



Office of the Washington State Auditor
Pat McCarthy

Accountability Audit Report

Housing Authority of Mason County

(Mason County Housing Authority)

For the period October 1, 2016 through September 30, 2021

Published May 25, 2023

Report No. 1032551



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

May 25, 2023

Board of Commissioners
Mason County Housing Authority
Portland, Washington

Report on Accountability

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 look forward to evaluating the improvement steps the Housing Authority has taken so far during our next 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 the areas we examined, Housing Authority operations did not comply, in all material respects, with applicable state laws, regulations, or its own policies. Additionally, the Housing Authority did not provide adequate controls over safeguarding of public resources in the areas we examined.

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

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 Mason County Housing Authority from October 1, 2016 through September 30, 2021.

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. The Board, as governing body, has ultimate responsibility for ensuring adequate controls are in place, even if it delegates the primary responsibility of designing, implementing and maintaining internal controls to others.

Historically our Office has audited the Housing Authority every three years because its revenues are limited. However, beginning in 2020, the Housing Authority stopped filing its annual financial data to our office in a timely manner. This along with other challenges resulted in significant delays in our audit, which is why this report covers five years of operations.

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 September 30, 2021, 2020, 2019, 2018 and 2017, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. We examined the following areas during this audit period:

- Contract monitoring and compliance with property management agreement terms
- Open public meetings – compliance with minutes, meetings and executive session requirements
- Financial condition – reviewing for indications of financial distress
- Annual report filing – timeliness and completeness

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

Mason County Housing Authority October 1, 2016 through September 30, 2021

2021-001 The Authority lacked adequate internal controls and monitoring to ensure it safeguarded public resources and complied with state laws.

Background

The Mason County Housing Authority owns three properties, comprised of 109 units serving low-income citizens in Mason County. An appointed, five-member Board of Commissioners governs the Authority, which receives about \$1 million in yearly revenues that primarily consist of tenant rents and federal government subsidies.

The Authority is responsible for designing, implementing and maintaining internal controls that provide reasonable assurance of compliance with state laws, policies and the safeguarding of public resources.

The Open Public Meetings Act (OPMA) requires the Authority's Board to conduct official business in a public meeting. Official business includes, but is not limited to, approval of expenditures, contracts, discussions, reviews and actions taken by the Board to oversee operations. To conduct business, the Board must have a quorum of Commissioners present. The OPMA also requires the Authority to record minutes for all public meetings, except executive sessions, and make those minutes available to the public upon request.

The Public Records Act (PRA) requires the Authority to retain original records, including vouchers, receipts, and other documents necessary to support every transaction relating to the receipt, use and disposition of public funds.

Description of Condition

Our audit found the Authority did not comply with the OPMA. Specifically:

- The Authority did not have any meetings in 2017 or 2020 due to a lack of a Board quorum. During these periods, the Board did not take any official actions, did not monitor the Authority's contracted property manager, and did not approve transactions.

- For meetings held, the minutes did not document regular reviews and approvals of expenditures or financial information.
- The Authority could not provide meeting minutes for two meetings held during the period.

Additionally, during the audit period, the Authority contracted out all accounting and management of its properties, and it relied on the contracted property manager to prepare and retain almost all records and maintain operations with little oversight. The Authority could not timely or completely provide all records we requested, including invoices, detailed receipting records, contract amendments, and other supporting documents necessary for demonstrating the validity of its financial activity during the period.

Cause of Condition

During the audit period, the Authority did not have any employees and at times had vacancies on its five-member Board. Due to its limited resources and turnover on the Board, the Authority did not prioritize complying with the OPMA, adequately overseeing the property manager's work, or obtaining, reviewing and retaining its own records.

Effect of Condition

The intent of the OPMA is for citizens to have access to the actions and deliberations of their governments. By not holding meetings for long periods, the Board did not fulfill its duty to oversee the Authority's operations. Additionally, since the Authority did not retain all meeting minutes—and the minutes it retained did not include all required details—the Authority does not have an official record of what business the Board conducted, and the public does not know what occurred.

Without adequate supporting records, neither the Authority nor our Office were able to determine if Authority funds were spent only for allowable purposes or receipts collected were deposited timely. We were also unable to determine whether the property manager complied with all terms of its contract with the Authority. Without adequate internal controls, the Authority puts public funds at risk of misappropriation, misuse, or loss that management would not detect quickly, if at all.

Recommendation

We recommend the Authority take steps to ensure compliance with the OPMA, PRA and other applicable state laws. At a minimum, the Authority should:

- Ensure Commissioners and staff receive training on the OPMA, PRA and other applicable state laws
- Comply with OPMA requirements, including holding meetings on a regular schedule and ensuring meeting minutes contain the required level of detail
- Establish internal controls and monitoring procedures to ensure all invoices are supported, have a valid purpose and paid timely
- Establish internal controls and monitoring procedures to ensure tenant rents and other receipts are posted and deposited timely
- Establish internal controls and monitoring procedures to ensure contractors comply with contract terms
- Retain records to support its operations and financial activity in accordance with state records retention schedules

Housing Authority's Response

The Mason County Housing Authority has hired staff to manage the operations of the Housing Authority in addition to terminating a management contract that was not effectively managing the affairs of the housing authority and hired a new management company located in Washington State who is aware of all state laws and requirements of housing authorities in the State of Washington. Additionally, the Board of the Housing Authority has been made aware of their responsibilities. The staff will be responsible for establishing and managing the responsibilities for internal controls and monitoring procedures, records retention as well as offering training on OPMA, PRA and other applicable state laws to the Board.

Auditor's Remarks

We appreciate the Housing Authority's commitment to resolving the issues noted. We will review the status of the Housing Authority's corrective action during our next audit.

Applicable Laws and Regulations

Chapter 40.14 RCW, Preservation and Destruction of Public Records

Chapter 42.24 RCW, Payment of Claims for Expenses, Material, Purchases – Advancements

Chapter 42.30 RCW, Open Public Meetings Act

Chapter 42.56 RCW, Public Records Act

RCW 43.01.050, Daily remittance of moneys to treasury – Undistributed receipts account – Use

RCW 43.09.200, Local government accounting – Uniform system of accounting

RCW 43.09.240, Local government accounting – Public officers and employees – Duty to account and report – Removal from office – Deposit of collections

Budgeting, Accounting and Reporting System (BARS) Manual 3.1.3, Internal Control

BARS Manual 3.1.4, Original Supporting Documentation

BARS Manual 3.6.1, Cash Receipting

BARS Manual 3.8.5, Voucher Certification and Approval

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

Mason County Housing Authority October 1, 2016 through September 30, 2021

2021-002 The Authority's financial condition puts it at risk of not being able to meet its financial obligations.

Description of Condition

The Mason County Authority owns three properties, comprised of 109 units serving low-income citizens in Mason County. The Authority's revenues primarily consist of tenant rents and federal government subsidies. Previous audits of the Authority identified multiple concerns regarding its financial condition that were reported as findings.

We reviewed unaudited financial data submitted to our Office and other information gathered during the audit and continue to note concerns with the Authority's financial condition. Specifically, we found unrestricted cash continued to decline, decreasing about \$239,110 from fiscal year 2017 to \$52,870 in 2021. This unrestricted cash represents about 27 days of average daily operating expenditures. Additionally, about 30 percent of the Authority's annual revenues are dedicated to required debt payments.

We identified additional concerns affecting the Authority's financial position, including inadequate:

- Monitoring and maintenance of controls over cash receipting, resulting in delayed posting and depositing of tenant rent payments;
- Monitoring of controls over disbursements, resulting in several payments lacking adequate support, late mortgage payments and expired insurance policies; and
- Planning for capital expenditures including allowances for aging properties and minimal maintenance, resulting in emergency repairs during the period and deferrals of necessary capital expenditures to future periods.

This issue was reported as a finding in the prior two audits.

Cause of Condition

During the audit period, the Authority did not have any employees and at times had vacancies on its five-member Board. As noted in finding 2021-001 of this report, the Authority relied on its contracted property manager to prepare and retain almost all records and maintain operations with little oversight. Without adequate records, proper oversight, and timely and reliable financial information, the Board cannot effectively monitor and make appropriate financial decisions to ensure the Authority can maintain operations.

In addition, contracts with federal Housing and Urban Development and Rural Development agencies limit the Authority's ability to raise rents. COVID-19 regulations prevented the Authority from evicting delinquent tenants. Federal rental subsidies have not been adequate to cover expenses, and future funding levels continue to be uncertain.

Effect of Condition

The Authority does not have sufficient unrestricted cash reserves available to meet its obligations. The Authority is at risk of not being able to meet its financial obligations and provide the same level of service.

Recommendation

We continue to recommend the Authority:

- Establish a comprehensive financial plan to address its financial condition and long-term capital needs
- Closely monitor and evaluate the Authority's financial and capital activities to ensure the plan is being followed and the desired results achieved
- Revise the plan as necessary if it does not achieve expected results

Housing Authority's Response

The Mason County Housing Authority has in the past year acquired financial assistance, grants, from Mason County and the Washington State Department of Commerce to fund deferred maintenance on its facilities. The Housing Authority will continue to solicit financial assistance from local, state and federal agencies for this purpose. It has also cancelled its management contract and is developing a relationship with a new management company that will manage cash and cash flow much more effectively. New Housing Authority staff will, annually, prepare and review a five-year financial plan in conjunction with the CPA firm as well as

the new management company. The Housing Authority is also planning on selling off some of its properties allowing for the consolidation of cash and reducing cash outflows.

Auditor's Remarks

We appreciate the Housing Authority's commitment to resolving the issues noted and will follow up during the next audit.

Applicable Laws and Regulations

RCW 43.09.200, Local government accounting – Uniform system of accounting

Budgeting, Accounting and Reporting System (BARS) Manual 3.1.3, Internal Control

BARS Manual 3.1.4, Original Supporting Documentation

BARS Manual 3.6.1, Cash Receipting

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

Mason County Housing Authority October 1, 2016 through September 30, 2021

2021-003 The Authority lacked adequate internal controls over financial reporting to ensure compliance with timely annual report submissions.

Background

Federal and state agencies, the Board of Commissioners, and the public rely on the information included in the Authority's financial statements and reports to make decisions. The Authority is responsible for designing, implementing and maintaining internal controls that provide reasonable assurance its financial reporting is reliable.

State law (RCW 43.09.230) requires the Authority to submit an annual financial report to the State Auditor's Office within 150 days after the end of its fiscal year. The annual financial report includes summaries of financial information and supporting schedules.

Description of Condition

The Authority did not submit the required annual reports to our Office within 150 days of fiscal year-end. For 2018, 2019, 2020 and 2021 the Authority filed its annual reports 92, 642, 380 and 278 days late, respectively.

Failure to file annual reports and respond to information requests impedes our Office's ability to audit in a timely manner, as state law requires.

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

Cause of Condition

During the audit period, the Authority contracted out all accounting and management of its properties. In addition, the Authority had vacancies on its five-member Board during the audit period. Due to its limited resources and lack of Board oversight, the Authority did not prioritize preparing and filing timely financial reports.

Effect of Condition

Filing late annual reports prevents Authority officials, the public, and other interested parties from obtaining financial information about the Authority. These delays also hinder public transparency and our Office's efforts to compile statistical and financial information that the Legislature and other parties use.

Furthermore, our Office engaged in additional research and outreach efforts encourage the Authority to provide records and ultimately file their annual reports, which allowed us to perform an audit over this period. This effort resulted in additional costs to the Authority.

Recommendation

We recommend the Authority establish internal controls to ensure timely financial reporting in accordance with state law.

Housing Authority's Response

The Mason County Housing Authority has canceled its contract with the management company hired to prepare and distribute financial reporting on its behalf. It has recently hired a management company in the state of Washington aware of Washington State laws, as well as hired a CPA firm from Washington State that is very familiar with Housing Authorities and their reporting requirements. Additionally, the Board of the Housing Authority has been made acutely aware of its reporting requirements and will be following up on the status of financial reporting required.

Auditor's Remarks

We appreciate the steps the Housing Authority is taking to resolve this issue. We will follow up during our next audit.

Applicable Laws and Regulations

RCW 43.09.230, Local government accounting – Annual reports – Comparative statistics.

RCW 43.09.240, Local government accounting – Public officers and employees – Duty to account and report – Removal from office – Deposit of collections.

RCW 43.09.260, Local government accounting – Examination of local governments – Reports – Action by attorney general.

Budgeting, Accounting and Reporting System (BARS) Manual 3.1.3, Internal Controls

BARS Manual 4.1.6, Reporting Requirements and Filing Instructions for Special Purpose Districts

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Mason County Housing Authority October 1, 2016 through September 30, 2021

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

Audit Period: October 1, 2013 through September 30, 2016	Report Ref. No.: 1019531	Finding Ref. No.: 2016-001
Finding Caption: Mason County Housing Authority did not file annual financial reports.		
Background: Washington State law requires every local government to prepare, certify and submit annual financial reports within 150 days after the close of each fiscal year to the State Auditor's Office. For the years ended September 30, 2013 through 2016, the Authority did not file statements as required. In addition, the statements the Housing Authority prepared did not comply with either Generally Accepted Accounting Principles (GAAP) or the cash basis of accounting.		
Status of Corrective Action: (check one) <input type="checkbox"/> Fully Corrected <input type="checkbox"/> Partially Corrected <input checked="" type="checkbox"/> Not Corrected <input type="checkbox"/> Finding is considered no longer valid		
Corrective Action Taken: <i>The Mason County Housing Authority has canceled its contract with the management company hired to prepare and distribute financial reporting on its behalf. It has recently hired a management company in the state of Washington aware of Washington State laws, as well as hired a CPA firm from Washington State that is very familiar with Housing Authorities and their reporting requirements. Additionally, the Board of the Housing Authority has been made acutely aware of its reporting requirements and will be following up on the status of financial reporting required.</i>		

Audit Period: October 1, 2013 through September 30, 2016	Report Ref. No.: 1019531	Finding Ref. No.: 2016-002
Finding Caption: The Housing Authority's financial condition puts it at risk of not being able to meet its financial obligations.		
Background: The Housing Authority does not have sufficient unrestricted cash reserves available to meet obligations. Without a plan in place the Housing Authority is at risk of not being able to meet its financial obligations.		
Status of Corrective Action: (check one) <div style="display: flex; justify-content: space-between;"> <div> <input type="checkbox"/> Fully Corrected </div> <div> <input type="checkbox"/> Partially Corrected </div> <div> <input checked="" type="checkbox"/> Not Corrected </div> <div> <input type="checkbox"/> Finding is considered no longer valid </div> </div>		
Corrective Action Taken: <i>The Mason County Housing Authority has in the past year acquired financial assistance, grants, from Mason County and the Washington State Department of Commerce to fund deferred maintenance on its facilities. The Housing Authority will continue to solicit financial assistance from local, state and federal agencies for this purpose. It has also cancelled its management contract and is developing a relationship with a new management company that will manage cash and cash flow much more effectively. New Housing Authority staff will, annually, prepare and review a five-year financial plan in conjunction with the CPA firm as well as the new management company. The Housing Authority is also planning on selling off some of its properties allowing for the consolidation of cash and reducing cash outflows.</i>		

INFORMATION ABOUT THE HOUSING AUTHORITY

The Housing Authority of Mason County was organized in 1972 and serves citizens with low incomes in Mason County. It is administered by a five-member Board of Commissioners appointed by the Mason County Commissioners.

The Housing Authority operates one Rural Development property which includes Goldsborough Cove and Fairmont Cove Apartments, one Section 8 new construction property - Pine Gardens, and one Tax Credit property, which has reverted to the Housing Authority - Kneeland Park Apartments. The Housing Authority contracts with a property management company to manage its properties and an accounting firm to provide financial and accounting services.

Contact information related to this report

Address:	Mason County Housing Authority 940 Fairmont Avenue Shelton, WA 98584
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Information current as of report publish date.

Audit history

You can find current and past audit reports for the Mason 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 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.

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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.

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