

**SUBMITTAL TO THE BOARD OF SUPERVISORS
COUNTY OF RIVERSIDE, STATE OF CALIFORNIA**

412



FROM: Auditor-Controller

SUBMITTAL DATE:
August 13, 2014

SUBJECT: Internal Audit Report 2013-015: Housing Authority of the County of Riverside, [District: All]; [\$0]

RECOMMENDED MOTION: That the Board of Supervisors:

1. Receive and file Internal Audit Report 2013-015: Housing Authority of the County of Riverside

BACKGROUND:

Summary

We have completed an audit of the Housing Authority of the County of Riverside to provide management and the Board of Supervisors who serve as the Housing Authority's Board of Commissioners in an ex officio status, with an independent assessment of internal controls over capital assets, information security, records management, and rent collection. We conducted the audit during the period February 20, 2013 through June 18, 2013 for operations of July 1, 2010 through June 30, 2012.

(Continued on page 2)

Paul Angulo

Paul Angulo, CPA, M.A.
County Auditor-Controller

Departmental Concurrence

FINANCIAL DATA	Current Fiscal Year:	Next Fiscal Year:	Total Cost:	Ongoing Cost:	POLICY/CONSENT (per Exec. Office)
COST	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	Consent <input checked="" type="checkbox"/> Policy <input type="checkbox"/>
NET COUNTY COST	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	

SOURCE OF FUNDS: N/A

Budget Adjustment: No

For Fiscal Year: n/a

C.E.O. RECOMMENDATION:

APPROVE

BY:

Karen L. Johnson
Karen L. Johnson

County Executive Office Signature

MINUTES OF THE BOARD OF SUPERVISORS

- A-30
- 4/5 Vote
- Positions Added
- Change Order

Prev. Agn. Ref.:

District: ALL

Agenda Number:

2-7

SUBMITTAL TO THE BOARD OF SUPERVISORS, COUNTY OF RIVERSIDE, STATE OF CALIFORNIA
FORM 11: County of Riverside Auditor-Controller's Office - Internal Audit Report 2013-015: Housing Authority
of the County of Riverside, [District: All]; [\$0]

DATE: August 13, 2014

PAGE: Page 2 of 2

BACKGROUND:

Summary (continued)

Based upon the results of our audit, we identified opportunities for improvement in internal controls relating to rent collection, information security, and records management. The Housing Authority's management controls over capital assets were found to provide reasonable, not absolute, assurance that the Department and County objectives will be obtained. We will follow-up in one year to determine if actions were taken to correct the findings noted.

Impact on Citizens and Businesses

Provide an assessment of internal controls over the audited areas.

SUPPLEMENTAL:

Additional Fiscal Information

Not applicable

ATTACHMENTS:

A: County of Riverside Auditor-Controller's Office - Internal Audit Report 2013-015: Housing Authority of the County of Riverside

Internal Audit Report 2013-015

**Housing Authority
of the
County of Riverside**

Report Date: August 13, 2014



**Office of Paul Angulo, CPA, M.A.
County of Riverside Auditor-Controller
4080 Lemon Street, 11th Floor
Riverside, CA 92509
(951) 955-3800**

www.auditorcontroller.org



COUNTY OF RIVERSIDE
OFFICE OF THE
AUDITOR-CONTROLLER

County Administrative Center
4080 Lemon Street, 11th Floor
P.O. Box 1326
Riverside, CA 92502-1326
(951) 955-3800
Fax (951) 955-3802

ACC | AUDITOR
CONTROLLER
COUNTY OF RIVERSIDE

Paul Angulo, CPA, M.A.
AUDITOR-CONTROLLER

August 13, 2014

Mr. Robert Field, Assistant County Executive Officer
Economic Development Agency
Housing Authority of the County of Riverside
3403 10th Street, Suite 400
Riverside, CA 92501

Subject: Internal Audit Report 2013-015: Housing Authority of the County of Riverside

Dear Mr. Field,

We have completed an audit of the Housing Authority of the County of Riverside to provide management, and the Board of Supervisors who serve as the Housing Authority's Board of Commissioners in an ex officio status, with an independent assessment of the Housing Authority's internal controls over capital assets, information security, records management and rent collection. The audit covered the period July 1, 2010 through June 30, 2012.

We conducted our audit in accordance with the International Standards for the Professional Practice of Internal Auditing. These standards require that we plan and perform the audit to obtain sufficient, reliable, relevant and useful information to provide reasonable assurance that our objective as described above is achieved. An internal audit includes the systematic analysis of information to evaluate and improve the effectiveness of internal controls. We believe this audit provides a reasonable basis for our conclusion.

Internal controls are processes designed to provide management reasonable assurance of achieving efficiency of operations, compliance with laws and regulations, and reliability of financial information. Management is responsible for establishing and maintaining adequate internal controls; our responsibility is to assess the adequacy of internal controls.

Based upon the results of our audit, we identified opportunities for improvement in rent collection, information security, and records management. The Housing Authority's management controls over capital assets were found to provide reasonable, not absolute, assurance that the Department and County objectives will be obtained.

As requested, and in accordance with paragraph IIC of the Board of Supervisors Resolution 83-338, management responded to each reported condition and recommendation contained in our report. Management's responses are included in the report. We will follow-up in one year to verify that management implemented the corrective actions.

Internal Audit Report 2013-015: Housing Authority of the County of Riverside

We thank the Housing Authority of the County of Riverside management and staff for their cooperation; their assistance contributed significantly to the successful completion of this audit.

Paul Angulo, CPA, M.A.
County Auditor-Controller



By: Mark Cousineau, CPA, CIA, CFE
Chief Internal Auditor

cc: Board of Supervisors
Executive Office

Table of Contents

	Page
Executive Summary	4
 Audit Results:	
Rent Collection	5
Information Security	9
Records Management	12

Executive Summary

Overview

The Housing Authority of the County of Riverside (Authority) is a public agency chartered by the State of California to administer the development, rehabilitation or financing of affordable housing programs. The County Board of Supervisors serves as the Authority's Board of Commissioners in ex officio status. The primary mission of the Authority is to provide affordable, decent, safe and sanitary housing opportunities to low and moderate income families including elderly and handicapped persons, while supporting programs to foster economic self-sufficiency. The Authority has been serving Riverside County for over 60 years.

The Authority operates and administers multiple programs. Our audit was limited to the rent collection process over Public Housing Program - a program that provides quality affordable housing to low-and-moderate income families, seniors, and persons with disabilities.

The Authority is a special purpose government agency and is a blended component unit of the County of Riverside. It conducts its financial operations in a business-type approach and is defined an enterprise fund by generally accepted accounting principles for government. The Authority engages an external Certified Public Accounting firm to perform the required single audit required by Office of Management and Budget Circular A-133.

Audit Objective

Our audit objective is to provide management and the Board of Supervisors with an independent assessment of internal controls over capital assets, information security, records management and rent collection.

Audit Conclusion

Based upon the results of our audit, we identified opportunities for improvement in rent collection, information security, and records management. The Housing Authority's management controls over capital assets were found to provide reasonable, not absolute, assurance that the Department and County objectives will be obtained.

Rent Collection

Background

The Authority owns 469 rental housing units throughout the County of Riverside. The residents of these units, pay either a flat rate or approximately 30 percent of their adjusted income toward the rent and utilities, depending on their income. The rent charged by the Authority is subsidized by the Department of Housing and Urban Development (HUD).

The Authority employs five Public Housing Property Managers to perform a variety of on-site duties involved in managing residential apartments for low income persons under the Affordable Public Housing program, and as such, are required to reside in the housing sites.

The Authority's rental revenue for public housing during the year ended June 30, 2012 was \$1,421,551 - a monthly average of \$253 per housing unit.

The Authority's Statement of Policies, (Policies), Exhibit F - Rent Collection and Write-off Policy requires the Authority provide public housing tenants with a monthly statement showing the rent due as well as any other charges (late fees, maintenance charges, etc.). Rents are due on the first day of each month and considered delinquent after the first (1st) day. If rent is not paid by the fifth (5th) of the month, a \$35.00 Administrative Late Fee is be applied. In accordance with the Policies, the Authority prepares and provides the tenants with the required 14-day notice advising the tenant that they are being considered for eviction for non-payment of rent and they have 14 days to contact the Authority for payment or to make arrangements to pay.

The Policies dated July 1, 2010 and 2011 states that money owed for rent or damages will be billed to the tenant within 21 days of vacating the unit. The bill will be mailed to the last known address or forwarding address if one has been provided by the tenant. A record of the amount owed is kept as long as it seems feasible to collect. The Authority also collects debts through seizure of state and/or federal refunds or rebates (Intercept Program). When collection is not feasible, the account is sent before the Authority's Board of Commissioners for approval to write-off the outstanding receivable in accordance with HUD guidelines. Write-offs should be conducted on a quarterly basis with a record maintained indefinitely for collection at some future time.

In 2011, the Authority started referring delinquent receivables (60+ days past due) to the California Franchise Tax Board (FTB) Intercept Program. The Authority's delinquent accounts submitted to the FTB as of December 31, 2012 amounted to \$919,861, and are presented below:

Description	Balance as of 12/31/2012
Section 8 Program – Landlords	\$143,098
Section 8 Program - Tenants	\$377,869
Public Housing Program – Tenants	\$398,893
Total	\$919,861

Internal Audit Report 2013-015: Housing Authority of the County of Riverside

Audit Objective

Our objective is to provide management and the Board of Commissioners with an independent assessment of internal controls over rent collection.

Audit Methodology

To accomplish our objectives, we:

- Obtained an understanding of state/federal laws, board policies, and other applicable standards regarding public housing rental collections.
- Gained an understanding of the procedures over public housing through interviews with key personnel of the Authority.
- Reviewed tenant transaction history and other related reports.
- Tested transactions involving billing, collection and write-off of rental accounts.
- Verified adequate segregation of duties exists.

Finding 1: Adherence to Rent Collection Policies and Lease Terms and Conditions

The Authority did not adhere to the Policies covering Rent Collection and Lease Terms and Conditions. Our review of 768 Tenant Transaction History reports for 32 (4%) tenants for the period July 1, 2010 to June 30, 2012 disclosed that:

- In 164 (43%) of 381 instances the Authority did not assess the \$35 administrative late fee resulting in \$5,740 in lost revenue. This occurred because the Authority assesses the administrative late fees if tenants do not pay their rents after five (5) business days, instead of using the 5th of the month as stated in the Authority's policy/covenants.
- In 48 instances, the Authority charged and posted late fees in tenants' ledgers but, did not prepare and send the "14-day Notice to Pay Rent or Quit" to their public housing tenants.

Recommendation 1

The Authority should assess the administrative late fee and prepare and send the 14-day notice to Tenants in accordance with the lease agreement and statement policies.

Internal Audit Report 2013-015: Housing Authority of the County of Riverside

Management's Response

Concur. In an effort to further help low-income families overcome their hardship in paying their rents on time, it has been the Housing Authority of the County of Riverside's (HACR) practice to accept payments until the 5th business day of the month, when the administrative office is open to provide clarification on outstanding balances and offer confirmation of receipt of the funds. To clarify the grace period on rent collection, the HACR will be sending to all Public Housing residents, within 30 days of this letter, a lease addendum that officially changes the timing of assessment of the late fees to be enforced on rent payments received after the 5th business day of the month. The HACR's Public Housing Property Managers (PHPM) have been reminded of their responsibility of tracking the Balance Due Reports on a monthly basis in order to be more diligent in sending out applicable 14-day Notices to Pay Rent or Quit. The Fiscal Staff will continue to send out the notice to PHPMs of actual dates for the assessment of late fees, after which time the reports on rent delinquencies are available for review."

Actual/estimated Date of Corrective Action: **August 31, 2014**

Finding 2: Accounts Receivable valuation is likely overstated

During fiscal years 2010-11 and 2011-12 the Authority wrote-off \$5,616 (.162% of the receivables) without the required Board of Commissioners' approval. According to the Authority they did not seek authorization from the Board of Commissioners due to poor planning.

The Authority states that the estimated allowance for bad debts was based upon a percentage of receivables at the end of the fiscal year. However, review of the accounts referred to the Franchise Tax Board for collection thru its Intercept Program disclosed that 32% or \$294,445 of \$919,861 was outstanding since 2000 to 2003. Of the \$296,084 receivables, only .055% (or \$1,639) was collected as of 2012. Considering the length of time these receivables remain outstanding, the probability of its collection unlikely.

Recommendation 2

The Authority should seek the Board of Commissioners' approval prior to writing-off receivables.

Management's Response

Concur. Per the ACO's recommendation, we will ensure that we seek the Board of Commissioner's approval should we need to write-off any receivables directly to the Bad Debt Expense account."

Actual/estimated Date of Completion: **Completed**

Recommendation 2.1

The Authority conduct an aging analysis of overdue receivables on a quarterly basis to identify uncollectable amounts to be written-off.

Management's Response

Concur. To comply with the ACO's recommendation to conduct an aging analysis on a quarterly basis, attached are the following documents for your review:

1. HACR's Standard Fiscal Practice for collection of delinquent accounts (Attachment 1).
2. HACR's Standard Fiscal Practice for billing adjustments/adjustments of accounts receivable balances (Attachment 2).

Previously, the HACR followed the principle of determining the allowance percentage based upon prior experience, particularly twelve (12) months of the past fiscal years. This process involved a calculation of an estimated allowance for bad debt based upon the percentage of ending receivables to come up with an amount added to the existing allowance account. We discovered from further review of the HUD indicators, specifically the Tenant Accounts Receivable Ratio, this method did not produce a favorable outcome because it resulted in a high balance of accounts receivable in the allowance compared to the revenue of each Asset Management Property.

After deliberating with our external auditors, we agreed to incorporate the accounts receivable aging method, which categorizes the debts by the length of time they have been outstanding. This we believe is more realistic approach since it would show that the longer an account balance is overdue, the less likely the debt is to be paid. Hence, the accounts receivable will no longer include balances that are not highly collectible."

Actual/estimated Date of Completion: **Completed**

Information Security

Background

The Authority's information technology and security is jointly administered by the Authority's Information Technology Administrator and Riverside County Information Technology (RCIT).

In December 2011, the Authority transitioned from the Public/Indian Housing Authority System, Modern Software Technology, Inc. - a system designed specifically to operate on a IBM network to the web-based TenMast System.

The Housing Authority utilizes the following systems:

- **TenMast System:** The web-based system which serves public housing authorities with software for tenant management, finance/accounting, maintenance, inspections, document management, HUD reporting, and executive decision making.
- **IMS21 Imaging System:** The system provides scanning, archiving, storage, back-up and retrieval of documents.

Board of Supervisor's Policy A-68 *Trustworthy Official Electronic Records Preservation*, (A-68), states that the Board of Supervisors recognizes the need to establish uniform countywide standards to ensure that official records of the County, when maintained electronically, complies with the trusted system requirements, are true and accurate representations of the original information, and remain accessible for the duration of the records' applicable retention period. Policy A-68 designates the Information Security Office (ISO) as the assessment team tasked with evaluating a department's electronic content management system (ECMS).

Policy A-68 requires departments that have an existing ECMS in place prior to the effective date of the policy to:

- Ensure the ECMS is evaluated by the assessment team.
- Comply with the policy as soon as practicable.

Secure, as soon as practicable, the Board of Supervisors' approval of the trusted system.

Audit Objective

Our audit objective is to provide management and the Board of Commissioners with an independent assessment of internal controls over information security.

Audit Methodology

To accomplish our objectives, we:

Internal Audit Report 2013-015: Housing Authority of the County of Riverside

- Obtained an understanding of board policies regarding information security, and other applicable standards.
- Conducted interviews and observed operating procedures of Authority personnel.
- Performed tests to ensure internal controls were adequate over security of information.
- Determined the nature of information stored by the Authority.

Finding 3: Risk Assessment on Document Imaging System

The document imaging system used by the Authority was not evaluated by the assessment team. While the Authority, indicated an assessment was conducted by its former vendor a year before their IT unit merged with RCIT, they were not able to provide us a copy. Discussion with ISO disclosed that they had not conducted an assessment of the Authority's document imaging system. Without an assessment the County has no assurance that the document imaging system currently in place meets the requirements of a trusted system.

Recommendation 3

The Authority request that the ISO perform an evaluation of the document imaging system.

Management's Response

“Concur. HACR was not able to provide a copy of the evaluation of the document imaging system because we could not locate the assessment done by the previous Information Technology Administrator, who recommended and incorporated the Document Imaging System. The HACR is in the process of coordinating with the County staff that administer the Record Management and Archives Program (RMAP) to develop a Document Records Retention Schedule (DRRS); hence, we have compiled the Inventory Worksheets for all HACR's Programs, including: Section 8, Special Programs, Procurement, and Public Housing, to come up with a draft of the proposed DRRS, which will be submitted by the end of July 2014. Soon after, the HACR will start coordinating with the Information Security Office to get an analysis of the system and the imaging process and procedures. Our goal is to get the Board of Supervisor's approval of a trusted system. We will update the ACO as soon as this process has been completed. The HACR will be submitting the Draft DRRS to RMAP by July 31, 2014. It will be up to RMAP to let us know when we are able to discuss with the ISO an evaluation for a trusted system.”

Actual/estimated Date of Corrective Action: **Not applicable**

Auditor's Comment

The Authority's response addresses actions undertaken to correct the condition. However, since completion of the process involves other County departments, the Authority needs to monitor the process to ensure completion in a timely manner.

Records Management

Background

BOS Policy number A-43, *County Records Management and Archives Policy*, (Policy A-43), Section C.4 *Standards – eye readable format* states that records with a mandatory retention of five (5) years or longer shall be maintained in an eye-readable format in addition to any electronic format used for access or business process support. Records vital to business continuity, whatever their mandatory retention, shall be maintained in eye-readable format in addition to any electronic format used for access or business process support.

The Authority's sensitive information consists of personal data collected from Public Housing and Section 8 tenants.

The Authority does not have a Departmental Records Retention Schedule (DRRS), but is currently in consultation with Records Management and Archives Program on developing one.

Audit Objective

Our objective is to provide management and the Board of Commissioners with an independent assessment of internal controls over records management.

Audit Methodology

To accomplish our objectives, we:

- Obtained an understanding of state laws and board policies regarding records management.
- Determined if the Authority has a written records management policy and who is responsible for records.
- Determined if the Authority is following the general records retention schedule (GRSS).
- Determined if the Authority has a Board of Supervisors' approved Housing DRSS.

Finding 4: Records Retention Procedures

The Authority did not retain documentation of the destruction of records, retain records for the required retention period or provide for the safeguarding of sensitive information. During the audit period, the Authority routinely scanned documents into their document imaging system and discarded the originals after seven months. This procedure was revised in August 2012 when the Authority started boxing records and storing the required information. However, observations disclosed that the Authority had not developed a standardized procedure for

Internal Audit Report 2013-015: Housing Authority of the County of Riverside

safeguarding the records or labeling of the boxes. We noted boxes stored in stairwells and labeled with "post-it" notes. By not affording proper protection of these records, they are vulnerable to misuse, loss or inefficiency in locating required records.

Recommendation 4

The Authority follows the retention periods specified in the GRRS until development of their DRRS.

Management's Response

"Concur. The authority has been following ACO's recommendation. Procedure revised August 2012, as noted by ACO comment."

Actual/estimated Date of Corrective Action: **Completed**

Auditor's Comment

While the Authority concurs, the current methodology for the filing, marking and storage of retained documents does not ensure compliance with retention period requirements.

Recommendation 4

The Authority should ensure access to storage boxes is restricted to authorized personnel only and develop a standardized labeling technique.

Management's Response

"Concur. Based on discussions with the ACO's Internal Auditor during the audit period, the HACR added more measures to protect records and is in the process of standardizing these procedures. More boxes of information have been stored in the warehouse of Iron Mountain Inc. (formerly Cornerstone Records Management Inc.), where the HACR has most of its records for safekeeping. Other records with sensitive information have been properly stored in HACR's designated areas that are locked and are restricted to authorized personnel. Authority management will be implementing the standard procedure for labeling the boxes by August 31, 2014. We estimate that by November 30, 2014 all boxes will be labeled uniformly."

Actual/estimated Date of Corrective Action: **August - November 2014**