



# OFFICE OF INTERNAL AUDIT

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## REPORT TO THE BOARD OF SUPERVISORS

### Pinal County Housing Department Audit

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July 21, 2009

## Executive Summary

The Pinal County Housing Department (Housing) was evaluated by the Federal Department of Housing and Urban Development (HUD) Real Estate Assessment Center (REAC) in 2007 and, as a result of that evaluation, was designated a troubled financial performer.<sup>1</sup> Housing has also been cited for numerous findings in recent federally required Single Audit reports,<sup>2</sup> performed by the Arizona Office of the Auditor General.

The Office of Internal Audit has recently completed an internal audit of Housing. The primary objectives of this audit were to:

- Identify specific reason(s) Housing has been designated as a troubled agency by HUD
- Determine what actions Management has taken to address findings reported in the 2007 Single Audit Report issued by the State Auditor General (**See Table I, page 3**)
- Determine whether internal controls over selected program operations were adequately designed, properly executed, and effective

Internal control is a process established by management, designed to provide reasonable assurance that the organization achieves its objectives regarding effectiveness and efficiency of their operations; reliability of financial reporting; and compliance with applicable laws and regulations.<sup>3</sup>

Our audit included an examination of the design and operating effectiveness of the grant compliance processes, department accounting processes, and information system security practices. We also evaluated the regulatory challenges and risks related to certain programs, and analyzed procedures established to manage risks.

Key areas reviewed during the performance of our audit include:

- Controls over the Section 8 Housing Choice Vouchers program
- Controls over the Public and Indian Housing program
- Procedures for achieving compliance with applicable HUD regulations
- Procedures for achieving compliance with County annual financial reporting
- General accounting and reporting processes and procedures for Housing grants<sup>4</sup>
- Security controls over computer system and application data

As a result of our review, we determined that management's internal control over these programs is not adequate to ensure compliance with grant reporting requirements or the

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<sup>1</sup> [http://bulk.resource.org/gpo.gov/register/2000/2000\\_1749.pdf](http://bulk.resource.org/gpo.gov/register/2000/2000_1749.pdf)

<sup>2</sup> [http://www.azauditor.gov/Reports/Counties/Pinal/Financial\\_Audits/Single\\_Audit\\_June\\_30\\_2007/Pinal\\_Cty\\_6\\_30\\_2007\\_SA.pdf](http://www.azauditor.gov/Reports/Counties/Pinal/Financial_Audits/Single_Audit_June_30_2007/Pinal_Cty_6_30_2007_SA.pdf)

<sup>3</sup> <http://www.coso.org/resources.htm>

<sup>4</sup> Section 8 and Public and Indian Housing

timely and accurate reporting of program financial information. Specifically, we identified the following deficiencies:

- Housing management did not effectively prepare for major personnel changes;
- Lead program staff lack essential program, and financial reporting and accounting, knowledge and have not received sufficient, relevant training;
- Inadequate internal controls over operating and accounting processes, such as lack of supervisory reviews and written policies and procedures are the principal cause of the reportable conditions identified in external audits of the Department.

Our recommendations for improvements include:

- The Housing Department Director should require management in all department operations to develop comprehensive written policies and procedures for all essential department functions;
- The Housing Department Director should ensure employees are knowledgeable about essential duties and properly trained for key positions;
- The Housing Department Director should review current department job descriptions and identify positions that require specific regulatory knowledge for applicants. Current job descriptions should be revised to include identified essential regulatory knowledge;
- To ensure stability and continuity of critical program filing requirements, the Housing Department Director should hire replacements for key program positions before they are vacant, after requesting a waiver from the current County policy disallowing this practice;
- The Housing Department Director should require program managers to establish a coordinated grant monitoring process and ensure additional grant regulatory compliance responsibilities are specifically assigned to designated personnel;
- The Housing Department Director should require all Housing Department management to institute a strong password policy for access to all computer applications and regularly review all activated computer audit logs;
- The Housing Department Director should develop written policies and procedures for comprehensive asset management. Procedures should ensure all fixed assets are expediently recorded and correctly capitalized in the County financial system. Procedures should include appropriate communication with the County Finance Department.

The following report provides additional details of our audit observations and recommendations.

We would like to thank the management and staff of the Pinal County Housing Department for their assistance and cooperation during the course of this audit.

Lori Stripling  
Pinal County Internal Audit Officer

Table 1 – Single Audit Findings

2007 Single Audit Finding Resolution					2008 Single Audit Finding Resolution				
	2007 Single Audit Finding	Auditor Recommend Action	Management initiated Action	Resolution of finding Resolved/ Unresolved before 2008 report		2008 Single Audit Finding	Auditor Recommend Action	Management initiated Action	Determination of recommendation resolution by Internal Audit
1011	Did not submit SA on time due to Housing	Submit report no later than 9 months after FYE		<b>UNRESOLVED</b>	115	Did not submit SA on time due to Housing	Submit no later than 9 months after FYE		<b>UNRESOLVED</b>
102	No process to properly identify all federal awards for SEFA	Develop written policies and procedures for recording SEFA expenditures		<b>UNRESOLVED BY DEPARTMENT OF HOUSING</b>					<b>RESOLVED</b> County Finance Department has initiated procedures to prepare SEFA for all County Departments
103	Inaccurate allocation of costs between programs	Initiate an allocation process		<b>UNRESOLVED</b>	104	Inaccurate allocation of costs between programs	Initiate an allocation process with sufficient documentation	Allocation process initiated  No written procedures	<b>PARTIALLY RESOLVED</b> Allocation process has been initiated No written procedures
104	Inadequate computer security /access	Establish secure location. Develop written policies and procedures		<b>UNRESOLVED</b>	105	Inadequate computer security/ access	Safeguard servers/develop DR plan/ develop written policies and procedures	Locked server room	<b>PARTIALLY RESOLVED</b> No written polices and procedures / No site specific DR plan
105	Inadequate approvals/ inadequate documentation			<b>UNRESOLVED</b>	111	Inadequate approval/ inadequate documentation	Maintain documentation/ initiate second review	Second review has been initiated	<b>PARTIALLY RESOLVED</b> No written policies and procedures for authorization process
106	No interest bearing checking account; no maximum in program	Establish interest bearing account		<b>PARTIAL RESOLUTION</b> Initiated program changes to maximize participation rates	109	No interest bearing checking account	Establish interest bearing account		<b>UNRESOLVED</b> No interest bearing account at the time of report release
107	Inaccurate SS # for tested files	Ensure all date reported is accurate		<b>UNRESOLVED</b>	110	Inaccurate birthdates for tested files	Establish second review	Second review has been initiated	<b>RESOLVED</b> Program management has established second review
108	Financial report inaccurate and not reviewed	Establish procedure/ second person review		<b>UNRESOLVED</b>	107	No supporting documentation for financial report / no review	Maintain supporting documentation and establish second review	Established second review	<b>PARTIALLY RESOLVED</b> No written policies and procedures to document new processes
					106	Financial report inaccurate and not filed timely	Strengthen internal controls		<b>UNRESOLVED</b> 2008 report not filed. No accountant on staff to prepare financial statements.

## Introduction

The Office of Internal Audit has completed a review of management controls over the Pinal County Housing Department's Section 8 Housing Choice Voucher program and the Public and Indian Housing (PIH) program. Our audit was planned and conducted in accordance with Generally Accepted Government Auditing Standards<sup>5</sup>. These standards require that we plan and perform the audit to obtain sufficient appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives.

## Scope and Methodology

The Pinal County Housing Department (Housing) has been designated a substandard 'troubled' financial performer by the federal Department of Housing and Urban Development (HUD), and has been cited for noncompliance with HUD program requirements in the FY2007 and FY2008 State of Arizona Independent Auditors Report on Compliance Requirements in Accordance with OMB Circular A-133.<sup>6</sup> The scope of our audit was to determine if Housing's compliance processes were adequate, and applied consistently, relevant to these findings. Our audit included such tests of internal controls, procedures, and documentation as were necessary to accomplish the audit objectives. Our methodology included:

- Interviews with Housing management and program personnel;
- Interviews with appropriate federal, state and county staff;
- Tour of facilities and observation of operational activities;
- Examination of relevant documentation, including a review of applicable laws and regulations.

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<sup>5</sup> <http://www.gao.gov/govaud/ybk01.htm>

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[http://www.azauditor.gov/Reports/Counties/Pinal/Financial\\_Audits/Single\\_Audit\\_June\\_30\\_2007/Pinal\\_Cty\\_6\\_30\\_2007\\_SA.pdf](http://www.azauditor.gov/Reports/Counties/Pinal/Financial_Audits/Single_Audit_June_30_2007/Pinal_Cty_6_30_2007_SA.pdf)

## Background

On August 8, 1950, as allowed by A.R.S. § 36-1404, the Board of Supervisors of Pinal County created the Pinal County Housing Authority. At that time the Housing Authority was a separate political subdivision within the county. On November 25, 1985, the Board of Supervisors repealed the original resolution and determined “a modification of the structure of the Housing Authority of Pinal County is necessary in order for the County to perform its obligations and duties more effectively,<sup>7</sup>” and created the Pinal County Housing Department as a new department within the County’s organizational structure. At that time, the Board of Supervisors also created the Pinal County Housing Advisory Commission; however, the Advisory Commission was dissolved on April 8, 1991, and all powers of the Commission were vested in the Board of Supervisors.

Currently, Housing operates as a County department within the authority of the Assistant County Manager over Health and Human Services. In FY07, Housing’s operating budget was \$1,274,631,<sup>8</sup> and there were 32.5 FT/PT authorized department positions. That same fiscal year, Housing received \$3,809,313 in federal grant dollars for the following five programs:<sup>9</sup>

- 1) Community Development Block Grants (CDBG) (\$101,620);
- 2) Public Housing Capital Fund (\$226,378)
- 3) Public and Indian Housing (PIH) (\$323,486)
- 4) Home Investment partnership Program (\$331,720)
- 5) Section 8 Housing Choice Vouchers (\$2,826,109)

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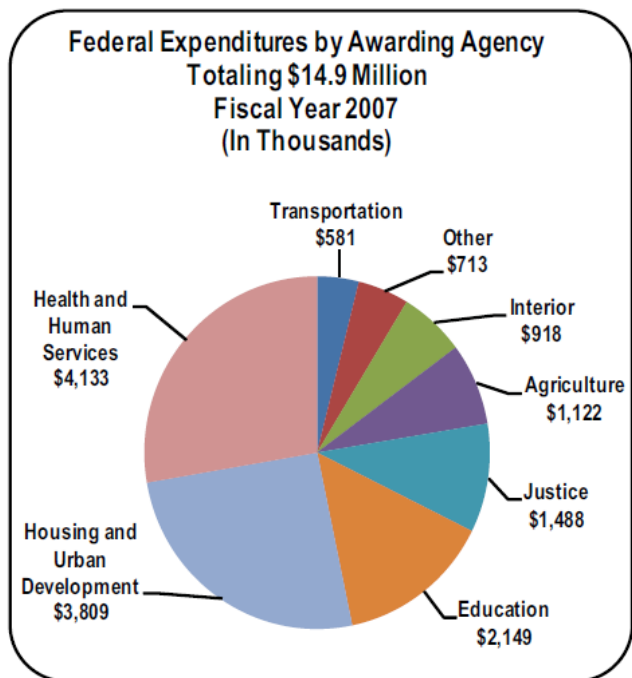
<sup>7</sup> Resolution No. 60286-PCHA

<sup>8</sup> <http://www.pinalcountyz.gov/Departments/BudgetOffice/Documents/BB0809/2007-08%20Adopted%20Budget%20Book%20Web%20Version.pdf>

<sup>9</sup> 14.228, 14.239, 14.850, 14.871, 14.872

According to the Federal Office of Management and Budget (OMB) Circular A-133.300, recipients of federal awards are required to:

- Maintain a system of internal control over all federal programs in order to demonstrate compliance with pertinent laws and regulations.
- Identify all grant programs by Catalog of Federal Domestic Assistance (CFDA) number and title, awarding agency, year of award, and any pass-through entities if applicable.
- Ensure that audits mandated under OMB Circular A-133 are performed and filed with appropriate federal entities as required.<sup>10</sup>
- Follow up on any audit findings, questioned costs, or compliance issues. This involves specific responses and, when necessary, taking corrective action that will resolve current and/or previous findings.
- Sign the official data collection and single audit submission form that is prepared in conjunction with the independent auditor. The recipient organization is legally responsible for the accuracy and timely submission of these forms, even if the auditor prepares the forms.



In Pinal County, the Single Audit is performed annually by the Arizona Office of the Auditor General. For FYE June 30, 2007, the Auditor General reported Pinal County spent \$14.9 million\* of federal grant monies. The report concluded the County, as a whole, maintained adequate internal control over financial reporting; however, the auditors noted internal control weaknesses and instances of non-compliance in the Public and Indian Housing and Section 8 Housing Choice Vouchers Programs. Specifically, the report<sup>11</sup> found, "...federal monies were

expended for unallowable activities/costs; federal monies were not sufficient for... immediate

<sup>10</sup> Non-Federal entities that expend \$500,000 or more in a year in Federal awards shall have a single or program-specific audit conducted for that year in accordance with OMB Circular A-133.200.

\* Graph from 2007 Single Audit Highlights report issued by the Arizona Office of the Auditor General

<sup>11</sup> [http://www.auditorgen.state.az.us/Reports/Counties/Pinal/Financial\\_Audits/Single\\_Audit\\_June\\_30\\_2007/Pinal\\_Cty\\_6\\_30\\_2007\\_SA\\_Highlights.pdf](http://www.auditorgen.state.az.us/Reports/Counties/Pinal/Financial_Audits/Single_Audit_June_30_2007/Pinal_Cty_6_30_2007_SA_Highlights.pdf)

program needs; and financial data reported...was not accurate or timely.” Compliance deficiencies have also been referenced in federal Department of Housing and Urban Development (HUD) reports. HUD Real Estate Assessment Center (REAC) evaluates Public Housing Authorities (PHA) using data entered into an Integrated Computer Assessment System (NASS). NASS electronically collects individual subsystem information (see Table 2 below) about PHA’s in four areas and produces a composite PHA score (PHAS).

<b>NASS Sub Systems</b>	<b>What</b>	<b>Why</b>	<b>Filing Deadlines (When)</b>	<b>How</b>	<b>Result</b>
<b>PASS</b>	Physical inspections of all public housing	Ensure that all HUD assisted properties provide decent safe and sanitary housing for tenants	Annually – three months prior to fiscal year end for public housing	HUD trained inspectors use hand-held computers to inspect more than 500 condition points. Inspection results transmitted electronically to REAC.	REAC scores and reports results to agencies, owners and HUD staff via the Internet. Owners are required to complete needed repairs
<b>FASS</b>	Assessment of the financial condition of all public housing agencies.	Determine the financial soundness of PHAs.  Verify compliance with HUD financial regulations.	Unaudited due August 31 <sup>st</sup>  Audited statement due annually within nine months of fiscal year end. (March 31 <sup>st</sup> )	CPAs assist agency management to electronically submit audited financial statements to REAC in a required format based on GAAP	REAC scores and reports results via Internet to agencies, owners and HUD staff. HUD makes non-compliance referrals to its Troubled Agency Recovery (TARC) or Enforcement Centers (DEC)
<b>RASS</b>	Survey of resident satisfaction with living conditions in public housing	Give residents a voice in operation of public housing	Annually – three months prior to the PHA’s fiscal year end	A statistically valid sample of residents are selected to receive anonymous questionnaire	REAC scores and reports results via the Internet to agencies. PHAs are required to draft a Follow-Up Plan to address resident concerns
<b>MASS</b>	Assessment of the management operations of all Public Housing Agencies	Measure key management operations and responsibilities of Public Housing Agency for the purpose of assessing the PHA’s management operations	Annually – not later than 60 days after the end of the Public Housing Agency’s fiscal year	PHAs electronically submit HUD/ REAC a certification on its performance	REAC scores and reports results via Internet to agencies and the HUD staff  HUD makes referrals to its Troubled Agency Recovery Center

**Table 2 - NASS**

According to REAC staff<sup>12</sup>, the FY2006 Pinal County Housing Department’s unaudited FASS was approved by HUD on August 28, 2006. However, the FY2006 *audited* FASS, due by March 31, 2007, was filed on April 1, 2007 but was rejected by HUD on May 2, 2007 and Housing did not re-file the FDS until March 4, 2008. Consequently, Housing received a FASS score of zero and a notice of Late Presumptive Failure <sup>13</sup>(LPF). During a scheduled biennial PHAS assessment in 2007 REAC designated Housing a **troubled financial performer**. The composite Public Housing Assessment System (PHAS) score for the Pinal County Housing Department was 54 points (FASS/0; MASS/22; PASS/23; and RASS/9). The following table (Table 3) illustrates the point system for the PHAS scoring system.

Financial FASS	Management MASS	Physical PASS	Resident Satisfaction RASS	Total possible PHAS Score
30 points	30 points	30 points	10 points	100 points
PHA Designation Status	Scoring Criteria			
High Performer	A PHA that achieves a score of at least 60% of the points available under each of the four PHAS indicators and achieves an overall PHAS score of 90% or greater of the total available points			
Standard Performer	A PHA that achieves a total PHAS score of not less than 60% of the total points available and does <b>not</b> achieve 60% of the total points available under FASS, PASS, or MASS			
Troubled in One Area Substandard Performer	A PHA that achieves less than 60% of the total points available under only one of the indicators (PASS, <b>FASS</b> , or MASS) is considered a substandard performer in that area. <b>The Pinal County Housing Department has been designated a Substandard (Troubled) Financial (FASS) Performer <sup>14</sup></b>			
Overall Troubled Performer	A PHA that achieves an overall PHAS score of less than 60% or achieves less than 60% of the total points available under more than one of the following indicators; MASS,PASS, FASS, is considered an overall troubled performer.			
Capital Fund Troubled	A PHA that receives less than 60% of the maximum calculation for the Capital Fund sub-indicator under MASS			

**Table 3 - Scoring Criteria for PHAS**

**If a PHA is a High Performer:** It is eligible for a Capital Fund Bonus and may skip a year for required physical inspection and PHAS assessment.

<sup>12</sup> M. Dantzler REAC Assessment Manager

<sup>13</sup> LPF will not be issued for 2008 for any PHA’s and may not be issued in 2009

<sup>14</sup> The most recent Troubled Performer Status was issued in 2009 for the 2007 Audited FDS late presumptive filing

**If a PHA is a Standard Performer:** It is eligible to undergo a PHAS every other year. Must still annually file a FASS but exempt from MASS, PASS, & RASS every other year.

**If a PHA is a troubled performer:** It is referred to a Troubled Agency Recovery Center (TARC) for assistance.

**If a PHA is troubled for two years:** It is referred to a Departmental Enforcement Center (DEC), which may lead a PHA to be suspended or debarred.

Upon designation as troubled, PHA's are referred to the Troubled Agency Recovery Center (local HUD office) for long-term intensive assistance in raising performance level. The TARC requires a troubled PHA to prepare a Memorandum of Agreement (MOA) that binds the PHA to commit to actions that lead to its recovery. The scope of the MOA may vary depending upon the extent of the problems identified in the PHA; however, the TARC may impose budget and/or management controls on a PHA. If a PHA is troubled for two years it may be referred to the Departmental Enforcement Center (DEC) and may be suspended or debarred.

At this time, the Pinal County Housing Department has been referred to the HUD Phoenix Field Office for assistance. On April 1, 2009, Housing entered into a Memorandum of Agreement (MOA) with the U.S. Department of Housing and Urban Development to "substantially improve" the Housing Authority's PHA score. According to the agreement, HUD will provide technical assistance to the PHA, and the PHA agrees to comply with OMB Circular A-133 and REAC requirements for electronic submission of the financial statements,

including all deadlines (see subsequent events, page 21-24). The first filing deadline for the unaudited FY09 Financial Data Schedules (FDS) in the FASS is August 31, 2009.<sup>15</sup>

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<sup>15</sup> <http://www.nm-nahro.org/pdf/planningCalendar.pdf>

# SUMMARY OF AUDIT FINDINGS AND RECOMMENDATIONS

## Overall Conclusion

As a result of our review, we determined that management's internal control over Housing Department programs is not adequate to ensure compliance with federal grant reporting requirements, or the timely and accurate reporting of program financial information. We identified weaknesses in the following areas of management responsibility:

- Knowledge and understanding of critical department responsibilities and federal grant compliance requirements
- Planning and preparedness for timely completion of critical duties and compliance with federal grant requirements
- Recruiting and hiring for key staff positions
- Communicating to management and staff the responsibilities of their positions
- Addressing known deficiencies or problems in a timely manner
- Adequate supervision and review of management and staff activities
- Training/cross-training of management and staff for key responsibilities and operation of critical information systems
- Establishing MFR measures that address key fiscal responsibilities and deadlines, which are central to the continuity of services to Housing's customers

The following report identifies areas of Housing operations that need improvement.

## **A. No Comprehensive Written Department Policies and Procedures**

The Pinal County Housing Department has not developed comprehensive written policies and procedures for its essential processes. Strong internal control systems should include comprehensive written policies and procedures, an appropriate review process for financial reports, adequate cash management procedures (including reconciliations), a system to resolve problems to ensure resolution, and the physical safeguarding of assets. Finding 07-104 in the FY 2007 Single Audit<sup>16</sup> Report specifically notes the Department's lack of written policies and procedures.

During our examination we found that Housing has begun to develop some written procedures, but has not developed comprehensive written policies and procedures for essential processes. For example, we determined the lack of written policies and procedures explaining grant financial filing procedures contributed to the department's lack of preparedness, and resulted in the late filing of required grant financial data schedules (FDS). Late financial filings resulted in HUD declaring the Pinal County Housing Department a 'substandard financial' performer.

Written policies and procedures for critical department activities, including monitoring for grant compliance, are essential. Written policies and procedures allow employees to understand their roles and responsibilities. Written procedures can protect the institutional knowledge of an organization when experienced employees leave; help provide training and process information for new employees; and help prepare an organization for an external

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[http://www.azauditor.gov/Reports/Counties/Pinal/Financial\\_Audits/Single\\_Audit\\_June\\_30\\_2007/Pinal\\_Cty\\_6\\_30\\_2007\\_SA.pdf](http://www.azauditor.gov/Reports/Counties/Pinal/Financial_Audits/Single_Audit_June_30_2007/Pinal_Cty_6_30_2007_SA.pdf)

audit assessment of internal controls over programs. Comprehensive policies and procedures should include, but not be limited to, assigned responsibilities, expected approvals, authorizations, verifications, reconciliations, monitoring, security of assets, and explanations of segregation of duties. The Department should also conduct periodic reviews of department policies and procedures to ensure they are regularly updated.

**Recommendations:**

1. *The Pinal County Housing Department Director should ensure comprehensive written policies and procedures for all essential department activities are developed immediately.*
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.*

**B. Training for Essential Job Functions**

Pinal County Housing Department employees are not sufficiently knowledgeable about essential job duties and have not received adequate training to properly perform the duties of their positions. Department employees are also not adequately cross-trained to perform essential functions of key positions.

Cross-training of essential job functions involves teaching an employee, who was hired to perform one job function, the skills required to perform other job functions. For a small department with limited resources, cross-training is essential and offers a number of benefits.

It allows for greater scheduling flexibility and the ability to seamlessly continue operations if a key employee, whose job requires specific technical skills or knowledge of operations, voluntarily separates, requires a leave of absence, or retires.

The Single Audit Report for FY07 cited seven (7) findings for the Pinal County Housing Department. Five of the seven findings involved the areas of finance and accounting responsibilities.

The former Housing Department Finance Director, responsible for the finance and accounting processes during the first half of FY07, retired on January 31, 2008. Per staff interviews, a temporary Administrator I employee, hired only two days prior, was provided six hours of training before assuming the Housing Finance Director's duties.

According to the Independent Public Accountant (IPA), who was retained to file the audited FY07 Financial Data Schedule (FDS) with HUD, the current finance staff was unable to accurately compile financial information needed for the FDS. The IPA immediately informed the Housing Director of the difficulty obtaining accurate financial data and of his inability to file a timely required report. No immediate action was taken. The FY07 report, due March 31, 2008, was filed on May 15, 2009; however, the FY08 report, due April 27, 2009, has not been filed. We were unable to ascertain the effect these late filings will have on the Pinal County Housing Department. HUD will ultimately determine any future consequences.

Additionally, Housing finance staff has been unable to provide requested, and necessary information, to the County's Finance Department and the State Auditor General Single Audit staff, contributing to the late release of the FY08 Pinal County Comprehensive Annual Financial Report (CAFR) and the FY08 Single Audit Report.

One of the seven findings for Housing in the FY07 Single Audit Report cited inadequate Section 8 program filings. The Section Eight Management Assessment Program (SEMAP) is an assessment that measures 14 key areas of the Section 8 program and is required to be filed within two months following the fiscal year end of June 30<sup>th</sup>. The sole employee trained and responsible to electronically file<sup>17</sup> SEMAP information with HUD left the Department on April 24, 2007. The remaining employees had insufficient time to properly learn, and understand, how to use the Public Information Center (PIC) computer application system before the filing deadline of August 31, 2007. As a result, a subsequent confirmatory review conducted by HUD on August 13-15, 2008 resulted in the following four (4) findings and two (2) concerns.<sup>18</sup>

Findings:

1. The PHA did not verify eligibility criteria for placement on the waiting list
2. The PHA does not document manual verification of computer calculations for Total Tenant Payments (TTP).
3. The PHA is not notifying owners within 24 hours of life threatening deficiencies (AC or heat turned off, etc.)
4. The PHA staff does not calculate the family's share of rent to owner correctly.

Concerns:

- A. Assessment, Quality Control and Administrative Plan files are inconsistent.
- B. PHA has not cleared old late inspection data and/or errors from PIC.

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<sup>17</sup> Using the PIC application on the HUD site; <http://www.hud.gov/offices/pih/systems/pic/about/>

<sup>18</sup> September 25, 2008 Confirmatory Review, conducted by HUD Phoenix Field office

*Recommendations:*

3. *The Housing Department Director should ensure all employees are knowledgeable about essential duties and properly trained for key positions. Written documentation should be maintained for all training completed.*
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.*

**C. Planning for Key Personnel Retirement**

The Pinal County Housing Department has not adequately prepared for the retirement of key personnel. Additionally, job descriptions do not adequately prescribe essential knowledge, experience and educational attainment necessary to successfully fulfill the responsibilities of key positions.

In the FY 2007-2008 Pinal County Adopted Budget<sup>19</sup>, the Housing Department Director stated one of the department goals for the year was to, “Begin (the) replacement process for retiring Housing Division Finance Director and complete by June 2007.” On January 31, 2008 the Housing Division Finance Director retired with no replacement hired. A temporary Administrator I, hired two days prior, assumed the job duties of the Finance Director’s position and, on September 8, 2008, was promoted to an Accountant III and named Finance

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<sup>19</sup> Department Directors submitted budget request by March 3, 2007

Supervisor. We noted the job description used to recruit and fill the vacant Housing Finance Director's position (Accountant III) does not require an applicant to have an accounting degree or any experience with federal Housing and Urban Development (HUD) programs. There is also no requirement that an applicant have knowledge of the federal financial reporting process or experience/proficiency with the Lindsey Software System,<sup>20</sup> used to maintain Housing's accounting information. During our audit we reviewed Maricopa and Yuma County Housing Authorities' job descriptions for comparable positions and found detailed qualifications, including specific HUD program experience, are required. See Table 4 on the following page.

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<sup>20</sup> <http://www.lindseysoftware.com/company/>

Housing Authority	Total Staff	Housing Units	Section 8 Voucher	Grant Coordinator /Writer	Qualifications of Personnel Finance/Accounting/Grant Writing	Designation
Chandler	21	303	481	Accountant manages the financial needs of all grants. Grant Coordinator manages the Capital Fund Program.	<b>Accountant-</b> Bachelor's Degree in Accounting or a related field; and a minimum of four (4) years progressively responsible professional accounting experience including previous experience with HUD programs. <b>Grant Coordinator-</b> City of Chandler maintains a Grant Coordinator position that requires experience in grant compliance.	High Performer
Maricopa County	60	788	1483	Maricopa has a Grant Writer and Grant Compliance Coordinator on staff	<b>Finance/Deputy Director-</b> Bachelor's degree and 5 years of accounting experience, including 2 years experience with a public housing agency <b>Grants Compliance Coordinator-</b> Bachelor's degree and 3 years of office administration, post-award grants management and compliance experience	Standard Performer
Flagstaff	21	264	333	Executive Director manages grants	<b>Finance/Accounting</b> —Equivalent to a Bachelor's degree from an accredited college or university with major coursework in accounting, finance, public or business administration or a related field.	High Performer
City of Yuma	31	235	1123	Grant writing performed by the Housing Program Manager	<b>Finance Manager-</b> Bachelor's degree in Accounting, Finance, Business Administration or a closely related field and three years of HUD accounting, bookkeeping or closely related responsibilities that included at least one year of supervision/supervisory responsibilities <b>Housing Program Manager-</b> Bachelor's degree in Social Work, Human Services or closely related field and three years of progressively responsible program management, grant funding, social services, community services, and/or housing-related work or closely related responsibilities	High Performer
Pinal County	32.5	169	584	No coordinated grant monitoring process	<b>Accountant III-</b> Bachelors in Accounting, Finance or a related field. <b>Experience:</b> Four years of experience in accounting or closely related field (relevant experience may be substituted for aforementioned education) <b>Grants Coordinator-</b> CDBG program only	Troubled Performer

Table 4 – Housing Authorities

Additionally, we learned that current Pinal County personnel practice does not allow a Department Director to fill a position until the position is vacant. However, a waiver may be requested for key positions, such as the Housing Finance Director.

**Recommendations:**

5. *The Pinal County Housing Director should identify key positions requiring applicants to have specific regulatory 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.*
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 key staff member.*

**D. Federal Grant Monitoring Process**

The Housing Department does not have a coordinated process in place to monitor changes in reporting requirements and grant compliance. According to OMB Circular A-133, recipients of federal awards are required to:

- Maintain a system of internal control over all federal programs in order to demonstrate compliance with pertinent laws and regulations.

- Identify all grant programs by Catalog of Federal Domestic Assistance (CFDA) number and title, awarding agency, year of award, and any pass-through entities if applicable.
- Ensure that audits mandated under OMB Circular A-133 are performed and filed with appropriate federal entities as required.
- Follow up on any audit findings, questioned costs, or compliance issues. This involves specific responses and, when necessary, taking corrective action that will resolve current and/or previous findings.<sup>21</sup>

Six (6) of the seven (7) findings in the FY07 Single Audit report issued by the Arizona Auditor General's office were directly related to weaknesses identified in grant compliance and monitoring processes. According to current job descriptions, these activities are the responsibility of the Housing Department Director; however, at this time there does not appear to be any formal procedures in place to accomplish these objectives. During our audit we reviewed staffing at other housing agencies and found, in some instances, the position of Grants Compliance Coordinator, or Grants Specialist fulfilled these responsibilities.

**Recommendations:**

- 7. The Pinal County Department of Housing Director should direct program managers to establish a coordinated grant monitoring process and assign overall compliance monitoring responsibilities to a designated employee.*
- 8. The 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. the accurate and timely preparation of a Schedule of Expenditure of Federal Awards (SEFA)).*

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<sup>21</sup> <http://harvester.census.gov/sac/cfopamphlet.pdf>

9. *The Director, and the designated employee, should regularly contact HUD, NAHRO (National Association of Housing and Redevelopment Officials), and high-performing housing authorities, to review best practices in place to monitor grant compliance.*

#### **E. Password Policy and Audit Trail Review**

The FY07 Single Audit report conducted by the Arizona Auditor General's office noted several internal control weaknesses with the Housing Department's accounting system. During our audit we noted system hardware weaknesses have been remedied and department servers have been secured in a climate controlled environment. The Housing Department has also established an adequate disc backup process to ensure the security of recorded data, and is in the process of developing written policies and procedures to ensure access privileges granted to employees are appropriate. However, there are no written policies and procedures requiring a regular review of the audit logs embedded in some modules and, after speaking with system users, we determined the Department does not have a strong password policy for the accounting system access.

Any organizational security policy should include a strong password policy for critical system access. Microsoft recommends a password length of, at least, eight (8) characters and encourages the practice of incorporating various symbols from across the entire keyboard. According to a Microsoft article entitled, "Strong Passwords: How to create and use them," published March 22, 2006,<sup>22</sup> the fewer types of characters in your password, the longer it must

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<sup>22</sup> <http://www.microsoft.com/protect/yourself/password/create.msp>

be. “A 15-character password composed only of random letters and numbers is about 33,000 times stronger than an 8-character password composed of characters from the entire keyboard. If you do not create a password that contains symbols, you need to increase the characters considerably longer to get the same degree of protection. An ideal password combines both length and different types of symbols.” The National Institute of Standards and Technology also publishes guidance on strong password policies<sup>23</sup>.

*Recommendations:*

10. *The Housing Department Director, and appropriate department management, should develop a strong password policy for system access.*
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.*
12. *The Housing Department Director should develop a policy to require a regular review of accounting system audit logs.*

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<sup>23</sup> <http://www.itl.nist.gov/fipspubs/fip112.htm>

## SUBSEQUENT EVENT REPORT COMMENTS

### **Pinal County Single Audit – FY08 Equipment and Real Property Management – Inventory**

On May 27, 2009 the Arizona Auditor General released the Pinal County FYE June 30, 2008 Single Audit report. The report identified nine (9) findings and questioned costs within the Pinal County Department of Housing and related programs. One finding identified in the report, #08-108 *Equipment and Real Property Management*, is considered a **significant deficiency**<sup>24</sup> in internal control over compliance requirements. The finding states the Department “did not maintain an accurate capital asset listing.” During our audit we confirmed that assets listed on the Department of Housing internal computer system did not match the County asset listing; however, we believe the responsibility to correctly record assets on countywide financial statements is shared by both the Housing and Finance Departments. Any corrective actions, by necessity, must include changes to the County’s current asset tracking system. Procedures for asset management should include appropriate communication with the County Finance Department, to ensure all assets are expediently recorded and correctly capitalized in the County financial system.

#### **Recommendation:**

- 13. The Housing Department Director should develop written policies and procedures for comprehensive asset management.*

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<sup>24</sup> [http://www.aicpa.org/Professional+Resources/Accounting+and+Auditing/Authoritative+Standards/auditing\\_standards.htm](http://www.aicpa.org/Professional+Resources/Accounting+and+Auditing/Authoritative+Standards/auditing_standards.htm)

## **Pinal County Single Audit – FY08**

### **Effects of Adverse Opinion on Housing's Troubled Performer Status and non-compliance with the HUD-Housing Memorandum of Agreement**

The Federal Department of Housing and Urban Development (HUD) Real Estate Assessment Center (REAC) measures the management performance of Public Housing Authorities (PHA) using the Public Housing Assessment System (PHAS) and issues a designation of high, standard or troubled performer. HUD monitors PHA performance to determine eligibility to continue as a HUD contractor. Unless a small agency is designated a troubled performer, this assessment is conducted every two years.

The Pinal County Housing Department (Housing) was issued a Late Presumptive Failure (LPF) notice for failure to file an approved audited Financial Disclosure Statement (FDS) for FYE June 30, 2006. This resulted in a FASS (Financial Assessment) score of zero. During HUD's regular two-year PHAS assessment in 2007, Housing received a PHAS score of 53 out of 100 points due to the zero FASS score. Based on this score, Housing was designated a Substandard Financial Performer. By law, when a PHA has been designated a troubled performer, REAC must refer the PHA to the area Troubled Agency Recovery Center (TARC). Housing has been assigned to the Phoenix HUD (the area TARC) and has signed a Memorandum of Agreement (MOA) with the office. The agreement is in full force from April 1, 2009 to March 31, 2010 and requires the Housing Department to file all required financial reports accurately and in a timely manner and comply with all requirements of OMB Circular A-133, known as the Single Audit Act.

According to the MOA, failure to achieve any of the MOA terms may result in HUD's imposition of sanctions, **“such as the imposition of management budget controls by**

**HUD, declaration of substantial default and subsequent action including, but not limited to, the appointment of a receiver, or other actions deemed appropriate by HUD.”**

In addition to the possible repercussions of inaccurate and untimely filing of Housing’s financial reports, page 2, paragraph 5 of the MOA requires “The Executive Director of the PHA shall provide to HUD staff a written progress report ...:” Page 3, section 3.5 of the MOA requires the Housing Director to, “Submit monthly progress (on each target and strategy) by the 15<sup>th</sup> of the month for the previous month.”

At the time this report was written, the Director had failed to submit **any** monthly progress reports to HUD and was behind two months in monthly filings.<sup>25</sup>

Page 2, Section 7, of the MOA states, “A substantial default of this agreement will occur if HUD determines that the PHA has failed to meet any of the terms of...this MOA.. Such failure specifically includes...failure to provide written progress reports required under paragraph 5.”

Page 2, paragraph 8 states, “ Failure...to achieve...any of the terms of this MOA may result in HUD’s imposition of sanctions such as; the imposition of management budget controls by HUD; declaration of substantial default and subsequent actions; including but not limited to the appointment of a receiver...”

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<sup>25</sup> June 18, 2009 Phone call with Phoenix HUD program Center Coordinator. The Housing Director provided written copies of reports at the audit exit conference.

Also, in the FY08 Single Audit Report, Housing received an Adverse Opinion. An adverse opinion is an automatic zero on a possible score of 30 for the FASS portion of the PHAS. If Housing again falls below 60 of 100 points on their combined PHAS score<sup>26</sup> they will, again, be designated a troubled performer by REAC.

Continual troubled ratings can result in a PHA being referred to the HUD Departmental Enforcement Center (DEC) and eventually suspended or debarred. In 2009 HUD DEC issued 48 suspensions, 50 proposed debarments and 45 final debarments. HUD will not approve any PHA funding application (Annual Contributions Contract) if HUD determines the PHA is debarred or disqualified from providing assistance. Currently, HUD provides millions of dollars in housing assistance to Pinal County residents.

**Recommendations:**

***14. The Housing Director should immediately comply with all MOA requirements.***

***15. The Housing Director should ensure all reports are accurate and filed on time.***

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<sup>26</sup> FASS (30/financial), PASS (30/physical), Mass (30/management), RASS (10/residential)

**Attachments:**

Exhibit A            Housing Department Organizational Chart

Exhibit B            Management Response and Action Plan

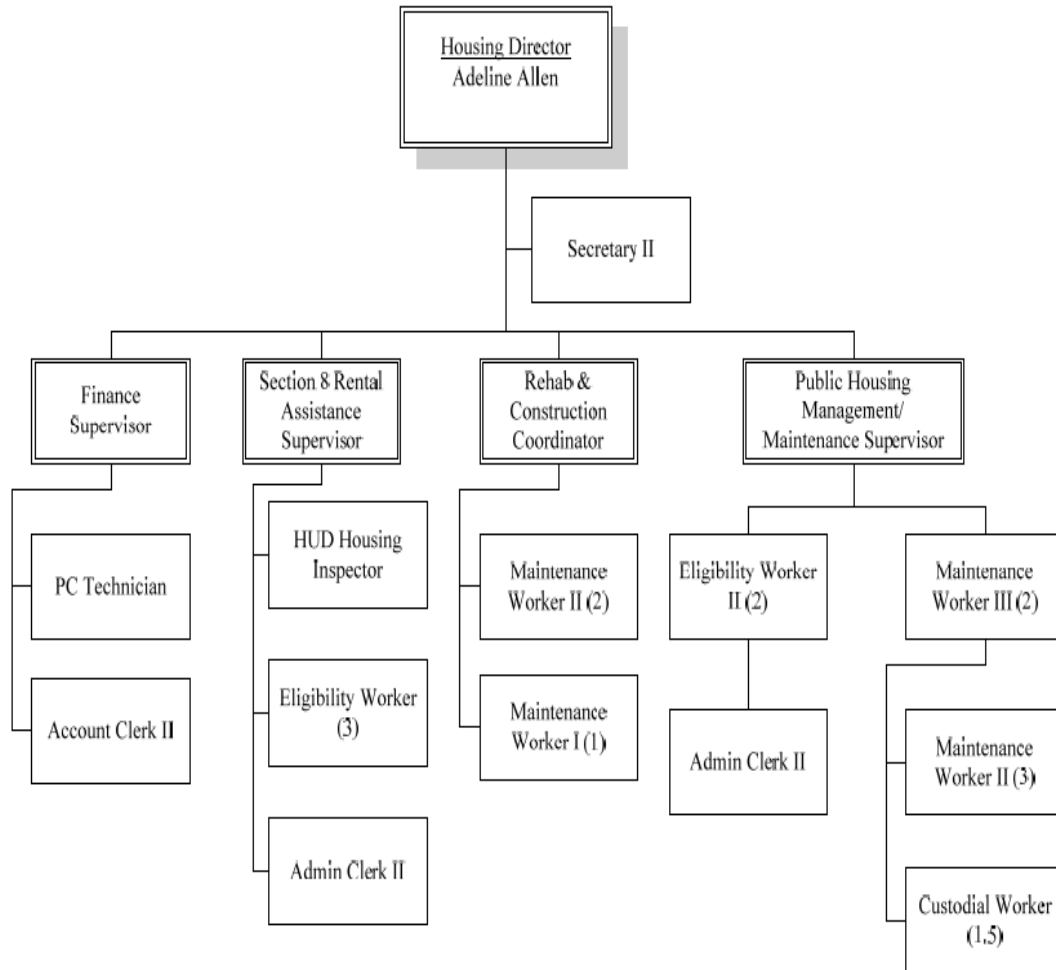
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Exhibit A  
ORGANIZATIONAL CHART

**Housing Division**  
**Adeline Allen, Director**



**Exhibit B**  
**Audit of Pinal County Housing Department**  
**Management Response and Action Plan**

Audit Recommendation	Concur (Yes or No)	Management's Response and Action Plan	Target Date	Individual Responsible
1. The Pinal County Housing Department Director should ensure comprehensive written policies and procedures for all essential department activities are developed immediately.	Yes	Director and Supervisors will identify and prepare written policies and procedures for all essential department activities.	1/1/10	Director
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.	Yes	Director will require Supervisors' review of department policies and procedures to ensure updates.	Quarterly after 1/1/10	Director
3. The Housing Director should ensure all employees are knowledgeable about essential duties and properly trained for key positions. Written documentation should be maintained for all training completed.	Yes	Training is provided as available and will continue within financial constraints. Written documentation will be maintained in a training file as well as employee's personnel file.	Ongoing as funds available	Director
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.	Yes	Essential job functions will be identified to ensure program personnel are cross-trained for essential functions.	Immediately Completion of cross training by 1/1/10	Director
5. 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.	Yes	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.	8/1/09	Director
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.	Yes	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.	30 days prior to a key employee leaving, when adequate notice is provided	Director

Audit Recommendation	Concur (Yes or No)	Management's Response and Action Plan	Target Date	Individual Responsible
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.	Yes	We will revisit how program managers are monitoring compliance of our programs. A tracking system will be developed to review overall compliance.	10/1/09	Director
8. The 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)	Yes	SEFA preparation will be conducted in compliance with County policy and reported by established deadlines.	In place	Director
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.	Yes	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.	In place and ongoing	Director
10. The Housing Department Director, and appropriate department management, should develop a strong password policy for system access.	Yes	The Director will assign staff to work with IT to develop a strong password policy for all employees accessing our data systems	9/1/09	Director
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.	Yes	Barring no restrictions we will implement a strong password policy for access to our software applications.	9/1/09	Director
12. The Housing Department Director should develop a policy to require a regular review of accounting system audit logs.	Yes	A policy will be developed to conduct regular reviews of accounting system audit logs. Logs will be regularly reviewed by the Director and staff	9/1/09	Director
13. The Housing Department Director should develop written policies and procedures for comprehensive asset management.	Yes	A written policy will be developed to ensure assets are managed in accordance with HUD guidelines and audit requirements.	11/1/09	Director
14. The Housing Director should immediately comply with all MOA requirements.	Yes	The Director is currently in compliance with terms of MOA within our control. We await a response from HUD on our FDS reports.	In Compliance	Director

Audit Recommendation	Concur (Yes or No)	Management's Response and Action Plan	Target Date	Individual Responsible
15. The Housing Director should ensure all reports are accurate and filed on time.	Yes	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