



Office of the Washington State Auditor
Pat McCarthy

Accountability Audit Report

Housing Authority of Chelan County and the City of Wenatchee

For the period January 1, 2021 through December 31, 2022

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

January 18, 2024

Board of Commissioners

Wenatchee, 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

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

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 from January 1, 2021 through December 31, 2022.

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 December 31, 2022 and 2021, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. We examined the following areas during this audit period:

- Accounts payable – electronic funds transfers
- Payroll – gross wages, electronic funds transfers
- Procurement – public works projects
- Open public meetings – compliance with minutes, meetings and executive session requirements
- Financial condition – reviewing for indications of financial distress

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

January 1, 2021 through December 31, 2022

2022-001 The Housing Authority's internal controls were inadequate for ensuring compliance with procurement requirements for its Chelan Gardens Apartments Rehabilitation housing project.

Background

An 11-member Board of Commissioners governs the Housing Authority. Board members are appointed by the Chelan County Commissioners and the mayors of the cities within Chelan and Douglas counties. The Board appoints management to oversee the Housing Authority's daily operations, as well as its staff of more than 30 employees. The Housing Authority operates on an annual budget of about \$9 million.

State law and federal regulations require housing authorities to competitively procure public works projects. In addition, the Housing Authority's policy requires formal sealed bids or competitive proposals when contracting for more than \$300,000 (\$100,000 if federally funded).

The Chelan Gardens Apartments Rehabilitation housing project was for renovations and repairs to an existing apartment complex that has two two-story, wood frame apartment buildings. The complex has 16 one-bedroom dwelling units, including one accessible unit. The project totaled \$1,126,913, and it was funded by the U.S. Department of Agriculture's Rural Housing Service.

Federal regulations require recipients to establish and maintain internal controls that ensure compliance with program requirements. These controls include understanding program requirements and monitoring the effectiveness of established controls.

Description of Condition

In 2021, the Housing Authority competitively bid the Chelan Gardens Apartment Rehabilitation housing project and sent the intent to award notice for the contract to the lowest bidder. However, the lowest bidder withdrew its bid. The Housing Authority then changed its bid specifications to allow for baseline project work with optional work to be done depending on available federal funding.

When the Housing Authority changed its bid specifications, it did not go back out for competitive bidding, which is required by the federal agency that funded the project. Instead, the Housing Authority sought competitive bids only from those contractors who submitted them as part of the original bidding process. As a result, the Housing Authority did not competitively procure this project following its own policy requirements and federal regulations.

Cause of Condition

Housing Authority officials were not aware of federal regulations related to this federally funded housing project and did not know they should have formally gone back out for competitive bidding when they changed the scope of the bid estimates. Instead, the Housing Authority's project consultant advised them to just request new estimates from the original bidders.

Effect of Condition

Without effective internal controls, the Housing Authority cannot ensure it allowed for full and open competition, received the best price, and complied with applicable federal regulations.

At the time of our audit, the Housing Authority had used about \$421,000 of federal funds to pay for this public works project without competitively procuring it.

Recommendation

We recommend the Housing Authority:

- Review its written policies and procedures to ensure they include all federal procurement requirements
- Establish internal controls over procurement to ensure compliance with state laws when contracting for public works projects
- Retain all documentation to demonstrate its compliance with competitive bidding requirements

Housing Authority's Response

We appreciate the diligent review conducted by your office in the recent audit of the Housing Authority's Chelan Gardens Apartments Rehabilitation project. Your commitment to upholding procurement standards is crucial for maintaining transparency and accountability in public projects. We did initially conduct a competitive bidding process within all state and federal guidelines. However, the

inflation that occurred in the time that had passed between bidding and the project start date caused our lowest bidder to rescind their bid. We asked those who had previously bid to resubmit their bid accounting for inflation and to itemize each section of the bid. We did this believing we were still within the original scope of the project. We acknowledge the audit finding related to inadequate internal controls for ensuring compliance with procurement requirements and have taken immediate corrective action to address the concerns raised.

To rectify the identified deficiencies, the Housing Authority has implemented the following corrective measures:

1. Enhanced Internal Controls: We have revised and strengthened our internal controls related to procurement processes to ensure strict adherence to established guidelines. This includes a thorough review and update of our procurement procedures to align with state and federal regulations in regards to needing updated bids.

2. Training and Awareness: Staff members involved in procurement processes have undergone additional training to reinforce their understanding of procurement requirements. This training includes specific emphasis on compliance measures, documentation standards, and reporting obligations.

3. External Consultation: We have engaged external experts to conduct an independent review of our procurement processes. The objective of this assessment will help CCWHA identify any remaining gaps and implement further improvements.

We are committed to continuously enhancing our internal controls and processes to prevent a recurrence of the identified issues. Additionally, we will collaborate closely with your office to ensure ongoing compliance and transparency in all our housing projects.

Auditor's Remarks

We appreciate the steps the Housing Authority is taking to address these issues. We will follow up during the next audit.

Applicable Laws and Regulations

RCW Chapter 39.04 Public Works describes requirements for municipalities to engage in competitive bidding of public works.

Title 2 U.S. Code of Federal Regulations (CFR) Part 200.319, Competition.

Title 2 CFR Part 200.320, Methods of procurement to be followed.

Title 7 CFR Part 3560.53, Direct Multi-Family Housing Loans and Grants.

Title 7 CFR Part 1924 Subpart A, Planning and Performing Construction and Other Development.

Wenatchee Housing Authority Procurement Policy, Section 5.0 Procurement Methods.

RELATED REPORTS

Financial

Our opinion on the Housing Authority's financial statements and compliance with federal grant program requirements is provided in a separate report, which includes the Housing Authority's financial statements. That report includes a finding for a significant deficiency in internal controls over financial reporting. That report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

Federal grant programs

We evaluated internal controls and tested compliance with the federal program requirements, as applicable, for the Housing Authority's major federal programs, which are listed in the Schedule of Findings and Questioned Costs section of the separate financial statement and single audit report. That report includes a federal finding regarding compliance with Housing Quality Inspections requirements. That report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

INFORMATION ABOUT THE HOUSING AUTHORITY

The Housing Authority of Chelan County and the City of Wenatchee was incorporated in 1981. The Housing Authority provides 18 apartment complexes for low-income families throughout Chelan and Douglas counties.

An 11-member Board of Commissioners governs the Housing Authority. Board Members are appointed by the Chelan County Commissioners and the Mayors of the cities within Chelan and Douglas counties. The Board appoints management to oversee the Housing Authority's daily operations as well as its approximately 30 employees. The Housing Authority operated on a budget of about \$9 million for fiscal years 2021 and 2022.

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 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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