



Office of the Washington State Auditor
Pat McCarthy

Accountability Audit Report

Pierce County Housing Authority

For the period January 1, 2019 through December 31, 2020

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

December 1, 2022

Board of Commissioners
Pierce County Housing Authority
Tacoma, 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 the 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 the Pierce County Housing Authority from January 1, 2019 through December 31, 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 December 31, 2020 and 2019, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. In addition, as part of this audit we followed up on the special investigation report issued December 16, 2019, over loss of public funds. We examined the following areas during this audit period:

- Accounts payable – general disbursements, credit cards, and electronic funds transfers
- Segregation of duties – accounting system user access
- Bank statement reconciliation process
- Board monitoring
- Financial condition – reviewing for indications of financial distress

- Compliance with Family Self-Sufficiency Program agreement terms
- Compliance with public work projects – prevailing wages
- Payroll – bonus and incentive payments
- Contract compliance – cash receipting and deposit timeliness
- Open public meetings – compliance with minutes, meetings and executive session requirements

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

Pierce County Housing Authority January 1, 2019 through December 31, 2020

2020-001 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, six-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 oversee the Housing Authority's daily operations and manage a staff of about 40 employees. In fiscal year 2021, the Housing Authority's operating expenses were approximately \$39.2 million.

In the prior audit, we determined the Housing Authority lacked adequate internal controls over its financial activities. We found:

- The Housing Authority relied too much on the former Finance Director to manage its financial activities without adequate oversight, monitoring and review.
- Management and the Board did not receive the financial details necessary to ensure they could effectively review and approve the Housing Authority's expenditures.
- The Housing Authority used two software systems because the primary accounting system was not optimal for certain operations like bank statement reconciliations. This made it easier for the former Finance Director to conceal transactions.

Our audit found these deficiencies 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.

This issue was reported as a finding in the prior audit and Fraud Investigation Report, which were both issued on December 16, 2019.

Description of Condition

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

- Hired a new Executive Director in January 2021
- Hired contract assistance to assess its controls over financial activities
- Started the process of implementing a new financial system and establishing new controls that will replace the two accounting 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 the new internal controls during the current audit period. As a result, we found that the following weaknesses continued to exist:

Segregation of duties

- 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.

Bank statement reconciliations and Automated Clearing House (ACH) payments

- 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.

Cause of Condition

The Board has not found a permanent Finance Director since the former Finance Director's employment was terminated in August 2019. Since then, the Housing Authority has continued to operate with an interim Finance Director.

The Housing Authority hired a contractor to assess its controls over financial activities. The contractor issued its report in April 2022. The Housing Authority began the implementation of a new accounting system in July 2022. However, both of these events happened after the end of the current audit period.

Effect of Condition

Lack of proper oversight and inadequate internal controls over financial activities increases the Housing Authority's risk of experiencing a loss or misappropriation of public funds that management would not detect quickly, if at all.

Recommendation

We recommend the Board continue to prioritize dedicating resources to designing and fully implementing new controls over the Housing Authority's financial operations. We further recommend management ensure the new controls work as intended and apply them consistently to ensure they adequately address the internal control weaknesses our prior and current audits have identified.

Housing Authority's Response

Pierce County Housing Authority (PCHA) appreciates the State Auditor's Office (SAO) focus on ensuring the Authority establishes and strengthens internal controls over financial transactions. PCHA continues to be committed to ensuring that all

necessary controls are established and implemented to protect public assets. In the last several months, PCHA has made great strides in implementing a new software system, hiring a team of CPA consultants, and closely evaluating and instituting internal controls within and external to the system to address the SAO recommendations. PCHA is confident that when SAO returns to perform the 2021/2022 Accountability Audit, recommendations will be fully realized and concerns resolved. PCHA intends to continue to utilize the CPA consultants in lieu of a Finance Director to support the Authority in finalizing the software implementation and making internal control improvements as we've struggled to find a qualified Finance Director.

Auditor's Remarks

We appreciate the Housing Authority's commitment to resolving the issues identified above and emphasize the importance of establishing effective internal controls over accounting and financial reporting. We will follow up on the status of this finding during our next 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.



SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Pierce County Housing Authority January 1, 2019 through December 31, 2020

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

Audit Period: January 1, 2018 – December 31, 2018	Report Ref. No.: 1025301	Finding Ref. No.: 2018-001
Finding Caption: The Housing Authority did not have adequate internal controls over its financial activities, which allowed the Finance Director to abuse her position for personal gain.		
Background: The former Finance Director abused her position of fiscal responsibility to perpetrate and conceal misappropriation by circumventing internal controls. The Board placed too much reliance on the former Finance Director for all financial activities including the financial statement preparation without adequate oversight and monitoring.		
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 former finance director was fired. The Board engaged the services of an outside firm to oversee the agency's finances until a new finance director was hired (this occurred in 2020). The Board established a Finance Committee whose members meet monthly to review financial activities, including preparation of the monthly financial statement. Procedures have been introduced to require, at minimum, double review of procedures and dual signatures on all bank transactions.</i>		

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>.

That report includes a finding for a significant deficiency in internal controls over financial reporting regarding the lack of an effective process for oversight of reporting of financial activity and secondary review of financial statements.

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 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 at the end of 2020. 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, six-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. For fiscal years 2019 and 2020, operating expenses were approximately \$35 million and \$37.5 million, respectively.

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>.

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.

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