



OFFICE OF INTERNAL AUDIT

REPORT TO THE BOARD OF SUPERVISORS

Pinal County Housing Department Audit Follow Up Review

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The Office of Internal Audit has completed a follow-up review of the Pinal County Housing Department (Housing) to determine whether appropriate corrective actions have been taken regarding recommendations included in our previous audit report, *Pinal County Housing Department Audit*, issued July 21, 2009.

The follow up review was conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS)¹.

Purpose

In accordance with GAGAS we are required to follow up on all significant audit findings and recommendations to determine whether issues identified in the original audit report have been appropriately addressed.

Scope and Methodology

Our office requested Housing department management provide a written update outlining what successes have been achieved in addressing specific audit recommendations and the status of any ongoing efforts.

We performed limited scope inquiry, observation, and test work to independently corroborate and evaluate the effectiveness of actions reported as implemented.

Results

As a result of our review, we found Housing department management and staff have made substantial progress implementing recommendations and have completed 13 of our 15 recommendation. Our recommendation, "...review accounting system logs", has been partially completed and another recommendation, "...ensure all reports are filed accurately and timely," is incomplete. Specifically we found

- The Housing Director has fully complied with all Memorandum of Agreement (MOA)² requirements and is awaiting a Housing and Urban Development

¹ GAGAS 8.05 Report follow up

² HUD MOA April 1, 2009 through March 31, 2010

(HUD) review and expected upgrade of their performer status from Troubled to Standard.

- Housing department personnel have developed written policies and procedures for the following areas:
 1. Policy development, review, and authorization process
 2. Cross-training for key staff positions
 3. Program specific standard operating procedures (Delinquent accounts, determining eligibility, recertification, wait list, etc.)
 4. General and application security procedures (building lock up, tape back up, password policy, etc.)
 5. Fixed assets
 6. Grant application procedures
- The Housing Director requested a waiver from the Pinal County Human Resources Department to proceed with the recruitment of a Accounting Manager,³ in accordance with recommendations in the Housing Finance Department Improvement Plan developed in December 2009.
- Staff training has been substantially increased and all training is documented.
- Housing department management has increased efforts to meet with area high-performing Housing Authority staff and study best practice information.

We also determined Housing management and staff showed improvement in the areas of grant monitoring and financial system audit log reviews.

In the area of ensuring all Financial Data Summary reports⁴ are accurate and filed on time, Housing has made progress but needs to continue to show improvement in this area. This issue is discussed in more detail in the following Conclusion section.

Conclusion

The scope of our initial audit for the Pinal County Housing Department was to identify control weaknesses that contributed to the QUALIFIED audit opinion and two findings for

³ Finance Manager was hired as started work in May, 2010

⁴ FDS is the HUD Financial Data Summary

Housing reported in the 2007 Single Audit Report issued by the State Auditor General. These findings identified a material weakness in controls over computer system security and disaster recovery. We expanded the scope during audit fieldwork to include a review of controls over financial filings after the Arizona State Auditor General released the Pinal County FYE June 30, 2008 Single Audit report;⁵ issuing an ADVERSE⁶ audit opinion and nine findings for the Housing Department. Five of the nine findings were related to weaknesses in grant and program accounting functions, including a finding on late filing of the HUD required Financial Data Schedule (FDS).

We discussed the expanded scope in the SUBSEQUENT EVENTS section of our initial Housing audit report and explained late filing of the FDS automatically resulted in a status change to “Troubled Financial Performer.” In our report we recommended,⁷ “The Housing Director should ensure all reports are accurate and filed on time.”

On September 28, 2009 through October 1, 2009 the federal Housing and Urban Development (HUD) agency conducted an on-site limited financial review of the Pinal County Housing Department. The objectives of the review were to monitor compliance with the MOA (mentioned above); gain a determination as to the general financial condition of the agency, and monitor compliance with all HUD program financial requirements, including accurate and timely Financial Data Schedule (FDS) filings.

The review listed five findings and four observations, including a determination that the June 30, 2008 FDS contained a material misstatement (inaccurate financial data) and was, at the time of the review, still not submitted to HUD six months after the due date.

The review report concluded, “...the PCHA (Pinal County Housing Authority/Department) needs to make significant improvements to correct the deficiencies and improve its financial and accounting operations,” and identified the following causes for noncompliance:

- There was insufficient expertise in financial management and accounting

⁵ May 27, 2009

⁶ Audit opinions listed from best to worst (1)Unqualified (2)Qualified (3)Adverse (4)Disclaimer

⁷ Pinal County Housing Department Audit , issued July 21, 2009, Recommendation # 15

- PCHA staff was unaware of HUD program rules
- Housing Authority staff did not understand equity calculations
- Housing Authority staff was unaware of budget regulations and monitoring
- Housing Authority staff was unaware of procurement policy

A corrective action plan prepared by Housing was issued with the HUD report, listing many completed activities intended to correct report findings. Internal Audit performed limited test work to independently corroborate and evaluate the effectiveness of reported actions and found:

- The FYE June 30, 2009 financial statement audit⁸ of the Pinal County Housing department, completed by an independent auditor, was reissued due to the subsequent release of the HUD limited Financial Review disclosing noncompliance, and their audit opinion was revised from Unqualified to Qualified.
- On April 26, 2010 the Housing Department hired a new Housing Finance Manager, with prior HUD accounting experience.
- Reserve funds have been used to clear a majority of the discrepancies in accounts receivables. Housing management is continuing to consider alternative funding sources to discharge the remainder.
- The Housing department Finance Manager is reviewing and correcting all accounts, including doubtful accounts and HAP equity.
- The inaccurate audited FDS was corrected and re-filed (March 10, 2010) and is currently under HUD Real Estate Assessment Center (REAC) review.
- The Housing department Financial Manager has developed a procedure to periodically reconcile all accounts.

Although improvements have been made, we determined there are several areas within Housing Department operations that continue to show weaknesses in internal controls over procedures. Specifically we found:

⁸ FYE June 30, 2009 Financial Statement Audit issued by Yeager & Boyd, L.L.C. on October 30, 2009

- Housing department management and staff have not set up detailed operating budgets for department functions and programs. Failure to establish a detailed budget, and monitor for compliance, may contribute to inaccurate financial reporting.
- Housing reserves have been depleted after paying back money that was erroneously spent and should be replenished as soon as practicable.

Also, the FYE June 30, 2008 Single Audit listed three findings discussing significant deficiencies in grant management and reporting. In our initial audit of the Housing department we also found weaknesses with grant monitoring procedures.

The Housing department has a Grant Coordinator on staff; however, duties for the position do not include monitoring and reporting for all Housing grants. Responsibilities for the position are diverse and include Community Development Block Grant (CDBG), Courthouse restoration, Indian Gaming funds, and countywide grant assistance. Salary allocation for the position is 90% funded from the General fund and 10% funded from a CDBG fund. Performance reviews for the employee in the position are completed by the Housing department Director.

According to the new Housing department Grant Management Policy, the Housing Director will assume responsibility for grant monitoring and the Housing Finance Manager will assume responsibility for grant reporting. Although establishing a formal Grant Management Policy and dividing grant duties among Housing department employees improves existing grant management, it does not address the lack of staff time and expertise necessary to intermittently take advantage of additional grant opportunities.

Pinal County management may want to consider restructuring county grant resources and establishing a countywide grant coordinator position. The responsibilities for the position would include exploring new grant opportunities for eligible county departments and providing grant assistance to county departments needing this resource but unable to effectively accommodate a full-time grant coordinator. Consideration could be given to supporting the position within the county Finance department to simplify grant reporting.

This concludes our follow up review and assessment of corrective actions taken by the Housing Department. Included with this report is an assessment and follow-up matrix providing details of management's reported and verified progress based on follow-up audit procedures performed. We would like to thank the Housing Department for their assistance during our follow-up review.

Lori Stripling

Pinal County Internal Audit Officer



Audit of Pinal County Housing Department

Management's Response and Action Plan

And

Internal Audit Follow-Up and Assessment

June 2010

Report Color Legend

Red = Incomplete **Yellow** = Partially Complete **Green** = Complete

Audit Recommendation	Concur (Y/N)	Management's Response and Action Plan	Target Date	Individual Responsible	Management Follow Up Response	Internal Audit Follow Up Assessment
<p><i>1) The Pinal County Housing Department Director should ensure comprehensive written policies and procedures for all essential department activities are developed immediately.</i></p>	Y	<p>Director and Supervisors will identify and prepare written policies and procedures for all essential department activities.</p>	1/1/10	Director	<p>Written policies and procedures have been developed and the process is ongoing.</p>	<p style="text-align: center;">Complete</p> <p>Follow Up Recommendation - The Housing Director should develop a policy and procedures to require uniform policy formats, when possible, evidence of supervisory review, and Director authorization.</p> <p style="text-align: center;">This policy has been developed and approved.</p>
<p><i>2) The Pinal County Housing Department Director should require periodic reviews of department policies and procedures to ensure they are regularly updated to reflect all applicable changes in laws, rules and regulations.</i></p>	Y	<p>Director will require Supervisors' review of department policies and procedures to ensure updates.</p>	<p>Quarterly after 1/1/10</p>	Director	<p>The Housing Director has developed a procedure for regular policy reviews and updates.</p>	<p style="text-align: center;">Complete</p> <p>Follow Up Recommendation - The Housing Director should develop a department-wide administrative policy that requires regular reviews, and if necessary updates, of all policies and procedures.</p> <p style="text-align: center;">This policy has been developed and approved.</p>

<p><i>3) The Housing Director should ensure all employees are knowledgeable about essential duties and properly trained for key positions.</i></p> <p><i>Written documentation should be maintained for all training completed.</i></p>	Y	<p>Training is provided as available and will continue within financial constraints.</p> <p>Written documentation will be maintained in a training file as well as employee's personnel file.</p>	Ongoing as funds available	Director	The Housing Director has submitted sufficient proof of staff training	<p style="text-align: center;">Complete</p> <p>Follow Up Recommendation - Documentation for training is maintained by separate Housing department divisions. To make the process more effective the Housing Director should identify one staff person responsible to maintain training documentation for all housing personnel.</p> <p>This policy has been developed and approved.</p>
<p><i>4) The Housing Director should immediately identify essential job functions for all programs and ensure program personnel are cross-trained for all identified essential functions.</i></p>	Y	Essential job functions will be identified to ensure program personnel are cross-trained for essential functions.	Immediate Completion of cross training by 1/1/10	Director		<p style="text-align: center;">Complete</p> <p>Cross-training for identified essential job functions has been completed.</p> <p>Additional cross-training opportunities have been identified and training is scheduled.</p> <p>A cross-training policy has been developed and approved.</p>

<p>5) <i>The Pinal County Housing Director should identify key positions requiring applicants to have specific knowledge and revise job descriptions to include, at a minimum, a requirement for specific federal housing program knowledge and/or experience. For some positions, proficiency with the financial accounting system software should also be required.</i></p>	<p>Y</p>	<p>We will identify key positions requiring specific knowledge and revise job descriptions. Included will be specific housing program knowledge and or experience, as well as proficiency with our Lindsey software.</p>	<p>8/1/09</p>	<p>Director</p>		<p style="text-align: center;">Complete</p> <p>Key positions have been identified and some job descriptions have been revised to include particular knowledge of Housing and Urban Development (HUD) programs.</p> <p>Job descriptions will continue to be updated as needed.</p>
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<p><i>6) When Hiring for replacement of key personnel, the Pinal County Housing Director should request a waiver, regarding the current County policy that disallows hiring an employee's replacement before the position is vacant, and ensure the new employee has sufficient time and adequate training with the outgoing staff member.</i></p>	<p>Y</p>	<p>The Pinal County Housing Director will request a waiver, regarding the current County policy that disallows hiring an employee's replacement before the position is vacant, and ensure the new employee has sufficient time and adequate training with the outgoing staff member.</p>	<p>30 days prior to a key employee leaving, when adequate notice is provided</p>	<p>Director</p>	<p>A waiver was requested and obtained to proceed with expedited recruitment for several key positions.</p>	<p style="text-align: center;">Complete</p> <p>The Housing Director has identified several key personnel and has utilized the waiver process to hire a new Finance Manager.</p>
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<p><i>7) The Pinal County Housing Director should direct program managers to establish a coordinated grant monitoring process and assign overall compliance monitoring responsibilities to a designated employee.</i></p>	<p>Y</p>	<p>We will revisit how program managers are monitoring compliance of our programs. A tracking system will be developed to review overall compliance.</p>	<p>10/1/09</p>	<p>Director</p>		<p style="text-align: center;">Complete</p> <p>The Housing Director has developed a Grant Management Policy that assigns monitoring responsibilities to the Housing Director.</p>
<p><i>8) The Housing Director, and the designated employee, should develop comprehensive grant monitoring procedures for all pertinent federal laws and regulations, including responsibilities for A-133 audit compliance (i.e. preparation of a SEFA)</i></p>	<p>Y</p>	<p>SEFA preparation will be conducted in compliance with County policy and reported by established deadlines.</p>	<p>In place</p>	<p>Director</p>		<p style="text-align: center;">Complete</p> <p>The SEFA will be completed by the Finance Manager.</p>
<p><i>9) The Director, and the designated employee, should regularly contact HUD, NAHRO, and high performing housing authorities, to review best practices in place to monitor grant compliance.</i></p>	<p>Y</p>	<p>This practice has been in place since it was discussed during this review. Staff have spent time with HUD and financial personnel at high performing housing authorities.</p>	<p>In place and ongoing</p>	<p>Director</p>		<p style="text-align: center;">Complete</p> <p>These activities have been included in training for all staff.</p>

<p><i>10) The Housing Department Director, and appropriate department management, should develop a strong password policy for system access.</i></p>	<p>Y</p>	<p>The Director will assign staff to work with IT to develop a strong password policy for all employees accessing our data systems</p>	<p>9/1/09</p>	<p>Director</p>		<p style="text-align: center;">Complete</p> <p>A strong password policy has been developed.</p>
<p><i>11) Unless otherwise instructed by application managers, the Housing Department Director should instruct all Housing Department Management to institute the strong password policy for access to all computer applications.</i></p>	<p>Y</p>	<p>Barring no restrictions we will implement a strong password policy for access to our software applications.</p>	<p>9/1/09</p>	<p>Director</p>		<p style="text-align: center;">Complete</p> <p>All staff have been notified of the new strong password policy and are required to comply</p>
<p><i>12) The Housing Department Director should develop a policy to require a regular review of accounting system audit logs.</i></p>	<p>Y</p>	<p>A policy will be developed to conduct regular reviews of accounting system audit logs. Logs will be regularly reviewed by the Director and staff</p>	<p>9/1/09</p>	<p>Director</p>		<p style="text-align: center;">Partially Complete</p> <p>The Housing Director and staff are working with accounting software application personnel to activate system audit logs.</p>

<p><i>13) The Housing Department Director should develop written policies and procedures for comprehensive asset management.</i></p>	<p>Y</p>	<p>A written policy will be developed to ensure assets are managed in accordance with HUD guidelines and audit requirements.</p>	<p>11/1/09</p>	<p>Director</p>		<p style="text-align: center;">Complete</p> <p>The Housing Director and key Housing personnel have developed a Fixed Asset policy and corresponding procedures.</p>
<p><i>14) The Housing Director should immediately comply with all Memorandums of Agreement (MOA) requirements.</i></p>	<p>Y</p>	<p>The Director is currently in compliance with terms of MOA within our control. We await a response from HUD on our FDS⁹ reports.</p>	<p>In Compliance</p>	<p>Director</p>		<p style="text-align: center;">Complete</p> <p>The Housing Department Director has complied with the MOA.</p>

⁹ Financial Data Schedule

<i>15) The Housing Director should ensure all reports are accurate and filed on time.</i>	Y	To ensure accurate and timely reporting, we are compiling reporting data for all areas of operation which will be closely reviewed by all staff. Reviews will be conducted bi weekly at management staff meetings.	9/1/09	Director		Incomplete
						The federal Housing and Urban Development agency (HUD) completed a Limited Financial Review of the Pinal County Housing department, September 30-October 1, 2009 and found violations of the HUD contract, commingling of funds, material misstatement on the Financial Data Schedule (FDS) report and inadequate budget monitoring.

The following table presents a schedule of dates for expected submission of financial data summary (FDS) reports.

PINAL COUNTY HOUSING AND COMMUNITY DEVELOPMENT DEPARTMENT WRITTEN PLAN TO MEET FEDERAL AUDIT TARGET DATES					
Expected Implementation Date	6/30/10	8/1/10	8/15/10	10/15/10	12/1/10
Action	Issue Request for Proposals for FYE 2010, A-133 audit	Submit Unaudited FDS to REAC	Engage IPA services to begin FYE 2010 audit	A-133 Audit Complete	Submit Audited FDS to REAC