



Office of the Washington State Auditor
Pat McCarthy

Accountability Audit Report
Pierce County Housing Authority

For the period January 1, 2018 through December 31, 2018

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

December 16, 2019

Board of Commissioners
Pierce County Housing Authority
Tacoma, Washington

Report on Accountability

The State Auditor's Office takes seriously our role of providing state and local governments with assurance and accountability as the independent auditor of public accounts. Independent audits provide essential accountability and transparency for Housing Authority operations.

The attached comprises our independent audit report on the Housing Authority's compliance with applicable requirements and safeguarding of public resources for the areas we examined.

In summary, this audit revealed an alarming abuse of power by a person in a position of fiscal responsibility. Public employees have an obligation to ensure open government by following the law, their government's own policies, and best practices. Those standards are outlined in this audit.

I wish to thank the Housing Authority's staff and leadership, including its commissioners, whose cooperation and assistance helped us in our review of these matters.

I also strongly recommend you, the Housing Authority's commissioners, review the recommendations included in this report. As stewards of public resources, it is incumbent upon you to ensure the Housing Authority has strong internal controls to prevent the misuse of those resources. The public expects such safeguards.

Sincerely,

Pat McCarthy
State Auditor
Olympia, WA

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AUDIT RESULTS

This report describes the overall results and conclusions for the areas we examined. In most of the areas we examined, Pierce County Housing Authority (Housing Authority) operations did not comply with applicable state laws, regulations, or its own policies. Additionally, the Housing Authority did not have adequate procedures in place for safeguarding of public funds.

As referenced above and described in the attached finding, we identified areas in which the Housing Authority could make improvements.

We recommend the Housing Authority establish internal controls over its financial activities that ensure compliance with state law and safeguard public funds from loss or misappropriation.

As discussed in the Related Reports section of this report, we have also issued financial statement and special investigations audit reports on December 16, 2019.

About the audit

This report contains the results of our independent accountability audit of the Housing Authority from January 1, 2018 through December 31, 2018.

Management is responsible for ensuring compliance and adequate safeguarding of public resources from fraud, loss or abuse. This includes the design, implementation and maintenance of internal controls relevant to these objectives.

This audit was conducted under the authority of RCW 43.09.260, which requires the Office of the State Auditor to examine the financial affairs of all local governments. Our audit involved performing procedures to obtain evidence about the Housing Authority's uses of public resources, compliance with state laws and regulations and its own policies and procedures, and internal controls over such matters.

In keeping with general auditing practices, we do not examine every transaction, activity or area. Instead, based on our risk assessment for the year ended December 31, 2018, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. The following areas were examined during this audit period:

- Payroll – gross wages, overtime
- Accounts payable – general disbursements and credit cards
- Revenues – grant, dwelling rent and miscellaneous
- Insurance – risk management and performance bonds

- Open public meeting – documentation of minutes, executive sessions and special meetings
- Financial condition and fiscal sustainability
- Conflict of interest and code of ethics laws

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

2018-001 The Housing Authority did not have adequate internal controls over its financial activities, which allowed the Finance Director to abuse her position for personal gain.

Background

The Pierce County Housing Authority (Housing Authority) provides housing opportunities for eligible individuals in Pierce County. The Housing Authority owns and manages nine apartment complexes and provides housing assistance through the Low Income Public Housing program. The Housing Authority's operating expenses were roughly \$33.9 million in 2018.

An appointed, six-member Board of Commissioners governs the Housing Authority. The Housing Authority's management is responsible for designing, implementing, and maintaining internal controls that provide reasonable assurance that public resources are safeguarded.

The Housing Authority's former Finance Director started working for the Housing Authority in 1998, was responsible for overseeing Housing Authority finances, and supervised between five and eight people.

State law prohibits municipal officers from using their positions to secure special privileges or exemptions for themselves or others.

Description of Condition

The Housing Authority did not have adequate procedures in place to safeguard public funds. Specifically, the Housing Authority relied on the Finance Director for all financial activities without adequate oversight and review. Further, the Housing Authority did not have adequate bonding and insurance coverage to cover a significant loss.

The former Finance Director financially benefited when she used her position to divert funds from the Housing Authority accounts to her own. She directed finance staff to turn away from established processes and controls, which allowed the diversion of funds to go undetected.

Further, the former Finance Director failed to provide valuable financial detail to Housing Authority management and the Commissioners, preventing effective review and approval of Housing Authority expenditures.

Cause of Condition

The former Finance Director abused her position of fiscal responsibility to perpetrate and conceal misappropriation by circumventing internal controls.

Additionally, the Board placed too much reliance on the former Finance Director for all financial activities including the financial statement preparation without adequate oversight and monitoring.

Effect of Condition

Lack of proper oversight and inadequate internal controls over the Housing Authority's financial activities increased the risk that a loss or misappropriation of public funds could occur and not be detected by management.

As a result, the former Finance Director misappropriated \$6,948,277 and violated the Code of Ethics for Municipal Officers. This loss is not fully covered due to inadequate bond and insurance coverage.

Recommendation

We recommend the Board perform more direct oversight and monitoring of the Housing Authority's financial activities. We further recommend they re-evaluate and strengthen internal controls over its financial systems, including evaluate the insurance and performance bond coverage.

Housing Authority's Response

Pierce County Housing Authority (PCHA) is committed to ensuring that all necessary controls are implemented to protect both PCHA's and the public's assets. PCHA has reviewed this report and agrees with all the recommendations presented by the State Auditor's Office.

Response to the State Auditor's recommendations:

- PCHA's Board of Commissioners had contracted with a nationally recognized firm to conduct a full assessment of current financial practices and procedures and to implement strong internal controls over the agency's financial systems.*
- To better oversee financial activities, the Board had contracted with a nationally recognized firm to receive training on housing authority-related financial systems and reporting. The training was scheduled for August 3, 2019. The training materials will be reviewed in light of this report, updated and rescheduled. Ongoing training will be provided to current and new board members.*

- *The Authority is working with its insurance broker to evaluate insurance coverage for employee dishonesty and will implement performance bond coverage for certain job classifications.*

Auditor's Remarks

We appreciate the Housing Authority's commitment to resolving the issues identified above and emphasize the importance of establishing effective internal control over accounting and financial reporting. We will follow up on the status of this finding during our next audit.

Applicable Laws and Regulations

RCW 42.24.110 –Municipal corporations and political subdivisions—Approving or paying false claim—Penalties.

Any person who knowingly approves or pays or causes to be approved or paid a false or untrue claim shall be guilty of a gross misdemeanor and, in addition, he or she shall be civilly liable on his or her bond to the municipal corporation or political subdivision, as the case may be, for the amount so paid or for three hundred dollars whichever is the greater.

RCW 42.23.070 – Prohibited Acts, states:

No municipal officer may use his or her position to secure special privileges or exemptions for himself, herself, or others.

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 therefrom; 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.

RCW 42.24.180 Taxing district—Issuance of warrants or checks before approval by legislative body states,

In order to expedite the payment of claims, the legislative body of any *taxing district, as defined in RCW [43.09.260](#), may authorize the issuance of warrants or checks in payment of claims after the provisions of this chapter have been met and after the officer designated by statute, or, in the absence of statute, an appropriate charter provision, ordinance, or resolution of the *taxing district, has signed the checks or warrants, but before the legislative body has acted to approve the claims. The legislative body may stipulate that certain kinds or amounts of claims shall not be paid before the board has reviewed the supporting documentation and approved the issue of checks or warrants in payment of those claims. However, all of the following conditions shall be met before the payment:

(1) The auditing officer and the officer designated to sign the checks or warrants shall each be required to furnish an official bond for the faithful discharge of his or her duties in an amount determined by the legislative body but not less than fifty thousand dollars;

Budgeting Accounting and Reporting System (BARS) manual – Accounting

Principles and Controls, Internal Control, Sections 3.1.3.20 and 3.1.3.30 states:

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. Since management and the governing body are assumed to work in harmony, both parties are collectively referred to as "management" throughout the rest of this section.

RCW 43.09.2855 – Local Governments – Use of credit cards, states:

- (1) Local governments, including counties, cities, towns, special purpose districts, municipal and quasi-municipal corporations, and political subdivisions, are authorized to use credit cards for official government purchases and acquisitions.
- (2) A local government may contract for issuance of the credit cards.
- (3) The legislative body shall adopt a system for:
 - (a) The distribution of the credit cards;
 - (b) The authorization and control of the use of credit card funds;
 - (c) The credit limits available on the credit cards;
 - (d) Payment of the bills; and
 - (e) Any other rule necessary to implement or administer the system under this section.
- (4) As used in this section, "credit card" means a card or device issued under an arrangement pursuant to which the issuer gives to a card holder the privilege of obtaining credit from the issuer.
- (5) Any credit card system adopted under this section is subject to examination by the state auditor's office pursuant to chapter 43.09 RCW.
- (6) Cash advances on credit cards are prohibited.

RELATED REPORTS

Financial

Our opinion on the Housing Authority's financial statements is provided in a separate report, which includes the Housing Authority's financial statements.

Our report reflects a qualified opinion because of a classification error that was not corrected in the final financial statements.

The 2018 financial statements reported \$1.95 million of misappropriation in the maintenance and general operational cost operating balances, which should have been reported as an extraordinary item - fraud loss. Our report also included a finding for a material weakness in internal controls over financial reporting regarding internal controls over accounting and financial reporting are inadequate to ensure accurate and timely reporting and the prevention and detection of fraud.

That report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

Special investigations

The State Auditor's Office issued a report on a misappropriation of public funds at the Housing Authority. That report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

INFORMATION ABOUT THE HOUSING AUTHORITY

The Pierce County Housing Authority was created to provide housing opportunities for eligible individuals within Pierce County. The Housing Authority owned and managed nine apartment complexes at the end of 2018. The Housing Authority also provides housing assistance through the Low Income Public Housing program for citizens of Pierce County.

An appointed, six-member Board of Commissioners governs the Housing Authority. Five Commissioners are appointed by the Pierce County Executive and a program participant is appointed by the Board. The Board appoints an Executive Director to oversee the Housing Authority's daily operations as well as its approximately 40 employees. For fiscal year 2018, operating expenses were approximately \$34 million.

Contact information related to this report	
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Information current as of report publish date.

Audit history

You can find current and past audit reports for the Pierce County Housing Authority at <http://portal.sao.wa.gov/ReportSearch>.

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.

Contact information for the State Auditor's Office	
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