



Office of the Washington State Auditor
Pat McCarthy

Accountability Audit Report

Kitsap County Consolidated Housing Authority

(Housing Kitsap)

For the period July 1, 2018 through June 30, 2020

Published September 20, 2021

Report No. 1029017



Find out what's new at SAO
by scanning this code with
your smartphone's camera



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

September 20, 2021

Board of Commissioners
Housing Kitsap
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 value your cooperation during the audit.

Sincerely,

Pat McCarthy, State Auditor
Olympia, WA

Americans with Disabilities

In accordance with the Americans with Disabilities Act, we will make this document available in alternative formats. For more information, please contact our Office at (564) 999-0950, TDD Relay at (800) 833-6388, or email our webmaster at webmaster@sao.wa.gov.

TABLE OF CONTENTS

Audit Results.....	4
Schedule of Audit Findings and Responses.....	6
Summary Schedule of Prior Audit Findings	9
Related Reports	13
Information about the Housing Authority.....	14
About the State Auditor's Office.....	16

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 where the Housing Authority could make improvements. These recommendations are included with our report as a finding.

We also noted certain matters related to the Housing Authority's financial condition that we communicated to Housing Authority management and the Board of Commissioners in a letter dated September 13, 2021. We appreciate the Housing Authority's commitment to resolving those matters.

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 Housing Kitsap from July 1, 2018 through June 30, 2020.

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 Washington State Auditor to examine the financial affairs of all local governments. Our audit involved obtaining evidence about the Housing Authority's use 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 years ended June 30, 2020 and 2019, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. We examined the following areas during this audit period:

- Annual report filing – timeliness and completeness
- Financial condition

- General ledger software conversion and IT Security policies, procedures, practices and controls protecting financial systems, including backup and recovery and electronic interfaces
- Cash receipting – timeliness and completeness of deposits for Golden Tides II, Orchard Bluff and Public Housing
- Tracking and monitoring of theft sensitive assets, such as computers, tools and equipment

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

Housing Kitsap July 1, 2018 through June 30, 2020

2020-001 The Housing Authority's internal controls over annual financial report filing were inadequate for ensuring compliance with state and federal reporting requirements.

Background

The Board of Commissioners, the public and others 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 end of each 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 end of each fiscal year, and submit audited financial statements within nine months after the end of each fiscal year.

Description of Condition

The Housing Authority did not adequately monitor operations to ensure it filed its 2018, 2019 and 2020 annual reports with our Office and HUD in a timely manner. The Housing Authority filed its 2018 annual report with our Office 825 days late, and has not filed its 2019 or 2020 annual reports with our Office or HUD.

This issue was reported as a finding in the previous audit.

Cause of Condition

During fiscal years 2018 and 2019, the Housing Authority had significant turnover in key accounting positions, and experienced issues implementing new accounting software.

Effect of Condition

Filing financial reports late hinders transparency to citizens, as well as our Office's efforts to compile statistical financial information for the Legislature and others. Late filings also prevent our Office from completing financial statement audits for the Housing Authority, which prevents the public and other interested parties from obtaining timely and accurate information about the Housing Authority's fiscal operations. Additionally, the Board and management cannot effectively monitor or make appropriate financial decisions regarding Housing Authority operations when it files reports late.

Additionally, HUD has been reducing its monthly funding to the Housing Authority since 2019 as a penalty for not complying with HUD reporting requirements.

Recommendation

We recommend the Housing Authority establish and follow internal controls for ensuring it submits accurate, complete, and timely financial reports in accordance with state law and federal regulation.

Housing Authority's Response

The Housing Authority agrees that financial report filing is not current and has not been since 2018. The cause of this problem has been previously identified as staff shortages and software conversions where data transfer of records was not accurate.

Cleanup of the data and financial records has delayed reporting to the required entities, IE: the Office of the Washington State Auditor and the U.S. Department of Housing and Urban Development.

This cleanup of the data, and review and reconciliation of financial records is a painstaking process, and has been, and continues to be, the top priority of Housing Kitsap's leadership team as well as the Board of Commissioners. Ensuring that the records are accurate, and reporting is brought up to date is the primary focus of the newly hired Executive Director. The Executive Director has been working closely with the Accounting Department to develop a plan, including a schedule, to speed up reconciliation and bring reporting into compliance with RCW 43.09.203 as well as 24 CFR 5.801.

To that end, there are currently two independent auditors working with Housing Kitsap, as well as a consulting CPA who is familiar with both Washington State

requirements as well as the U. S. Department of Housing and Urban Development financial reporting requirements.

Additionally, Housing Kitsap is in the early process of procurement of a financial consultant to review the entire accounting department to assess the department, department staff, and department processes and make recommendations to prevent late reporting in the future, with the objective to keep Housing Kitsap in compliance moving forward.

The accounting department added additional staff members in April 2020 and in June 2020 to assist in getting Housing Kitsap current with reporting requirements. In 2021 it was determined additional personnel would be beneficial and Housing Kitsap hired another accountant in August 2021. Housing Kitsap believes it has sufficient staff to get and stay current with reporting requirements.

It is anticipated that the report to the Office of the Washington State Auditor may be approximately 30 days late for FYE 21 based on the current schedule.

Auditor's Remarks

We appreciate the Housing Authority's commitment to resolve this finding and thank the Housing Authority for its cooperation and assistance during the audit. We will review the corrective action taken during our next regular 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

Board of Commissioners

Chair Robert Gelder
 Vice Chair Becky Erickson
 Rob Putaansuu
 Ed Wolfe
 Charlotte Garrido
 Brenda Fantroy-Johnson
 Brittany Dunklin
Executive Director
 Heather Blough



2244 NW Bucklin Hill Rd
 Silverdale, WA 98383

Phone (360) 535.6100
 Fax (360) 535.6107

TDD (360) 535.6106

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Housing Kitsap July 1, 2018 through June 30, 2020

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

Audit Period: July 1, 2016 through June 30, 2017	Report Ref. No.: 1021879	Finding Ref. No.: 2017-001
Finding Caption: The Housing Authority's financial condition puts it at risk for not being able to meet its obligations or maintain operations.		
Background: 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.		
Status of Corrective Action: (check one) <input checked="" type="checkbox"/> Fully Corrected <input type="checkbox"/> Partially Corrected <input type="checkbox"/> Not Corrected <input type="checkbox"/> Finding is considered no longer valid		
Corrective Action Taken: <i>The Housing Authority sold several properties including 550 Madison on Bainbridge Island and the Olhava site. This allowed the Housing Authority to bank cash and have working reserve of around 2 million in Net Unrestricted cash reserves. The Authority has not failed to pay its obligations to date. The Authority also had a reduction in work force that resulted in a lot of labor cost savings.</i>		

Audit Period: July 1, 2016 through June 30, 2017	Report Ref. No.: 1021879	Finding Ref. No.: 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) <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		
Corrective Action Taken: <i>The Housing Authority has used the same accounting software since January 2019. The Authority reconciles the statement of financial position and other key account balances on an ongoing and periodic basis. The Authority established a policy that outlines the processes for reconciling account balances following any large and unusual adjusting entries.</i>		

Audit Period: July 1, 2017 through June 30, 2018	Report Ref. No.: 1025813	Finding Ref. No.: 2018-001
Finding Caption: The Housing Authority's financial condition puts it at risk of not being able to meet its obligations or maintain operations.		
Background: We analyzed the Housing Authority's financial condition for fiscal year 2018 as well as actual and projected cash flow 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.		
Status of Corrective Action: (check one) <input checked="" type="checkbox"/> Fully Corrected <input type="checkbox"/> Partially Corrected <input type="checkbox"/> Not Corrected <input type="checkbox"/> Finding is considered no longer valid		
Corrective Action Taken: <i>The Housing Authority has taken action to cut expenses, a large portion of this being payroll by reorganizing with a substantial reduction in force saving over \$500,000 per year (Oct 2018). The cash flow continues to show solvency. The Authority is ready to increase rents to</i>		

the maximum allowable by HUD after the moratorium is lifted. The Authority benefited from a number of grants helping to assist tenants in remaining current in their rent. The Authority anticipates adequate cash for operations and debt service through the end of the fiscal year and into the future.

Audit Period: July 1, 2017 through June 30, 2018	Report Ref. No.: 1025813	Finding Ref. No.: 2018-002
Finding Caption: The Housing Authority's internal controls over annual financial report filing were inadequate to ensure compliance with state and federal reporting requirements.		
Background: 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.		
Status of Corrective Action: (check one) <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		
Corrective Action Taken: <i>The Housing Authority is behind in financial reporting including 2019 and 2020 audited financials. The Authority has completed its FY 2018 audit and is close to completing the 2019 Audit. The Authority has agreed to a schedule with HUD that will get the Authority caught up on its delinquent financial reporting in 2022. The Agency's financial systems are maintained and monitored by the finance staff including the Controller/Treasurer. The accounting/finance staff are working diligently to correct any deficiencies in financial reporting.</i>		

Audit Period: July 1, 2017 through June 30, 2018	Report Ref. No.: 1025813	Finding Ref. No.: 2018-003
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 and complete.		
Background: 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.		

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

The Housing Authority has used the same accounting software since January 1 2019. Reports continue to be reviewed, updated and tracked for accuracy. The agency's finance staff have been actively researching accounts and correcting entries to assure that all financial data and the general ledger are correct, consistent from year to year, and complete.

RELATED REPORTS

Financial

A financial statement audit was performed for fiscal year 2018 by a firm of certified public accountants. That firm's report is available on our website, <http://portal.sao.wa.gov/ReportSearch>. The firm reported a significant deficiency or material weakness in internal controls over financial reporting regarding financial reporting.

Federal grant programs

A firm of certified public accountants evaluated internal controls and tested compliance with the federal program requirements, as applicable, for fiscal year 2018 for the Housing Authority's major federal programs. That firm's report is available on our website, <http://portal.sao.wa.gov/ReportSearch>. That report includes a federal finding regarding procurement.

INFORMATION ABOUT THE HOUSING AUTHORITY

Kitsap County Consolidated Housing Authority, doing business as Housing Kitsap serves all of Kitsap County excluding those within Bremerton city limits, with the exception of Nollwood Community, which is part of Housing Kitsap's Public Housing portfolio. 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, Housing Kitsap owned and or operated 889 units of affordable housing in 17 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 administering 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 Housing Kitsap's Housing Choice Voucher (Section 8) Program.

Housing Kitsap is governed by a seven-member Board of Commissioners: three Kitsap County Commissioners, the mayors of the City of Port Orchard and the City of Poulsbo, a Councilmember of the City of Bainbridge Island, and a resident from one of Housing Kitsap's public housing communities. The Board appoints an Executive Director to oversee Housing Kitsap's daily operations as well as its approximately 53 employees. The Housing Authority receives revenue from a variety of sources, including rent from tenants, federal and state grants, including Public Housing Operating Subsidy and Capital Fund, Housing Choice Voucher Administrative Fees and Housing Assistance Payments, proceeds from sales of property, property management fees, and developer's fees.

Contact information related to this report

Address:	Housing Kitsap 2244 Northwest Bucklin Hill Road 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 Housing Kitsap at <http://portal.sao.wa.gov/ReportSearch>.

ABOUT THE STATE AUDITOR'S OFFICE

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

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

As an agency, the State Auditor's Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

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

The results of our work are available to everyone through the more than 2,000 reports we publish each year on our website, www.sao.wa.gov. Additionally, we share regular news and other information via an email subscription service and social media channels.

We take our role as partners in accountability seriously. The Office provides training and technical assistance to governments both directly and through partnerships with other governmental support organizations.

Stay connected at sao.wa.gov

- [Find your audit team](#)
- [Request public records](#)
- Search BARS manuals ([GAAP](#) and [cash](#)), and find [reporting templates](#)
- Learn about our [training workshops](#) and [on-demand videos](#)
- Discover [which governments serve you](#) — enter an address on our map
- Explore public financial data with the [Financial Intelligence Tool](#)

Other ways to stay in touch

- Main telephone:
(564) 999-0950
- Toll-free Citizen Hotline:
(866) 902-3900
- Email:
webmaster@sao.wa.gov