



Office of the Washington State Auditor
Pat McCarthy

Accountability Audit Report

Pierce County Housing Authority

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

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

February 15, 2024

Board of Commissioners
Pierce County Housing Authority
Tacoma, Washington

Report on Accountability

Public trust in any local government depends on its commitment to accountability, including safeguarding public resources. In that light, establishing strong financial controls must be the Housing Authority's highest priority. Without such controls, the risk of loss of public funds remains too high.

This is the second accountability audit of the Housing Authority since our 2019 fraud report identified \$7 million in misappropriations. We recognize the Housing Authority has taken several steps to improve its financial operations. However, as with the previous audit, this report shows the Housing Authority has yet to implement full internal controls to ensure proper oversight of its financial activities.

In its response, the Housing Authority has indicated plans to address our findings within months. Given the length of time since the 2019 misappropriation, it is critically important the Housing Authority demonstrate to the public their full commitment to meeting those benchmarks and safeguarding public resources.

Attached is our independent audit report on the Housing Authority's compliance with applicable requirements for the areas we examined. We value your cooperation during the audit and look forward to documenting your progress in the next.

Sincerely,

Pat McCarthy, State Auditor

Olympia, WA

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TABLE OF CONTENTS

Audit Results.....	4
Schedule of Audit Findings and Responses.....	6
Summary Schedule of Prior Audit Findings	14
Information about the Housing Authority.....	17
About the State Auditor's Office.....	18

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, or 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 and in a separate confidential communication as a finding.

Because public distribution of tests performed and the related results over information technology (IT) security could increase the risk to the Housing Authority's IT security, distribution of that information has been limited to management and the governing body of the Housing Authority and is kept confidential under RCW 42.56.420.

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 Pierce County Housing Authority 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:

- Software conversion – general ledger and user access
- Selected IT security policies, procedures, practices and controls protecting financial systems – user access
- Board oversight
- Procurement – purchases and cooperative purchases
- Payroll – overtime, bonus and incentive payments
- Cash receipting – timeliness and completeness of deposits
- Accounts payable – electronic funds transfers
- 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

Pierce County Housing Authority January 1, 2021 through December 31, 2022

2022-001 The Housing Authority should continue to design and implement internal controls to ensure proper segregation of duties and oversight of its financial activities.

Background

The Pierce County Housing Authority provides housing assistance to eligible Pierce County residents through the Low-Income Public Housing and Housing Choice Voucher programs. An appointed, five-member Board of Commissioners governs the Housing Authority, which owns and manages nine apartment complexes in Pierce County. The Board is responsible for appointing an Executive Director to design, implement, and maintain internal controls that provide reasonable assurance the Housing Authority is safeguarding public resources. In fiscal year 2022, the Housing Authority's operating expenses were about \$42.8 million.

In the prior audit, we determined the Housing Authority lacked adequate internal controls to ensure proper segregation of duties and oversight of its financial activities. In addition, our prior audits and fraud investigation found deficiencies that allowed the former Finance Director to circumvent the Housing Authority's internal controls and divert funds from its accounts to her own. In total, the former Finance Director misappropriated \$6,948,277 between March 18, 2016, and July 17, 2019.

These issues were reported as findings in the prior audits of fiscal years 2018 through 2020.

Description of Condition

During the current audit, we found that management and the Board have taken steps to respond to the internal control weaknesses identified in the prior audits and fraud investigation. Specifically, the Housing Authority:

- Hired a new, permanent Finance Director in February 2023
- Started the process of implementing a new financial system and establishing new controls for all modules
- Created a Finance Committee that meets monthly to review financial reports with executive leadership and staff

However, the Housing Authority was unable to fully implement these new internal controls during the current audit period. As a result, we found the following weaknesses continued to exist with segregation of duties within the new financial system:

- Housing Authority staff are now reviewing individual Automated Clearing House (ACH) payment amounts. However, they are still developing controls to ensure amounts are transferred to the intended accounts, are valid and appropriate.
- The Housing Authority has developed a reporting process for providing financial information to the Board, but there are still more reports it plans to provide to make the financial information more complete.

Cause of Condition

The Housing Authority experienced a significant fraud that required key management roles to be replaced and trained, which impaired its ability to ensure internal controls were adequate. Additionally, the Housing Authority started to implement a new enterprise resource planning (ERP) system to segregate duties, but the implementation is still in progress due to the system's complexity, which exceeded the expertise and capacity of Housing Authority staff.

Effect of Condition

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

Recommendation

We recommend the Housing Authority's management and Board continue to prioritize resources to fully implement the new controls over its financial operations. This should include:

- Strengthening internal controls over monitoring of ACH payments to ensure all transactions are transferred to the intended accounts, and are valid and appropriate
- Finalizing the financial reporting package that the Board will receive
- Finish implementing and establishing internal controls over its new ERP system in a timely manner

These actions will allow the Housing Authority to start relying more on its internal controls to safeguard public funds.

Housing Authority's Response

The Authority agrees with the audit findings and continues to put in place the controls necessary to protect the resources we have to serve the public. To that end, we have progressed since the audit and currently have formalized monitoring of ACH payments for our Section 8 landlords, and dual approval is required for all ACH transfers for other payables. Oversight of ACH changes are reviewed by the Deputy Executive Director via a special report created by the new ERP system.

We continue to meet with Board members to gain their input and build their knowledge of our financial structure, requirements, and reporting potential. Once the software conversion is complete and reliable, the Board will be provided financial activity and position for the prior month by the end of the current month. This to be completed by April 1, 2024.

ERP is completed except for the matters discussed above.

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

Budgeting, Accounting and Reporting System (BARS) Manual – Accounting Principles and Controls, Internal Control, Sections 3.1.3.20 and 3.1.3.30 state:

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 43.09.200 – 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.

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

Pierce County Housing Authority January 1, 2021 through December 31, 2022

2022-002 The Housing Authority did not have adequate internal controls over its general ledger reconciliation.

Background

As noted in Finding 2022-001 of this report, our prior audits and fraud investigation found deficiencies that allowed the former Finance Director to circumvent the Housing Authority's internal controls and divert funds from its accounts to her own. In total, the former Finance Director misappropriated \$6,948,277 between March 18, 2016, and July 17, 2019.

The Housing Authority is in the process of implementing a new enterprise resource planning system to segregate financial duties. When converting to new systems, the Housing Authority is responsible for establishing effective internal controls and procedures to ensure its financial statement data is transferred completely and accurately from the legacy system to the new system.

Description of Condition

We performed limited audit work over the new system conversion and identified the following deficiencies. The Housing Authority:

- Did not verify or retain audit evidence that the reconciliation from the old legacy system to the new system was complete and accurate. Instead, the Housing Authority relied solely on external consultants for the system conversion.
- Has not fully reconciled all tenant subledger accounts from the legacy system to the new system, nor has it established a plan to fully reconcile tenant subledger accounts, including accounts receivable, security deposits and prepay accounts

Cause of Condition

The Housing Authority experienced turnover in key staff. Since it did not have the expertise or time to conduct the general ledger reconciliation for the financial accounting system conversion, the Housing Authority relied on the external consultants to ensure the data was transferred completely and accurately. Additionally, due to limited staffing, the Housing Authority did not have the time or resources available to reconcile all subledger accounts.

Effect of Condition

Without retaining the documentation, the Housing Authority does not have validation showing management accepted the general ledger data as complete and accurate at the time of conversion.

Further, due to staff turnover, the Housing Authority did not reconcile all tenant subledger accounts. Without properly reconciling the tenant subledger accounts, the Housing Authority does not have validation these accounts came into the new system completely and accurately.

Recommendation

We recommend Housing Authority management:

- Verify the general ledger reconciliation from the old legacy system to the new system was accurate and complete and that there is documentation supporting this review
- Obtain formal approval from its elected officials that all necessary historical data was properly carried forward to the new system
- Establish a timeline to fully reconcile all tenant subledger accounts, including accounts receivable, security deposits and prepay accounts

Housing Authority's Response

Pierce County Housing Authority (PCHA) is committed to ensuring that all tenant sub-ledger balances are accurate, complete, documented, and an appropriate review has been completed. In the last several months, PCHA has made great strides in finishing the implementation of the new software system and is diligently working on balancing the accounts receivable, security deposit, and prepay accounts to the tenant subledger balances. Some of the issues were cause by our existing software used to process tenant payments did not interface properly with our new integrated software package. We switched to an integrated software solving a substantial number of the issues. Since the audit, each individual

sub-ledger has been or will be reviewed and corrected if necessary. The task is aided by an outside expert and is expected to be completed by 3-15-24. Once all data has been verified PCHA will request the board formally approve the data at the March Board meeting.

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

Budgeting, Accounting and Reporting System (BARS) Manual – Accounting Principles and Controls, Internal Control, Sections 3.1.3.20 and 3.1.3.30 state:

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 43.09.200 – 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 sources; 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.



SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Pierce County Housing Authority January 1, 2021 through December 31, 2022

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

Audit Period: 1/1/2019 – 12/31/2020	Report Ref. No.: 1031500	Finding Ref. No.: 2020-001
Finding Caption: The Housing Authority should continue to design and implement internal controls to ensure proper segregation of duties and oversight of its financial activities.		
Background: During the audit period of January 1, 2019 through December 31, 2020, we noted the Authority was unable to fully implement new internal controls to resolve the issue from the prior finding and the fraud investigation report issued on December 16, 2019. As a result, we found that the following weaknesses continued to exist: <u>Segregation of duties</u> <ul style="list-style-type: none"> Although the Housing Authority established controls to separate certain accounting functions, finance staff still had full user access to the Housing Authority’s finance system. Once the Housing Authority implements its new accounting system, it will be able to restrict user access based on each individual’s roles and responsibilities. The lack of segregation of duties and oversight was a key internal control weakness that allowed the former Finance Director to misappropriate public funds. <u>Bank statement reconciliations and Automated Clearing House (ACH) payments</u> <ul style="list-style-type: none"> Staff members responsible for reconciling bank statements focused solely on the cleared dollar amounts, not on the vendors or the nature of the transactions. With its new accounting system implementation, the Housing Authority is creating new bank reconciliation processes to ensure staff focus on source documents. During the audit, we determined the Housing Authority has not reconciled bank statements from July through November 2022. Staff members responsible for reviewing ACH payments did not have the expertise to fully understand and review them. Further, these reviewers lacked firsthand knowledge of vendor and employee bank account numbers. Although we found in the current audit that staff are more aware of what to review, the Housing Authority plans to restrict user permissions in the new accounting system and use reports to monitor ACH transactions. In the prior audit, we found this lack of expertise and knowledge prevented the Housing Authority from detecting when the former Finance Director diverted ACH payments to her own bank account.		

Board oversight

- Although the interim Finance Director is now providing more adequate financial information to the Board, the development of this reporting process is still in progress. This lack of oversight was a control weakness that prevented the Housing Authority from detecting the former Finance Director’s fraudulent transactions.

Status of Corrective Action: (check one)

- Fully Corrected Partially Corrected Not Corrected Finding is considered no longer valid

Corrective Action Taken:

Segregation of duties

- *The Housing Authority is implementing its new accounting system, Yardi, however the implementation will not be finalized until end of 2023. Once the implementation is finalized the Housing Authority will be able to better restrict user access based on each individual’s roles and responsibilities. The Housing Authority is still using compensating controls along with some restricted access in Yardi until the implementation is completed and the new controls can be aligned with the user roles.*

Bank statement reconciliations and Automated Clearing House (ACH) payments

- *The staff member responsible for reconciling bank statements no longer focuses solely on the cleared dollar amounts, the staff member assigned to reconcile now reviews all accounts payable, accounts receivable and journal entry batches while reconciling to verify vendors and the nature of the transactions. The new accounting system, Yardi, is being implemented and the Housing Authority uses the above method for the bank reconciliation process to ensure staff focus on source documents. Bank reconciliations for July-November 2022 were completed by TDJ for the FY22 audit. Due to significant staff changes bank reconciliations were assigned to TDJ until July 2023.*
- *The Housing Authority restricts user permissions in the new accounting system and uses reports to monitor ACH transactions. EFT information is reviewed by the landlord in their Rent Café portal. We currently have payment reports for each EFT check run reviewed and compared against batches, NACHA files, and templates in US Bank prior to sending ACH payments.*

Board oversight

- *The accounting firm TDJ CPA was providing more adequate financial information to the Board in FY22, the development of this reporting process is still in progress. The new Finance Director is working on the consistent reporting that will be submitted to the finance committee and the board of directors. Once the Housing Authority finalizes the information that will be consistently presented from Yardi it will become the standard reporting package along with the required voucher approval.*

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 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 program, which is 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 Standards inspection requirements of its Housing Voucher Cluster Program. That report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

Other reports

We issued a report on agreed-upon procedures performed 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 consisting of 841 total units. The Housing Authority also provides housing assistance through the Low-Income Public Housing and Housing Choice Voucher programs for residents of Pierce County.

An appointed, five-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 Authority's daily operations as well as its approximately 40 employees.

Contact information related to this report

Address:	Pierce County Housing Authority 603 Polk Street South Tacoma, WA 98444
Contact:	James Stretz, Executive Director
Telephone:	(253) 620-5406
Website:	www.pchawa.org

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>.

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