responsible for oversight and monitoring of agency's funds through programs administered by Office of Finance and Development, Office of Community Renewal, Section 8, Housing Management and Weatherization programs. Areas of review include, but are not limited to review of program:

- Policies, procedures and requirements
- Site visit and monitoring reports
- Technical assistance provided & corrective actions taken
- Financial & compliance reporting requirements
- Past audit coverage
- Assess controls & risks
- Accompanying field reps on site visits

- 7) An agency wide risk assessment survey was completed by program areas for audit information purposes. The information related to funding, staffing levels and changes, information security, duties and responsibilities and past audits/reviews. Responses to these surveys were used to provide a ranking of program areas according to risk using a weighted scoring system.

Two of the top ranking program areas Section 8 and Office of Community Renewal will be substantially reviewed of the next year. The Section 8 Housing Choice Voucher's repayment agreement process will be reviewed statewide. There are approximately 45 Local Administrators that are involved in the process that will be visited to document their process, number of repayment agreements and amount of dollars involved.

The Office of Community Renewal is the lead office in administering and overseeing the state's portion of the Sandy Fund Recovery dollars from HUD. These dollars will be distributed to a number of recipients and sub recipients, of which DHCR will be responsible for oversight and monitoring. The Office of Internal Audit will play a role in assuring controls and monitoring activities are in place prior to distribution of funds. Site visits, reviews and compliance audits will also be part of OIA's responsibilities as well.

Other program areas high on our risk chart are also due for reviews; In the Housing Trust Fund, Office of Finance and Development and Office of Rent Administration.

- 8) A few factors contributed to OIA not being able to complete the audit for Monitoring Activities and Business Continuity and Disaster Recovery. With the increase in OSC audit activity and completion of the Cash Management Review, our resources spent a significant amount of time handling external audit and review coordination. The Sandy Storm in NYC duly affected both of these areas as well. Monitoring staff in NYC had their Main Office on Beaver Street closed for almost 2 months. Staff and resources for our disaster recovery efforts were stretched quite thin due to the enormous relief effort needed in the metro area. Currently, we have been able to schedule accompanying NYC staff on monitoring site visits over the next few months. This will allow us to revamp our audit plan for this process. We will also spend a considerable amount of time with our agency's disaster recovery process, as we play a greater role in the Sandy Fund Recovery efforts.
- 9) The Cash Management Review has resulted in changes made to how we handle collection of funds in the agency. At least 4 program areas have removed the physical handling of cash and checks from their everyday procedure. For program areas that still have a need to handle checks, they are immediately endorsed with the agency's stamp when first received. The implementation of post office boxes and bank operated lockboxes allow program areas to monitor receipt of funds through online reports.

10) G212 Procurement Audit

Recommendation:

Amend inventory management procedures for those purchased items to be included in the inventory management system to better insure that asset tag numbers assigned to equipment purchased are included in the procurement documentation.

Support Services Response to Recommendation:

We agree with your findings and will work with all involved parties to properly address the issue.

(OSC is conducting an audit of Surplus equipment and some of the same issues are being addressed. When OSC's audit is complete a resolution of all issues will be addressed. Implementing this recommendation requires input from 3 different program areas; Finance, Information Technology & Support Services)

Cash Management Review (Office of Finance & Development)

Recommendation

All online applications should be posted on the Excel spreadsheet, a copy of which should be provided to Finance as a basis for recording application fees receivable.

Implementation Under Consideration

OFD is evaluating the option of having Office of Finance Administration (OFA) access SHAR ID number to check status of unpaid fees.

(This recommendation will need the involvement of both the OFD & OFA program area commitment. These meetings will be arranged in the near future. With OFA's accounts payable/accounts receivable unit losing half of its staff to the Business Services Center, freeing up time for these meetings has been a challenge.)

- 11) OSC Report 2012-S-31: "Quality of Internal Control Certification"

Recommendation #3:

Establish a more formal internal control training program covering all staff.

HCR Response:

Several methods will be discussed with the newly appointed Training Director, on how we can ensure that all HCR staff is updated on the importance of Internal Controls. An online Internal Controls training course, required to be completed by all DHCR staff will be proposed. This type of training has been used in the past at DHCR. Another method will be to establish an online newsletter with Internal Control related topics that will be updated periodically on the HCR Intranet site. Other methods will be discussed with our Training and Professional Development Unit on how we can best establish an Internal Control training program that will be compliant with the certification process.

2012-13 INTERNAL CONTROL CERTIFICATION

NYS Homes and Community Renewal - DHCR

Agency Name

Agency Head

38-40 State Street, Albany, NY 12207

Agency Address

518-474-1829

Telephone Number

John Battle

Name of Internal Control Officer

518-473-0355

Telephone Number

Jbattle1@nyshcr.org

Email Address of Internal Control Officer

I hereby certify the agency is:

- Fully Compliant (Full compliance with all provisions)
- Partially Compliant (Partial compliance with some or all provisions)
- Not Compliant (Noncompliance with all provisions)

With the New York State Governmental Accountability, Audit and Internal Control Act.

This certification is supported with detailed justification of actions taken and/or outlines specific actions needed to address areas of partial compliance or noncompliance as described in the preceding Internal Control Summary.



Signature/Agency Head

4/29/13
Date