



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report
Kitsap County Consolidated Housing
Authority
(Housing Kitsap)

For the period July 1, 2017 through June 30, 2018

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**Office of the Washington State Auditor
Pat McCarthy**

January 7, 2019

Board of Commissioners
Housing Kitsap
Silverdale, Washington

Report on Financial Statements

Please find attached our report on Housing Kitsap's financial statements.

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

Sincerely,

Pat McCarthy
State Auditor
Olympia, WA

TABLE OF CONTENTS

Schedule of Audit Findings and Responses.....	4
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.....	7
Independent Auditor's Report on Financial Statements.....	10
About the State Auditor's Office.....	13

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

Housing Kitsap July 1, 2017 through June 30, 2018

2018-001 The Housing Authority is at risk of not being able to meet its financial obligations or maintain operations.

Background

Housing Kitsap (Housing Authority) owns and operates eight rental properties and is partner to six Tax Credit Partnership properties, including about 950 units, which serve low-income citizens in Kitsap County (excluding Bremerton). Revenue consists mainly of tenant rents and federal government grants and subsidies, including housing assistant payments and management fees.

Our 2017 Accountability audit of the Housing Authority reported concerns regarding its financial condition and fiscal sustainability.

Description of Condition

We analyzed the Housing Authority's financial condition for fiscal year 2018, as well as actual and projected cash flows through June 2019. The Housing Authority's financial activities for fiscal year 2018 and projections into fiscal year 2019 reflect a continued decline in its financial health. Based on the most recent financial information received from the Housing Authority, it had approximately \$351,500 available in unrestricted cash at the end of fiscal year 2018. This represents a decrease in unrestricted cash of about \$1.8 million, or 80 percent, since the end of fiscal year 2017.

Based on the Housing Authority's actual cash flows through early October 2018 and projected cash flows through June 2019, the Housing Authority's unrestricted cash likely will fall below zero in March 2019.

Cause of Condition

The Housing Authority has experienced significant turnover in key accounting and other staff positions and was unsuccessful in implementing new accounting software. While the Housing Authority's financial decline is the result of a multitude of factors, management and the Board did not effectively monitor the Housing Authority's cash position due to staff turnover and lack of a working general ledger. Adequate and reliable financial reports have not been consistently provided to management and the Board since about August 2017. Without this crucial information, management and the Board cannot effectively make

appropriate financial decisions to ensure the Housing Authority can maintain operations.

Effect of Condition

The Housing Authority does not have sufficient unrestricted cash reserves to meet future obligations. Current projections show the Housing Authority is at risk of not being able to pay obligations as they come due after March 2019.

Recommendation

Although the Housing Authority recently established a formal financial plan to address its cash flow issues and sustainability, we recommend the Housing Authority continue to monitor its financial plan to address its cash flow issues and sustainability. Management and the Board of Commissioners should closely monitor and evaluate the Housing Authority's financial activities to ensure the plan is being followed, the desired results are achieved and the plan is revised as needed to resolve the Housing Authority's cash flow issues.

Housing Authority's Response

Since the audit date, Housing Kitsap has successfully completed updated cash analyses and projections and therefore has more current information than was used by the SAO in their assessment. Housing Kitsap updates both its projections of future cash and actual cash on an almost daily basis. Housing Kitsap anticipates adequate cash for operations and debt service through the end of the fiscal year and into the next. Housing Kitsap is well on its way to reestablishing normal long term operations as a result of the staff reductions that have already been implemented and ongoing adjustments in operations. Both of the transitions, to new property management software, and to the new accounting software will be largely completed by the end of December, 2018. Financial and other reporting will be available for the prior fiscal year and for the current year for the next audit. Housing Kitsap staff and members of the Board of Commissioners meet weekly to review the status of Housing Kitsap's operations and programs. This close cooperation and communication will insure that Housing Kitsap, as it has in the past, will continue to meet all its obligations to its partners, lenders and the community. We would like to acknowledge and express our appreciation for the extra time and support the SAO has provided Housing Kitsap during this process.

Auditor's Remarks

We appreciate the steps the Housing Authority is taking to improve its financial condition and will review the corrective action taken during our next audit. We are

grateful for the Housing Authority's cooperation and assistance during the audit process.

Applicable Laws and Regulations

RCW 43.09.200 Local government accounting; Uniform system of accounting, requires the State Auditor to prescribe the system of accounting and reporting for all local governments.

The *Budgeting, Accounting and Reporting System (BARS) Manual*, 3.1.3, Internal Control, requires each local government to establish and maintain an effective system of internal controls that provides reasonable assurance that the government will achieve its objectives.

Governmental Accounting Standards Board's Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*, requires financial statement preparers to evaluate whether there is substantial doubt about a governmental entity's ability to continue as a going concern.

The American Institute of Certified Public Accountants requires auditors to assess, and when applicable report on, conditions or events raising substantial doubt about the Authority's ability to continue as a going concern, in its *Codification of Statements on Auditing Standards*, section 570, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*.

**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**

**Housing Kitsap
July 1, 2017 through June 30, 2018**

Board of Commissioners
Housing Kitsap
Silverdale, Washington

We were engaged to 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, the financial statements of the business-type activities and the aggregate discretely presented component units of Housing Kitsap, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Housing Authority's basic financial statements, and have issued our report thereon dated December 31, 2018. Our report disclaims an opinion on such financial statements because we were not able to obtain financial statements supporting the financial activities of the Housing Authority for the year ended June 30, 2018.

The Housing Authority has suffered recurring losses from operations and has a net equity deficiency that raises substantial doubt about its ability to continue as a going concern. This information is more fully described in Finding 2018-001 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 connection with our engagement to audit the financial statements of the Housing Authority, 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 opinions 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 2018-001 to be a material weakness.

COMPLIANCE AND OTHER MATTERS

In connection with our engagement to audit the financial statements of the Housing Authority, audit standards require performing 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, we were unable to perform these tests required by audit standards, as described in the accompanying Schedule of Audit Findings and Responses in Finding 2018-001. If the scope of our work had been sufficient to enable us to express opinions on the basic financial statements, instances of noncompliance or other matters may have been identified and reported herein.

HOUSING AUTHORITY'S RESPONSE TO FINDINGS

The Housing Authority's response to the findings identified in our engagement 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 engagement to perform an audit 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.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy
State Auditor
Olympia, WA

December 31, 2018

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Housing Kitsap July 1, 2017 through June 30, 2018

Board of Commissioners
Housing Kitsap
Silverdale, Washington

REPORT ON THE FINANCIAL STATEMENTS

We were engaged to audit the financial statements of the business-type activities and the aggregate discretely presented component units of Housing Kitsap for the year ended June 30, 2018 and the related notes to the financial statements, which collectively comprise the Housing Authority's basic financial statements.

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 control 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 opinions 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 matter described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide basis for audit opinions.

Basis for Disclaimer of Opinions

The Housing Authority did not provide financial statements or supporting schedules for the period ended June 30, 2018, and therefore, representations of the Housing Authority's financial activities were not available for audit. Further, the Housing Authority did not maintain sufficient documentation in support of transactions to allow us to evaluate the fair presentation of revenues and expenditures for the period ended June 30, 2018. The Housing Authority's records do not permit the application of other auditing procedures to evaluate the fair statement of revenues and expenditures.

Disclaimer of Opinions

Because of the significance of the matters described in the Basis for Disclaimer of Opinions paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for audit opinions on the financial statements of the business-type activities and the aggregate discretely presented component units of Housing Kitsap. Accordingly, we do not express opinions on these financial statements. These statements are not included in our report.

Other Matters Regarding Disclaimer of Opinions

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 matters described in the Basis for Disclaimer of Opinions paragraph.

Other Matters Regarding Going Concern

As described in Finding 2018-001 in the Schedule of Audit Findings and Responses, the Housing Authority's financial position continues to decline, the Housing Authority has suffered recurring losses from operations, and has a net equity deficiency that raises substantial doubt about its ability to continue as a going concern.

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 December 31, 2018 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 engagement to perform an audit in accordance with *Government Auditing Standards* in considering the Housing Authority's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive style with a large, stylized initial "P".

Pat McCarthy
State Auditor
Olympia, WA

December 31, 2018

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 to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

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.

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 as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

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

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