

Washington State Auditor's Office
Accountability Audit Report

**Housing Authority of Mason County
(Mason County Housing Authority)**

Report Date
April 12, 2013

Report No. 1010288

Issue Date
August 26, 2013



WASHINGTON
TROY KELLEY
STATE AUDITOR



**Washington State Auditor
Troy Kelley**

August 26, 2013

Board of Commissioners
Mason County Housing Authority
Shelton, Washington

Report on Accountability

We appreciate the opportunity to work in cooperation with your Housing Authority to promote accountability, integrity and openness in government. The State Auditor's Office takes seriously our role to advocate for government accountability and transparency and to promote positive change.

Please find attached our report on the Mason County Housing Authority's accountability and compliance with state laws and regulations and its own policies and procedures. Thank you for working with us to ensure the efficient and effective use of public resources.

Sincerely,

TROY KELLEY
STATE AUDITOR

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Audit Summary

Mason County Housing Authority April 12, 2013

ABOUT THE AUDIT

This report contains the results of our independent accountability audit of the Mason County Housing Authority from October 1, 2008 through September 30, 2012.

We evaluated internal controls and performed audit procedures on the activities of the Housing Authority. We also determined whether the Housing Authority complied with state laws and regulations and its own policies and procedures.

In keeping with general auditing practices, we do not examine every transaction, activity or area. Instead, the areas examined were those representing the highest risk of noncompliance, misappropriation or misuse. The following areas were examined during this audit period:

- Open public meeting minutes
- Financial condition

RESULTS

In most areas, the Housing Authority complied with state laws and regulations and its own policies and procedures.

However, we identified a condition significant enough to report as a finding:

- The Housing Authority's financial condition puts it at risk of not being able to meet financial obligations.

Related Reports

Mason County Housing Authority April 12, 2013

FINANCIAL

The Pine Gardens financial statements for the period March 30, 2009 through September 30, 2009 and the years ended September 30, 2010 and 2011 were audited by a firm of certified public accountants. The Kneeland Park financial statements for the years ended December 31, 2009 and 2010 were audited by a firm of certified public accountants. Those firms' reports are available from the Mason County Housing Authority.

FEDERAL GRANT PROGRAMS

The Pine Gardens federal programs received a program audit by a firm of certified public accountants for the period March 30, 2009 through September 30, 2009 and the years ended September 30, 2010 and 2011. That firm's reports are available from the Mason County Housing Authority.

Description of the Housing Authority

Mason County Housing Authority April 12, 2013

ABOUT THE HOUSING AUTHORITY

The Housing Authority of Mason County, doing business as the Mason County Housing Authority, was organized in 1972 and serves citizens with low incomes in Mason County. It operates a Rural Development property, which includes the Goldsborough Cove and Fairmont Cove apartments, a Section 8 new construction property, which includes Pine Gardens, and the Kneeland Park Apartments, a Tax Credit Partnership until December 30, 2011, when its assets were turned over to the Housing Authority.

The Housing Authority is administered by a five-member Board of Commissioners appointed by the Mason County Commissioners. Management of the Housing Authority was contracted with Bremerton Housing Authority from March 1978 through March 2009. Since then, a property management company has managed its properties. Longview Housing Authority provided accounting services from April 2009 until July 2012. These services are now provided by the property management company.

APPOINTED OFFICIALS

These officials served during the audit period:

Board of Commissioners:

Merrill Wallace
Jack Miles (through April 2009)
Jeannie Gruber (May 2009 – September 2011)
Tamra Ingwaldson (began August 2012)
Michael Neher (through June 2010)
Karen Monroe (began May 2011)
Gayle Weston
Carolyn Malanowski (began November 2008)

Management Services:

Bremerton Housing Authority (managed all operations through March 2009)

Longview Housing Authority (accounting services from April 2009 through June 2012)

Legacy Management Group (property management from April 2009 through March 2012)

Guardian Management, LLC (property management from April 2012 accounting services beginning August 2012)

HOUSING AUTHORITY CONTACT INFORMATION

Address: Mason County Housing Authority
411 N. Fifth Street
Shelton, WA 98584

Phone: (360) 275-5700

AUDIT HISTORY

In the past, we audited the Housing Authority annually. With the absorption of the voucher programs by Bremerton Housing Authority on September 1, 2008, the Housing Authority no longer required a federal single audit. The Housing Authority is also below the size requiring a financial statement audit. As a result, this audit covers four years.

Schedule of Audit Findings and Responses

Mason County Housing Authority April 12, 2013

1. **The Housing Authority's financial condition puts it at risk of not being able to meet its financial obligations.**

Background

Mason County Housing Authority owns three properties, which serve low-income citizens in Mason County. Those properties are Goldsborough and Fairmont Cove Apartments with 60 units, Pine Gardens with 28 units and Kneeland Park Apartments with 21 units. Revenue consists of tenant rents and subsidies from the federal government.

Description of Condition

Our audit identified a number of concerns regarding the Housing Authority's financial condition.

- The net position of the Housing Authority has declined every year since 2008.

	2008	2009	2010	2011	2012
Net Position	993,687	869,636	846,057	782,946	688,622

- Pine Gardens and Kneeland Park have had negative net income for a number of years. The Fairmont Cove was also negative in 2012.

Net Income	2008	2009	2010	2011	2012
The Coves	10,321	32,617	3,901	9,593	(6,374)
Pine Gardens	(8,767)	(94,132)	(71,161)	(29,816)	(12,445)
Kneeland Park	(18,957)	(30,945)	(19,531)	(19,667)	10,582)
Total	(17,403)	(92,460)	(86,791)	(39,890)	(29,401)

- Current liabilities have exceeded the unrestricted current assets available to pay them for at least the last five years.
- The property in the poorest financial condition is Pine Gardens. On February 28, 2013, it only had cash to cover an average of two days of Housing Authority expenditures and an unrestricted net position of (\$371,526).
- The Local Fund of the Housing Authority is nearly out of money to subsidize the three properties, with cash of \$18,749 and a receivable from Pine Gardens of \$39,380 on February 28, 2013.

Cause of Condition

The Housing Authority's ability to raise rents is limited due to contracts with Housing and Urban Development and Rural Development. Federal rental subsidies have not been adequate to cover expenses and future funding levels are uncertain.

The Housing Authority has only three small properties and still owes \$3.5 million in debt. It has struggled to cover the Housing Authority's expenses with so little rental income.

Effect of Condition

The Housing Authority does not have sufficient unrestricted cash reserves available to meet obligations. Without a plan in place to address the negative financial position, the Housing Authority is at risk of not being able to meet its financial obligations.

Recommendation

We recommend the Board take action to:

- Establish a formal financial plan to address its cash flow issues.
- Closely monitor and evaluate the District's financial activities to ensure the plan is being followed and the desired results achieved. The Board should revise the plan as needed to resolve its cash flow issues.

Housing Authority's Response

The Mason County Housing Authority Directors agree with the Audit Finding; The Mason County Housing Authority Board has been aware of the pending cash flow issue for several years and has voiced our concerns about the issue during past Board Meetings as the MCHA Meeting minutes illustrate and has looked for solutions from our lenders. The Mason County Housing Authority Board has asked our Management Group (Guardian Management LLC) to establish a formal financial plan to address our properties cash flow issues. The Board will also closely monitor and evaluate the effectiveness of the formal financial plan and look for other financial solutions.

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.



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.

Our mission is to 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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