



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

**Accountability Audit Report**  
**Kitsap County Consolidated Housing  
Authority**

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

**Published March 30, 2020**

**Report No. 1025813**





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

March 30, 2020

Board of Commissioners  
Kitsap County Consolidated Housing Authority  
Silverdale, Washington

**Report on Accountability**

Thank you for the opportunity to work with you to promote accountability, integrity and openness in government. The Office of the Washington State Auditor takes seriously our role of providing state and local governments with assurance and accountability as the independent auditor of public accounts. In this way, we strive to help government work better, cost less, deliver higher value and earn greater public trust.

Independent audits provide essential accountability and transparency for Housing Authority operations. This information is valuable to management, the governing body and public stakeholders when assessing the government's stewardship of public resources.

Attached is our independent audit report on the Housing Authority's compliance with applicable requirements and safeguarding of public resources for the areas we examined. We appreciate the opportunity to work with your staff and we value your cooperation during the audit.

Sincerely,

Pat McCarthy  
State Auditor  
Olympia, WA

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## AUDIT RESULTS

### Results in brief

This report describes the overall results and conclusions for the areas we examined. In most of the areas we examined, Housing Authority operations complied, in all material respects, with applicable state laws, regulations, and its own policies, and provided adequate controls over safeguarding of public resources.

As referenced above, we identified areas in which the Housing Authority could make improvements. These recommendations are included with our report as findings.

We also noted certain matters that we communicated to Housing Authority management and the Board of Commissioners in a letter and a separate confidential communication dated March 18, 2020, related to cash receipting, theft sensitive assets, and software security. Because public distribution of certain tests performed and the related results could increase risk to the Housing Authority's IT security, distribution of that information has been limited to management of the Housing Authority and is kept confidential under RCW 42.56.420. We appreciate the Housing Authority's commitment to resolving those matters.

Additionally, as noted under the Related Reports – Special Investigations section of this report, certain matters were examined and reported as part of a separate engagement.

In keeping with general auditing practices, we do not examine every transaction, activity, policy, internal control, or area. As a result, no information is provided on the areas that were not examined.

### About the audit

This report contains the results of our independent accountability audit of the Kitsap County Consolidated Housing Authority from July 1, 2017 through June 30, 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 obtaining 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. The procedures performed were based on our assessment of risks in the areas we examined.

Based on our risk assessment for the year ended June 30, 2018, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. We examined the following areas during this audit period:

- Financial condition and fiscal sustainability
- General ledger software conversion
- Cash receipting – timeliness and completeness of deposits at Golden Tides II, Orchard Bluff and Public Housing
- Accounts payable – general disbursements, credit cards and electronic funds transfers
- Payroll – leave cash outs
- Tracking and monitoring of theft of sensitive assets, such as equipment and tools
- Surplus land and real property – disposition and receipt of sales proceeds
- Use of restricted funds – Self Help Opportunity Program and debt reserves
- Compliance with bonding and insurance requirements for officials and employees

## SCHEDULE OF AUDIT FINDINGS AND RESPONSES

### **2018-001 The Housing Authority's financial condition puts it at risk of not being able to meet its obligations or maintain operations.**

#### *Background*

During the audit period, the Housing Authority owned and operated twelve rental properties and is partner to six Tax Credit Partnership properties, including about 904 units, which serve low-income citizens in Kitsap County. Revenue consists mainly of tenant rents, federal government grants and subsidies, including housing assistant payments and management fees.

Our 2017 accountability audit report issued in August 2018, and our 2018 Financial Statement audit report issued in January 2019, both reported concerns regarding the Housing Authority's 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 January 2020. The Housing Authority's financial activities for fiscal year 2018 and projections into fiscal years 2019 and 2020 reflect a continued decline in its financial health. Our audit identified the following concerns:

- Based on the most recent financial information received from the Housing Authority, it had about \$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 December 2019 and projected cash flows through June 2020, the Housing Authority anticipates its unrestricted cash will likely be about \$1.6 million at the end of fiscal year 2020. This includes a onetime cash inflow of \$1.2 million for a sale of land.
- The Housing Authority reduced staffing levels through natural attrition and layoffs in an effort to reduce costs. However, the Housing Authority spent about \$733,172 in consulting fees and temporary workers from July 1, 2017, to June 30, 2019, to complete necessary work to sustain operations.

In the process of reviewing and evaluating collectability of long-term receivables, the Housing Authority has written off significant receivables in recent years. The Housing Authority previously wrote off receivables totaling \$447,513 in fiscal year 2017 and wrote off an additional \$356,672 in fiscal year 2018.

### ***Cause of Condition***

The Housing Authority has experienced significant turnover in key accounting and other staff positions, as well as a reduction in staffing levels during fiscal year 2019. Additionally, the Housing Authority continues to experience issues in implementing new accounting software (see Finding 2018-03). Although the Housing Authority's financial decline results from 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 June 2020.

### ***Recommendations***

Although the Housing Authority established a formal financial plan and appointed a Finance Committee 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***

*Housing Kitsap updates both its projections of future cash and actual cash on a weekly basis. Housing Kitsap anticipates adequate cash for operations and debt service through the end of the fiscal year and into the future as a result of several initiatives including the sale of two properties for a total of more than \$2.5M, a portfolio wide rent increase to catch up that resulted from a comprehensive review of current rents versus permitted regulatory rents, and extending a loan. The rent increases are in addition to the repositioning of two other properties to improve cash flow. To further improve Housing Kitsap's sustainability, in its annual budget, the Board approved the payoff of some debt. Those efforts, combined with the near full implementation of the property management software, and improvements in*

*accounting and financial reporting, will enable Housing Kitsap to remain operational well past our current fiscal year and into the future. Started in 2017, Housing Kitsap staff and members of the Board of Commissioners meet weekly to review operations and programs. This close communication system ensures Housing Kitsap has an early warning system to plan and implement adjustments in the event of sudden changes in cash or other potential problems. As it has in the past, Housing Kitsap will meet all of its obligations to its partners, lenders and the community.*

### ***Auditor's Remarks***

We thank the Housing Authority for its response and appreciate the steps the Housing Authority is taking to improve its financial condition. We 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

The *Budgeting, Accounting and Reporting System (BARS)* manual, Chapter 3, Accounting Principles and Internal Control



## SCHEDULE OF AUDIT FINDINGS AND RESPONSES

### **2018-002 The Housing Authority's internal controls over annual financial report filing were inadequate to ensure compliance with state and federal reporting requirements.**

#### ***Background***

The Board of Commissioners, the public and other report users rely on the information included in financial statements and reports to make decisions. Housing Authority management is responsible for designing, implementing and maintaining internal controls that provide reasonable assurance regarding the reliability of financial reporting.

State law (RCW 43.09.230) requires the Housing Authority to submit annual financial reports to our Office within 150 days after the close of the fiscal year. The annual financial reports include financial statements, supporting schedules, and notes to the financial statements.

The U.S. Department of Housing and Urban Development (HUD) (24 CFR 5.801) requires the Housing Authority to submit unaudited financial statements within 60 days after the close of the fiscal year and audited financial statements within nine months after the close of the fiscal year.

#### ***Description of Condition***

The Housing Authority did not adequately monitor operations to ensure it filed its 2018 and 2019 annual reports with our Office or HUD in a timely manner. The Housing Authority has not filed its 2018 or 2019 annual reports with our Office or HUD.

#### ***Cause of Condition***

The Housing Authority experienced significant turnover in key accounting positions during fiscal year 2018. Additionally, the Housing Authority continues to experience issues in implementing new accounting software (see Finding 2018-03).

#### ***Effect of Condition***

Delayed filing of the financial reports prevents the public from obtaining timely and accurate information about the Housing Authority's fiscal operations. It also hinders transparency to citizens and our Office's efforts to compile statistical financial information for use by the state Legislature and others.

Additionally, HUD notified the Housing Authority it will be reducing its monthly funding as a penalty for not complying with HUD reporting requirements.

## ***Recommendation***

We recommend the Housing Authority establish internal controls to ensure accurate, complete, and timely financial reporting in accordance with state law and federal regulation.

## ***Housing Authority's Response***

*Housing Kitsap has been involved in a software conversion for the better part of two years which has delayed the submission of financial reports. While the initial conversion process resulted in numerous delays, Housing Kitsap recently completed and submitted unaudited FY2018 financial information to HUD as well as some annual reports to our partners and lenders. Housing Kitsap's auditor has begun work on the annual audit and we hope to complete that process in the next few months. With the reconciliation of the data in our financial software nearly complete, and because the software has been in active use since January 2019, we anticipate the preparation and submittal of annual reports for FY 2019 and 2020 to be much more straightforward and timely.*

## ***Auditor's Remarks***

We appreciate the Housing Authority's commitment to resolving this issue. We will review the corrective action taken during our next audit.

## ***Applicable Laws and Regulations***

RCW 43.09.230, Local government accounting, Annual reports

*The Budgeting, Accounting, and Reporting System (BARS) manual, Chapter 3, Accounting Principles and Internal Control*

*The Budgeting, Accounting and Reporting System (BARS) manual, Chapter 4, Reporting Principles and Requirements*

*Title 24 U.S. Code of Federal Regulations (CFR) Part 5, General HUD Program Requirements; Waivers, Section 801 – Uniform financial reporting standards.*

## SCHEDULE OF AUDIT FINDINGS AND RESPONSES

**2018-003    The Housing Authority did not have adequate internal controls to ensure financial, tenant and other data converted and subsequently entered into its new software system was accurate and complete.**

### *Background*

Housing Authority management and the Board of Commissioners are responsible for the Housing Authority's performance, compliance and financial reporting. This includes implementation and use of software to capture, share and report the Housing Authority's financial, tenant and other data.

This issue was reported as a finding in the prior audit for its first software conversion as finding 2017-002.

### *Description of Condition*

In August 2017, the Housing Authority converted to a new software system to record, track and report its financial and tenant data. This conversion was unsuccessful and the Housing Authority completed a second software conversion in January 2019 that is not yet fully functioning.

### *Cause of Condition*

At the time of the first and second software conversions, the Housing Authority did not run the new system parallel with the prior system. We could not obtain a documented plan for the conversions or support showing the Housing Authority performed any testing of the new systems, including data validations or reconciliations. The Housing Authority did not retain a documented crosswalk between the previous and new systems at the time of conversion.

Additionally, Housing Authority management made the decision to implement a second software conversion prior to correcting errors and ensuring the data was complete in the previously implemented software system.

### *Effect of Condition*

Housing Authority staff could not post tenant cash receipting batches to the general ledger. As a result, tenant accounts and the general ledger did not have accurate and complete information, and the Housing Authority could not reconcile bank statements due to inconsistencies in amounts entered in the general ledger compared to bank activity.

In addition, the Housing Authority has been unable to close year end accounting records. Without complete and accurate data, the Housing Authority cannot

produce reliable financial statements and is at risk of non-compliance with state and federal requirements, tax credit partnership agreements and bond covenants.

### ***Recommendations***

We recommend the Housing Authority take the necessary steps to resolve the errors and issues noted above. Additionally, when implementing new software, the Housing Authority should ensure it performs validating and testing data to ensure financial, tenant and other data is accurate and complete. This includes retaining documentation supporting the validation process and a crosswalk of accounts between the two systems.

### ***Housing Authority's Response***

*Housing Kitsap's software conversion has been in process for the better part of two years. The initial conversion process resulted in numerous issues which led to a second conversion which further delayed implementation. Housing Kitsap's new financial software system has been in active use since January 2019. Housing Kitsap's finance staff, aided by several consultants, have been actively researching accounts and correcting entries to assure that all of our financial data and the general ledger are correct, consistent from year to year, and complete. As that process comes to an end, Housing Kitsap has begun a review of its policies and procedures, particularly our internal controls, to ensure they are consistent with current best practices and regulations as well as with Housing Kitsap's operations and programs.*

### ***Auditor's Remarks***

We appreciate the Housing Authority's commitment to correcting this issue and will review there corrective action in our next regular audit.

### ***Applicable Laws and Regulations***

RCW 43.09.200, Local government accounting, Uniform system of accounting

*The Budgeting, Accounting and Reporting System (BARS) manual, Chapter 3, Accounting Principles and Internal Control*

Chair Rob Putaansuu  
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## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

### Kitsap County Consolidated Housing Authority July 1, 2017 through June 30, 2018

This schedule presents the status of findings reported in prior audit periods.

|  |                                    |                                      |
|--|------------------------------------|--------------------------------------|
| <b>Audit Period:</b><br>July 1, 2016 through June 30, 2017   | <b>Report Ref. No.:</b><br>1021879 | <b>Finding Ref. No.:</b><br>2017-001 |
| <b>Finding Caption:</b><br>The Housing Authority's financial condition puts it at risk for not being able to meet its obligations or maintain operations.  |                                    |                                      |
| <b>Background:</b><br>We analyzed the Housing Authority's financial condition for fiscal year 2017, as well as actual and projected cash flow through December 2018. The Housing Authority's unrestricted net position has remained negative for the past five years, while the debt load continued to increase. The Housing Authority's financial activities for 2017 and into 2018 continue to reinforce a decline in its financial health.  |                                    |                                      |
| <b>Status of Corrective Action: (check one)</b><br><input type="checkbox"/> Fully Corrected <input checked="" type="checkbox"/> Partially Corrected <input type="checkbox"/> Not Corrected <input type="checkbox"/> Finding is considered no longer valid  |                                    |                                      |
| <b>Corrective Action Taken:</b><br><i>Due to Finding Ref. No. 2017-001, Housing Kitsap implemented a plan to assure financial stability. Housing Kitsap anticipates adequate cash for operations and debt service through the end of the current fiscal year 2020 and into the future as a result of these initiatives including the sale of two properties for a total of more than \$2.5M, a portfolio wide rent increase to catch up that resulted from a comprehensive review of current rents versus permitted regulatory rents, and extending a loan. The rent increases are in addition to the repositioning of two other properties to improve cash flow. To further improve Housing Kitsap's sustainability, in its annual budget, the Board approved the payoff of some debt. Those efforts, combined with the near full implementation of the property management software, and improvements in accounting and financial reporting, will enable Housing Kitsap to remain operational well past our current fiscal</i> |                                    |                                      |

*year and into the future. Started in 2017, Housing Kitsap staff and members of the Board of Commissioners meet weekly to review operations and programs. This close communication system ensures Housing Kitsap has an early warning system to plan and implement adjustments in the event of sudden changes in cash or other potential problems. As it has in the past, Housing Kitsap will meet all of its obligations to its partners, lenders and the community.*

|  |                                    |                                      |
|--|------------------------------------|--------------------------------------|
| <b>Audit Period:</b><br>July 1, 2016 through June 30, 2017 | <b>Report Ref. No.:</b><br>1021879 | <b>Finding Ref. No.:</b><br>2017-002 |
|--|------------------------------------|--------------------------------------|

**Finding Caption:**  
The Housing Authority did not have adequate internal controls to ensure financial, tenant and other data converted and subsequently entered into its new software system was accurate, complete and validated.

**Background:**  
In August 2017, the Housing Authority converted to a new software system to record, track and report its financial and tenant data. Although the Housing Authority implemented the new software in August 2017, the new system still is not fully functioning, almost a year later.

**Status of Corrective Action: (check one)**  
 Fully Corrected     
 Partially Corrected     
 Not Corrected     
 Finding is considered no longer valid

**Corrective Action Taken:**  
*Housing Kitsap’s software conversion has been in process for the better part of two years. The initial conversion process resulted in numerous issues which led to a second conversion which further delayed implementation. Housing Kitsap’s new financial software system has been in active use since January 2019. Housing Kitsap’s finance staff, aided by several consultants, have been actively researching accounts and correcting entries to assure that all of our financial data and the general ledger are correct, consistent from year to year, and complete. As that process comes to an end, Housing Kitsap has begun a review of its policies and procedures, particularly our internal controls, to ensure they are consistent with current best practices and regulations as well as with Housing Kitsap’s operations and programs.*

## RELATED REPORTS

### **Financial**

We have issued a separate report related to our engagement to audit the Housing Authority's financial statements; however, we did not express an opinion on the Housing Authority's financial statements. We were not able to obtain statements supporting the financial activities of the Housing Authority for the year ended June 30, 2018, nor were we able to satisfy ourselves as to those financial activities by other auditing procedures. That report includes a finding related to deficiencies in the Housing Authority's internal controls and noncompliance with state laws that require the preparation of an annual financial report. That 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

Housing Kitsap serves all of Kitsap County excluding within Bremerton city limits. The Housing Authority has formed nonprofit organizations and limited partnerships to facilitate acquisition and construction of public and private housing and other community developments. During the audit period, the Housing Authority owned and operated 904 units of affordable housing in 12 dwelling complexes including low rent public housing, independent living facilities for low-income seniors and housing with specialized services for chronically ill people. It has been offering and administrating the U.S. Department of Agriculture's Mutual Self-Help Program in Kitsap and surrounding counties since 1973 and contracts with the Bremerton Housing Authority to administer the Section 8 Housing Assistance Payments Program.

The Housing Authority is administered by a seven-member Board of Commissioners: three Kitsap County Commissioners, the mayors of the cities of Port Orchard and Poulsbo, a Council Member of the city of Bainbridge Island, and a resident from one of the Housing Authority projects. The Board appoints an Executive Director to oversee the housing Authority's daily operations as well as its approximately 49 employees. The Housing Authority receives revenue from a variety of sources, including rent from tenants, federal and state grants, proceeds from sales of property, property management fees and developer's fees.

### Contact information related to this report

|            |  |
|------------|--|
| Address:   | Kitsap County Consolidated Housing Authority<br>2244 Northwest Bucklin Hill Road<br>Silverdale, WA 98383 |
| Contact:   | John Jensen, Controller  |
| Telephone: | (360) 535-6137   |
| Website:   | housingkitsap.org  |

*Information current as of report publish date.*

### Audit history

You can find current and past audit reports for the Kitsap County Consolidated 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.

| <b>Contact information for the State Auditor's Office</b> |  |
|---|--|
| <b>Public Records requests</b>                            | <a href="mailto:PublicRecords@sao.wa.gov">PublicRecords@sao.wa.gov</a> |
| <b>Main telephone</b>                                     | (564) 999-0950   |
| <b>Toll-free Citizen Hotline</b>                          | (866) 902-3900   |
| <b>Website</b>  | <a href="http://www.sao.wa.gov">www.sao.wa.gov</a>                     |