



Yolo County Housing

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DATE: July 14, 2011
TO: YCH Board of Commissioners
FROM: Lisa A. Baker, Executive Director
PREPARED BY: Mark Stern, Finance Director
SUBJECT: **Review and Accept Revised Audit Corrective Action Plan**

RECOMMENDATION:

That the Board of Commissioners review and accept the attached Audit Corrective Action Plan (CAP), which represents the YCH work plan for audit improvements.

BACKGROUND/DISCUSSION:

The 2009-2010 Audit contained five findings as follows:

- 2010-1 General Ledger Maintenance
- 2010-2 Segregation of Duties – Cash Receipts and Accounts Payable
- 2010-3 Public Housing Tenant File Review (CFDA #14.850)
- 2010-4 LIPH Intercompany Accounts Review (CFDA #14.850)
- 2010-5 HCV Intercompany Accounts (CFDA #14.871)

The Audit, when submitted, included a Corrective Action Plan (CAP). This revised plan further clarifies, refines and makes improvements to the CAP based on information from research, software consultants, suggestions from our auditors and follow-up training for staff.

The revised CAP has been reviewed by and discussed with our outside auditors. Auditors and staff acknowledge that due to the late implementation of the new procedures and systemic corrections, some of the findings will not be fully cleared in the 2010-2011 audit. With the addition of suggestions from the auditors for additional refinements, they concur that the revised CAP, when fully implemented and over time, will result in resolution of the 2009-2010 Audit Findings.

FISCAL IMPACT:

The new procedures for general ledger, accounts payable, cash receipts and file maintenance will lead to indeterminate savings in the long run in staff time needed to prepare for the audit and in daily operations. There will be some reduction in staff time on the management side in rent collection, but increased time in rent posting on the Finance side. Results of research into the interfund balances receivable by LIPH and HCV will have an unknown effect on resolution of Audit Findings 2010-4 and 2010-5.

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CONCLUSION:

Changes in procedures and corrections to the original software program system set up will improve the way that YCH's system performs. Outstanding audit issues are expected to be resolved with implementation and over time. Staff recommends that the Board of Commissioners accept the revised Corrective Action Plan.

Attachment: Audit Corrective Action Plan

Audit Corrective Action Plan

A Corrective Action Plan (CAP) was included when the 2009-2010 Audit was issued and accepted by the Board of Commissioners at its April 2011 meeting. This plan update includes further clarifications, refinements and improvements based on information from research, software consultants and follow-up training for staff.

2010-1 General Ledger Maintenance

Condition 1:

Several general ledger accounts did not agree to or reconcile with supporting documentation. In addition, Inter-fund balances are not properly reconciled to ensure that account balances reflect the actual balances in each account.

Solution:

To prepare for the upcoming audit, supporting documentation for general ledger account balances will be prepared by one member of the Finance Department staff and reviewed by a second member to ensure detail matches balances.

Technical support from TenMast was on site June 27 through June 30, 2011 to assist in resolving the interfund issues. A portion of the balance is due to entries from 2006 and 2007 that have been identified as having been prepared incorrectly. Prior period corrections are being recorded. The TenMast consultant has identified accounts that were set up in the "Revolving (000)" account in error and interfund accounts that are incorrectly mapped. Staff is making the recommended corrections to repair these systemic flaws.

Condition 2:

YCH's system does not allow the accounts payable listing to be created automatically once the month end date has passed and staff does not print the listing as of the month end dates, causing them to be manually recreated.

Solution:

TenMast has recently enhanced the Accounts Payable Reports to include a "Payables As Of" report that reconciles to the general ledger.

Conclusion:

With the procedures that are either implemented or planned, staff believes that both conditions in finding 2010-1 General Ledger Maintenance will no longer be findings when the 2010-2011 audit is completed with the exception of interfund balances as discussed in finding 2010-4 and 2010-5.

After discussing the proposed or implemented procedural changes with the auditors, they concur that this finding should be resolved with the exception of the ongoing interfund research as discussed in finding 2010-4 and 2010-5.

2010-2 Segregation of Duties – Cash Receipts and Accounts Payable

Condition 1:

Lack of segregation of duties over the processing of cash receipts from the tenants.

Solution:

While best practice Segregation of Duties is difficult to achieve, due to the small number of staff members at YCH, nevertheless, YCH continues to strive to achieve the best practice possible given its limitations.

Part of that process has involved research into alternate rent collection processes. Accordingly, staff contacted vendors regarding “lock box” rent collection services and found that the cost would be excessive. Due to funding constraints and the potential elimination of Operating Subsidy as proposed by HUD, instituting such a system is cost prohibitive at this time.

Site staff currently submits copies of deposits and checks to Finance for after the fact review. To increase segregation, the ability of the on-site staff that collect and deposit rents to post the rents to the Tenant Accounts Receivable will be eliminated effective July 1, 2011. Copies of deposits and checks will be submitted to the Finance Office for review prior to posting.

AMP staff will continue to receive copies of Tenant Account Receivable registers to verify for accuracy and preparation of adjustments as needed. Statements will be periodically mailed to tenants for their review. If they have any questions, they will be asked to call the Finance Department directly.

Condition 2:

There is no formal process of approving vendors and new vendors are entered into the accounting system by the same individual who receives the invoices and enters the invoices into the system, cuts the checks and mails the checks. The check stock prints out with the signatures and there is no consistent or formal review of the invoices by anyone else in the department. There is a review of the listing of the checks to be printed; however, there is no review of the checks issued.

Solution:

Since the audit noted this deficiency, procedures have been implemented to resolve the issues. New vendors are now being set up by the Senior Accountant rather than the Finance Specialist II who is responsible for Accounts Payable.

When the Senior Accountant is unavailable, the Finance Specialist II does the vendor set up with the approval signature of the Finance Director prior to writing any checks to the new vendor.

The Finance Specialist II verifies that invoices, other than utility bills, are approved by authorized program staff before being entered into Accounts Payable. There is no second review in the Finance Department of every invoice. Since the audit, a new procedure has been implemented. During review of the Pre-Check run, the Finance Director randomly chooses a few invoices for proper authorizations and approvals.

The Finance Director is now reviewing and approving the check register after checks have been issued and prior to mailing.

Conclusion:

The auditor concurs that the newly established procedures for segregating duties in cash receipts and accounts payable should resolve Audit Finding 2010-2. Sampling of 2010-2011 transactions will reveal that the findings noted in 2009-2010 still existed during the 2010-2011 year due to the late implementation of the new procedures but on an ongoing basis the finding will be fully resolved over time.

2010-3 Public Housing Tenant File Review (CFDA #14.850)

Condition 1:

The properly signed application was not retained in some of the files sampled and that is needed in order to show how the family was entered into the system or how the family was pulled from the waitlist.

Condition 2:

Certain files sampled did not contain documentation of a properly signed lease agreement with the current lease amount.

Condition 3:

Certain files sampled did not contain documentation of proper annual inspections.

Condition 4:

Documentation was not always retained in some of the tenant files sampled to describe the methods used to calculate the tenant income and the tenant rent.

Condition 5:

The EIV System was not systematically utilized to verify the income as required by HUD. In addition, verification from a third party or EIV was not completed or maintained in certain of the files sampled.

Solution:

Department Management has been performing Quality Control reviews of LIPH files with special attention to the common audit findings. Missing documents noted by the auditors have been located and added to the files. Additionally Program Staff have been sent a memorandum reminding them of their program responsibilities. That memorandum included the following:

Effective Immediately – The following steps are mandatory when completing initials, re-exams, interims etc.

1. All historical data is to remain with the current file (i.e. original app, 214 forms, birth certificates, i.d's – all documents originally used to verify family's eligibility at time of admission). Please copy documents and ensure they remain in previous and current file. **Reminder - historical documents only need to be received once (it is not necessary to have families fill out 214 forms every year [unless there is a new addition or their immigration status changes]).**
2. Calculator tape along with explanation of what form of verification is used to determine family's rent etc **must be in file** with all income, assets, etc. for each source (i.e. SSI, work, TANF – all should have their own tape showing how you annualized income)
3. Files must contain documentation (TENMAST AND INTERNAL LOG) showing annual inspections were completed. Documentation must not exist outside of the file.
4. EIV must be in file for every annual and at every interim where the change involves income and must be printed and placed in the file.

Management has developed a checklist to be included with every action (i.e., new move in, transfer, annual, interim etc.) to ensure Specialists have complete files. Management will be meeting with staff to discuss the "most common findings" and determine the best course of action to eliminate mistakes.

Consistency in file maintenance and organization will alleviate difficulties in locating documents from the files.

Management has developed an "Interim Request Form" for families to fill out when they have requested an interim that will serve as an indicator of the action and what was reported to allow for easier review of files.

Conclusion:

The auditor concurs that the revised procedures will resolve Finding 2010-3. Sampling of 2010-2011 files will reveal that the findings noted in 2009-2010 still existed during the 2010-2011 year due to the late implementation of the new procedures but on an ongoing basis the finding will be fully resolved over time.

2010-4 LIPH Intercompany Accounts Review (CFDA #14.850)

Condition:

As of June 30, 2010, the AMPs collectively had a net receivable from the COCC in the amount of \$1,582,716. Such net receivable increased by \$236,578 as compared to the prior year balance of \$1,346,138.

2010-5 HCV Intercompany Accounts (CFDA #14.871)

Condition:

As of June 30, 2010, the HCV Fund has a net receivable of \$633,863 from the COCC. The net receivable increased by \$217,173 as compared to the prior year balance of \$416,690; such increase includes an adjustment of \$133,658 to increase the Net Restricted Assets (NRA) that resulted from NRA negotiations between HUD and YCH.

Solution:

These two findings and conditions relate to a single issue of unreconciled interfund balances and have resulted from:

- Errors in setting up the interfund and general ledger accounts in 2006 when the system was implemented;
- Incidental manual entries to the interfund account that resulted from keying errors or selecting the wrong account number; and
- Deliberate entries that were made to correct prior errors or clear unsupported balances.

The TenMast consultant, who was on site the week of June 27- June 30, 2011 has identified transactions that fall into each of the three categories above. He has recommended creation of appropriate account numbers and the remapping of some accounts to correct the initial set up problems. He has also proposed a journal entry to adjust interfund balances to match up with the interfund activity that has occurred since the system was implemented. He has identified both incidental and deliberate entries to the interfund accounts that need to be reviewed to determine what the real intention of the original entry was.

The few interfund accounts that have questionable balances will be isolated to prevent any additional transactions from further clouding the issue. With a static balance, staff will be better able to complete the required research.

Conclusion:

This research is in process and will be recorded as prior period adjustments for large transactions or current year activity for non-material transactions. It is unlikely that the required research will be completed prior to the 2010-2011 audit being issued. Staff does anticipate completing the research and proposing a plan to resolve any remaining differences before completion of the 2011-2012 audit.

Corrections of account mapping and “freezing” accounts with questionable balances will ease historical research and provide accurate information going forward. Due to the late implementation of changes, these findings will not be fully resolved before completion of the 2010-2011 audit.

After discussing the proposed systemic changes and solutions with the auditors, they concur that these findings will be resolved over time.