

Washington State Auditor's Office
Financial Statements Audit Report

**Joint City of Republic-Ferry County
Housing Authority**

Audit Period
January 1, 2012 through December 31, 2012

Report No. 1012060

Issue Date
June 12, 2014



Washington State Auditor
Troy Kelley

Independence • Respect • Integrity



Washington State Auditor Troy Kelley

June 12, 2014

Board of Commissioners
Joint City of Republic-Ferry County Housing Authority
Republic, Washington

Report on Financial Statements

Please find attached our report on the Joint City of Republic-Ferry County Housing Authority's financial statements.

We are issuing this report in order to provide information on the Housing Authority's financial condition.

Sincerely,

TROY KELLEY
STATE AUDITOR

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Schedule of Audit Findings and Responses

Joint City of Republic-Ferry County Housing Authority January 1, 2012 through December 31, 2012

- 1. The Housing Authority's internal controls over accounting and financial statement preparation are inadequate to ensure accurate and timely reporting.**

Background

State and federal agencies rely on the information included in the financial statements and reports to make decisions. It is the responsibility of the Housing Authority to design and follow internal controls that provide reasonable assurance regarding the reliability of financial reporting. Our audit identified deficiencies in internal controls that adversely affect the Housing Authority's ability to produce financial statements.

Description of Condition

During our audit, we identified the following deficiencies in internal controls over accounting and financial statement reporting that represent a material weakness:

- Housing Authority personnel responsible for recording day-to-day financial transactions did not have the technical knowledge needed to ensure the accounting records were accurate and complete. In addition, Housing Authority personnel were not aware of the guidance in *the Budget Accounting and Reporting System (BARS)* manual for preparing financial statements and notes.
- The Housing Authority subsequently contracted with a certified public accounting firm to prepare their annual financial statements; however, the accounting records were subsequently not provided to them to prepare the financial statements. As a result, the Housing Authority's 2012 financial statements were not prepared and submitted to our Office, as required by state law.
- The Housing Authority lacked a procedure and proper oversight to ensure its bank statements are reconciled in a timely manner. As a result, the Housing Authority did not reconcile its bank statements to the accounting records for 2012.

Cause of Condition

The Housing Authority experienced turnover multiple times in its fiscal manager position, which is responsible for maintaining accurate accounting records. Additionally,

the Housing Authority did not provide adequate training to its staff to ensure accurate and complete reporting.

Effect of Condition

The Housing Authority is unable to provide financial information to its Board and other interested parties. In addition, it is unable to accurately identify its cash balances for each of its housing projects and general operations. As a result, we are unable to express an opinion on the Housing Authority's financial statements for 2012 and no financial statements will be included in our report.

In addition, the Housing Authority's financial condition is declining. Without accurate and complete financial records, the Housing Authority is unable to effectively monitor its financial condition. Our audit estimates that the General Fund will end in a negative cash position as of the January 31, 2014. See details described in Finding No. 2.

Recommendation

We strongly recommend the Housing Authority's Board take action to establish internal controls over its financial accounting and reporting which should include:

- Providing adequate oversight and training to personnel responsible for recording day-to-day transactions to ensure financial information is accurate and complete.
- Establishing policies, procedures and adequate oversight to ensure compliance with financial reporting requirements.
- Establishing procedures and oversight to ensure the bank statement activity is reconciled timely to the accounting records for all bank accounts.

Housing Authority's Response

We have made changes in our staff including management and intend on providing them adequate training to ensure that the financial information is accurate and complete. We will establish procedures and oversight to ensure that the bank statements are reconciled timely and that financial reports are filed timely.

We are working with the city of Republic and Ferry County to develop a plan to improve the Housing Authority's financial position and to correct federal and state agencies compliance violations.

We will set up a Revolving Loan Fund and deposit loan payments and loan payoffs into this fund. We will work with the Department of Commerce to resolve the non-compliance issues.

Auditor's Remarks

We appreciate the steps the Housing Authority is taking to resolve this issue. We will review the condition during our next audit.

Applicable Laws and Regulations

Budgeting Accounting and Reporting System (BARS) Manual - Part 3, Accounting, Chapter 1. Accounting Principles and General Procedures, Section C. Internal Control, states in part:

Internal control is defined by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), in standards adopted by the American Institute of Certified Public Accountants and by the Federal Office of Management and Budget as follows:

Internal control is a process – affected by those charged with governance, management and other personnel designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations
- Compliance with applicable laws and regulations
- Reliability of financial reporting

Management and the governing body are responsible for the government's performance, compliance and financial reporting. Therefore, the adequacy of internal control to provide reasonable assurance of achieving these objectives is also the responsibility of management and the governing body. The governing body has ultimate responsibility for ensuring adequate controls to achieve objectives, even though primary responsibility has been delegated to management.

RCW 43.09.200, Local government accounting — Uniform system of accounting, states:

The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class.

The system shall exhibit true accounts and detailed statements of funds collected, received, and expended for account of the public for any purpose whatever, and by all public officers, employees, or other persons.

The accounts shall show the receipt, use, and disposition of all public property, and the income, if any, derived there from; all sources of public income, and the amounts due and received from each source; all receipts, vouchers, and other documents kept, or required to be kept, necessary to

isolate and prove the validity of every transaction; all statements and reports made or required to be made, for the internal administration of the office to which they pertain; and all reports published or required to be published, for the information of the people regarding any and all details of the financial administration of public affairs.

Government Auditing Standards, December 2011 Revision, paragraph 4.23 states:

4.23 When performing GAGAS financial audits, auditors should communicate in the report on internal control over financial reporting and compliance, based upon the work performed, (1) significant deficiencies and material weaknesses in internal control; (2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the audit and any other instances that warrant the attention of those charged with governance; (3) noncompliance with provisions of contracts or grant agreements that has a material effect on the audit; and (4) abuse that has a material effect on the audit.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its Codification of Statements on Auditing Standards, section 265, as follows:

.07 For purposes of generally accepted auditing standards, the following terms have the meanings attributed as follows: ...

Material weakness. A deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Significant deficiency. A deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Schedule of Audit Findings and Responses

Joint City of Republic-Ferry County Housing Authority January 1, 2012 through December 31, 2012

2. The Housing Authority is at risk of not being able to meet its financial obligations or maintain operations.

Description of Condition

Since the prior audit, the Housing Authority continues to have insufficient accounting records to allow us to determine the Housing Authority's financial position. However, from the limited records available, we noted the Housing Authority's financial position continues to decline as follows:

- Unrestricted cash balance declined from 2009 to January 31, 2014.

Fiscal Year	Unrestricted Cash Balance
2009	\$ 135,606
2010	\$ 103,180
2011	\$ 84,327
2012	\$ 61,041
2013	\$ 21,768
1/31/2014	\$(1,625)

- Operating expenditures have exceeded revenues for the past five years.

	2009*	2010*	2011*	2012**	2013**
Revenues	\$580,536	\$707,505	\$619,766	\$656,815	\$566,778
Expenses	\$607,290	\$759,673	\$688,979	\$705,966	\$606,347
Net gain (loss)	(\$26,754)	(\$52,168)	(\$69,213)	(\$49,151)	(\$39,570)

** Operating and non-operating revenues and expenditures taken from audited financial statements*

***Revenues are deposits and expenditures are withdrawals taken from the Housing Authority's bank statements*

- The Housing Authority’s net position declined in all five years. According to bank statement records for January 31, 2014, the Housing Authority did not have sufficient cash in the bank to cover its financial obligations as follows:

\$ (1,625)	Estimated January 31, 2014 Bank Balance
\$ (230,887)	Less: Estimated DOC Repayment of Loan Funds
\$ (40,000)	Less: Estimated USDA Required Repayment
\$(272,513)	Total Estimated Deficit January 31, 2014

- The Housing Authority did not have internal controls over bank reconciliations, accounts payables, cash receipting and proper reporting of fund balances. Without these controls the Housing Authority cannot ensure that assets are being safeguarded against loss or misappropriation. Our review of the Housing Authority’s bank statements noted the following:
 - On January 30, 2014, the Executive Director transferred approximately \$20,000 out of restricted funds to the operating account without Board approval.
 - As of March 11, 2014, the Executive Director held over \$13,000 in checks to manage cash flow problems.

Additionally, the Housing Authority did not have controls in place to ensure compliance with federal and state agency requirements. Those agencies are now asking for immediate corrective action and repayment of the following:

- Non-compliance with the Washington State Department of Commerce (DOC) revolving loan funds, which resulted in requiring immediate repayment of the entire revolving loan account balance estimated at \$230,000 as of December 31, 2011.
- Non-compliance with the United States Department of Agriculture (USDA) Rural Development tenant rental assistance programs, requiring repayment of an estimated \$40,000.

The Board was not aware of the compliance violations and the Housing Authority’s financial condition.

Cause of Condition

Turnover has been a problem for the Housing Authority. Only three of five Board members remain and the Housing Authority is currently without an accountant.

The Executive Director has not kept the Board adequately informed of operations to make effective business decisions and has unilateral control without sufficient oversight. The Housing Authority’s Board and Executive Director did not develop a financial plan to address its financial condition identified in the prior audit.

Effect of Condition

The Housing Authority is at risk of not being able to meet financial obligations or maintain operations. As a result, the City of Republic and Ferry County, creating and appointing agencies, may have financial and legal obligations.

Recommendation

We recommend the Housing Authority's Board take immediate and significant action to:

- Develop a plan to improve the Housing Authority's financial position and continue operations. It should also monitor the plan to ensure goals are met.
- Be informed of all Housing Authority business.
- Establish monitoring procedures over the Executive Director.
- Establish internal controls to ensure accurate accounting, reporting and compliance with laws and regulations.
- Obtain training and other resources to ensure knowledge of Housing Authority operations, as well as laws and federal and state program regulations
- Work toward correcting federal and state agency compliance violations.

We further recommend the Housing Authority work with the City of Republic and Ferry County, its creating and appointing agencies, to determine responsibility and potential liability for Housing Authority operations.

Housing Authority's Response

We have made changes in our staff including management and intend on providing them adequate training to ensure that the financial information is accurate and complete. We will establish procedures and oversight to ensure that the bank statements are reconciled timely and that financial reports are filed timely.

We are working with the city of Republic and Ferry County to develop a plan to improve the Housing Authority's financial position and to correct federal and state agencies compliance violations.

We will set up a Revolving Loan Fund and deposit loan payments and loan payoffs into this fund. We will work with the Department of Commerce to resolve the non-compliance issues.

Auditor's Remarks

We appreciate the steps the Housing Authority is taking to resolve this issue. We will review the condition during our next audit.

Applicable Laws and Regulations

Budgeting Accounting and Reporting System (BARS) Manual - Part 3, Accounting, Chapter 1. Accounting Principles and General Procedures, Section C. Internal Control, states in part:

Management and the governing body are responsible for the government's performance, compliance and financial reporting. Therefore, the adequacy of internal control to provide reasonable assurance of achieving these objectives is also the responsibility of management and the governing body. The governing body has ultimate responsibility for ensuring adequate controls to achieve objectives, even though primary responsibility has been delegated to management.

RCW 43.09.200, Local government accounting — Uniform system of accounting, states:

The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class.

The system shall exhibit true accounts and detailed statements of funds collected, received, and expended for account of the public for any purpose whatever, and by all public officers, employees, or other persons.

The accounts shall show the receipt, use, and disposition of all public property, and the income, if any, derived there from; all sources of public income, and the amounts due and received from each source; all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction; all statements and reports made or required to be made, for the internal administration of the office to which they pertain; and all reports published or required to be published, for the information of the people regarding any and all details of the financial administration of public affairs.

Status of Prior Audit Findings

Joint City of Republic-Ferry County Housing Authority January 1, 2012 through December 31, 2012

The status of findings contained in the prior years' audit reports of the Joint City of Republic-Ferry County Housing Authority is provided below:

- 1. The Housing Authority used restricted revolving loan funds to supplement its daily operations, resulting in noncompliance with its contract and causing its financial condition to decline.**

Report No. 1010098, dated July 15, 2013

Background

The Housing Authority entered into a contract with the Department of Commerce, Housing Finance Unit (HFU) to provide funding for homeowner occupied rehabilitation and down-payment assistance. This is one of four revolving loan programs that the Housing Authority operates. The other three programs do not have the same requirements as the HFU program.

The HFU program contract requires the Housing Authority to deposit loan payments and loan payoffs into the Housing Authority's Revolving Loan Fund to be used only for additional development and rehabilitation of homes and down-payment assistance for low- and very low-income households. However, the Housing Authority did not separately account for these loan payments and loan payoffs.

Description of Condition

Per our review of the revolving loan documentation we determined that as of December 31, 2011, the Housing Authority should have \$171,535 restricted for future rehab and down payment assistance loans. However, the Housing Authority has no cash restricted for this purpose and only \$90,431 in cash available as of December 31, 2011, resulting in a shortage of \$81,104 required for the revolving loan program.

As the Housing Authority's financial position declined, the Housing Authority used revolving loan funds from the HFU program and its three other programs to supplement its operations.

Status

The Housing Authority has not implemented changes since our last audit. This issue is unresolved.

2. The Housing Authority violated conflict of interest laws when it provided a housing program loan to one of its employees, putting it at risk for repayment of program funds.

Report No. 1010098, dated July 15, 2013

Background

The Housing Authority administrates a Washington State Housing Finance Unit (HFU) revolving loan program that began in 2000. Using the HFU program, the Housing Authority provided low interest loans to low-income individuals for down-payment assistance and rehabilitation loans. In the event individuals cannot repay the loans, the Housing Authority will foreclose on the property and try to sell it or rent it to low-income individuals. Any funds received are put back into the HFU loan program to be used for additional loans.

Description of Condition

The Housing Authority foreclosed on a home that was purchased through an HFU loan in January 2004. The Housing Authority sold the property to one of its employees on October 2007. The Housing Authority used the HFU program fund to provide a \$69,547 loan to the employee for the purchase. The employee did meet the income threshold to receive an HFU loan and the price approximated the assessed value of the property.

The Housing Authority did not make the property available to other low-income individuals or notify the public of the surplus. The contract between the Housing Authority and HFU prohibits employees from receiving funds. State housing law statute prohibits employees from securing, or appearing to secure, unwarranted privileges or advantages.

Status

The Housing Authority received notice from the Department of Commerce on February 3, 2014 to immediately send a check for the repayment of the entire revolving loan fund balance due by February 28, 2014. As of the time of our audit, payment has not been received by the Department of Commerce, nor have payment arrangements been made.

**Independent Auditor's Report on Internal Control over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards***

**Joint City of Republic-Ferry County Housing Authority
January 1, 2012 through December 31, 2012**

Board of Commissioners
Joint City of Republic-Ferry County Housing Authority
Republic, Washington

We were engaged to audit the financial statements of the Joint City of Republic-Ferry County Housing Authority for the year ended December 31, 2012, and notes to the financial statements. The Housing Authority did not prepare or provide financial statements supporting its financial activities for the year ended December 31, 2012. Accordingly, we do not express an opinion on the financial activities for 2012.

Our report also includes information about the status of the Housing Authority's financial condition. This information is more fully described in Finding 2 in the Schedule of Audit Findings and Responses. The Housing Authority's response to the finding was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the Housing Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Housing Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Housing Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Audit Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a

deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Housing Authority's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Audit Findings and Responses as Finding 1 to be material weaknesses.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Housing Authority's financial statements are free from material misstatement, we performed tests of the Housing Authority's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

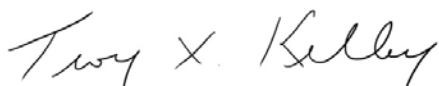
The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and are described in the accompanying Schedule of Audit Findings and Responses as Finding 1.

HOUSING AUTHORITY'S RESPONSE TO FINDINGS

The Housing Authority's response to the findings identified in our audit is described in the accompanying Schedule of Audit Findings and Responses. The Housing Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Housing Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Housing Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



TROY KELLEY
STATE AUDITOR

May 21, 2014

Independent Auditor's Report on Financial Statements

Joint City of Republic-Ferry County Housing Authority January 1, 2012 through December 31, 2012

Board of Commissioners
Joint City of Republic-Ferry County Housing Authority
Republic, Washington

REPORT ON THE FINANCIAL STATEMENTS

We were engaged to audit the financial statements of the Joint City of Republic-Ferry County Housing Authority, Ferry County, Washington, as of and for the year ended December 31, 2012.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on conducting the audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Because of the matters described in the Basis for Disclaimer of Opinion paragraph; however, we were not able to obtain sufficient appropriate audit evidence to provide basis for an audit opinion.

Basis for Disclaimer of Opinion

The Housing Authority did not provide financial statements or supporting schedules and notes for the period ended December 31, 2012, and therefore, representations of the Housing Authority's financial activities were not available for audit.

Disclaimer of Opinion

Because of the significance of the matter describe in the Basis for Disclaimer of Opinion paragraph, we were unable to perform an audit. Accordingly, we do not express an opinion on the financial statements. No financial statements are included with our report.

Other Matters Regarding Fiscal Sustainability

As discussed in Finding 2 in the Schedule of Audit Findings and Responses, the Housing Authority's financial position continues to decline. The Housing Authority has continued to

borrow from restricted funds in order to pay for operations and to address cash flow shortages. The Housing Authority's cash flow constraints are expected to continue in the near future. As a result, there exists uncertainty about the Housing Authority's ability to maintain services at present levels under these conditions.

Other Matters Regarding Disclaimer of Opinion

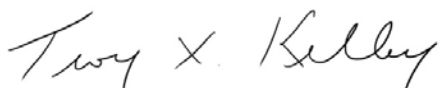
As the statutory auditor of all public accounts in the state of Washington we are precluded from withdrawing from the audit engagement, regardless of the matter described in the Basis for Disclaimer of Opinion paragraph.

Housing Authority's Response to Finding

The Housing Authority's response to the finding identified above is described in the accompanying Schedule of Audit Findings and Responses. The Housing Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated May 21, 2014 on our consideration of the Housing Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Housing Authority's internal control over financial reporting and compliance.



TROY KELLEY
STATE AUDITOR

May 21, 2014



ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens as an advocate for government accountability. As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

The State Auditor's Office employees are located around the state to deliver services effectively and efficiently.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments and fraud, whistleblower and citizen hotline investigations.

The results of our work are widely distributed through a variety of reports, which are available on our Web site and through our free, electronic subscription service.

We take our role as partners in accountability seriously. We provide training and technical assistance to governments and have an extensive quality assurance program.

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