



Housing Department

Internal Audit

December 2014

Bernalillo County Internal Audit Housing Department

Executive Summary

SUMMARY OF PROCEDURES

REDW performed an internal audit over the Bernalillo County Housing Department. Our internal audit focused on testing internal controls for various processes, including whether system access was assigned appropriately and whether financial activity was recorded accurately. Additionally, we evaluated processes and controls in place for compliance with selected funding agency requirements.

We performed the following procedures:

- Obtained an understanding of operational procedures through reading relevant Housing Department documents provided and interviewing various personnel;
- Tested access to the Emphasys Elite system to determine if access granted was appropriate based on position and function and that access was disabled timely;
- Gained an understanding of the process to record financial data and determined if a sample of financial data was recorded accurately and timely;
- Tested a sample of expenditures to determine if they were sourced through proper procurement procedures and were approved for eligible expenditures outlined in funding agreements; and,
- Tested a sample of homeowners that participated in the Home Rehabilitation Program to determine if they were eligible for rehabilitation services, related expenditures were eligible and required documentation was maintained.

SUMMARY OF OBSERVATIONS AND RECOMMENDATIONS

We found areas during the course of the audit where controls were functioning properly and established procedures were followed. SAP financial data obtained from the County's Accounting Department was properly validated and reviewed prior to posting to the Emphasys Elite system. Procurement procedures were followed for the expenditures tested, and the Home Rehabilitation Program was conducted in accordance with selected funding agency requirements.

Significant high and moderate risk observations are presented below:

- **System access and sensitive information**—The Emphasys Elite system uses social security numbers as record identifiers, which are not masked for any tenant and some landlord records. Additionally, five of 46 users were no longer working at the Housing Department and access had not been updated to inactive status.

Lower risk observations are included in the attached detailed report.

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Further detail of our purpose, objectives, scope, procedures, observations, and recommendations are included in the internal audit report. In that report, management describes the corrective action taken for each observation.

We received excellent cooperation and assistance from the Housing Department during the course of our interviews and testing. We sincerely appreciate the courtesy extended to our personnel.

REDW LLC

Albuquerque, New Mexico
February 3, 2015

Bernalillo County Internal Audit Housing Department

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Bernalillo County Internal Audit Housing Department Report

INTRODUCTION

We performed the internal audit services described below solely to assist Bernalillo County in evaluating the internal controls over selected processes relating to the Housing Department. Our services were conducted in accordance with the Consulting Standards issued by the American Institute of Certified Public Accountants, Generally Accepted Government Auditing Standards, and the terms of our contract agreement for internal audit services. Since our procedures were applied to samples of transactions and processes, it is possible that significant issues related to the areas tested may not have been identified.

An entrance conference was held on December 8, 2014, at which time most items needed for the audit were requested and had been received. Fieldwork began the week of December 8, 2014. An exit conference was held on January 30, 2015, and final management responses were received on February 3, 2015.

Although we have included management's responses in our report, we do not take responsibility for the sufficiency of these responses or the effective implementation of any corrective action.

PURPOSE AND OBJECTIVES

Our internal audit focused on evaluating selected processes over the Housing Department to determine if those processes were in compliance with policies and procedures (P&Ps), applicable regulations, and reflected best practices and sound internal controls. We evaluated the adequacy and reasonableness of the internal controls surrounding appropriateness of system access controls and accurate recording of financial activity. Additionally, we evaluated processes and controls in place for compliance with selected funding agency requirements.

SCOPE AND PROCEDURES PERFORMED

In order to gain an understanding of the processes and operations surrounding the Housing Department, we interviewed the following personnel:

- Jackie Sanchez, Interim Financial Projects Coordinator
- Marilyn Ayala, Homeownership Program Coordinator
- Lisa Robles, Financial Specialist – Housing
- Irma Lopez, Financial Specialist – Housing
- Mark Garcia, Housing Rehabilitation and Construction Coordinator
- Patrizo Lucero, Housing Support Specialist
- Betty Valdez, Housing Director

In order to understand policies and procedures over the Housing Department we read relevant portions of:

- Procedures to import SAP data to the Emphasys Elite system;
- Capital Fund Program agreement between the Housing Department and the Department of Housing and Urban Development (HUD) for fiscal years 2013 and 2014; and,
- House by House Reservation Program agreement for home rehabilitation between the Housing Department and the New Mexico Mortgage Finance Authority for fiscal years 2013 and 2014.

We performed the following testwork:

System Access: Bernalillo County uses the Emphasys Elite system software to track all data for the Housing Department. We obtained a user listing from the system with access authority levels. We compared the system listing of users to the listing of employees obtained from the County's Human Resource Department to determine that access granted by authority level appeared appropriate based on the employee's position and function for all 46 active users. We performed data analysis procedures to confirm that no duplicate users were identified.

Transfer of SAP financial data to Emphasys Elite: We gained an understanding of the training conducted and procedures documented to transfer SAP financial data to the Emphasys Elite system. We also obtained the financial data from the months of September, October and November 2014 from both SAP and the Emphasys Elite system to determine that the SAP financial data was imported to Elite timely, validation of data was performed and differences identified were resolved prior to the import into Emphasys Elite. Additionally, we determined that the journal entry was reviewed and posted by an independent qualified reviewer and amounts in the journal entry agreed to amounts from the SAP data provided.

Procurement process and expenditures: We obtained the detail of transactions for fiscal year 2014 listed in HUD Required Financial Data Schedule and selected expenditure line items that would not likely be covered in the external audit. We selected a judgmental statistical sample of 25 expenditures (based on 90% Confidence Level (CL) and 10% Tolerable Deviation (TD) from a total population of 341 expenditures) to determine that the proper procurement process was followed, activity detailed on the invoice or contract included sufficient detail to be properly

allocated among the categories included on the Financial Data Schedule. Additionally, for expenditures that were applicable to either the Capital Fund Program or the Rehabilitation Program we determined that funds were spent on eligible costs in accordance with the funding agreement, and that required documentation was completed timely and properly maintained. We also obtained the detail of transactions for the fiscal year 2014 Capital Fund Program and tested to determine that no more than 20 percent was spent for operating expenditures as required by the funding agreement.

Rehabilitation Program: We obtained a listing of homeowners that received assistance for the home rehabilitation program (five were approved between June 2013 and May 2014) and selected a judgmental sample of two homeowners to determine if supporting documentation indicated that applicable eligibility, expenditures, and completion of documentation were in compliance with the funding agency's requirements. Additionally, we tested to determine that administration costs were no more than 3.5% of invoice amount and did not exceed the maximum of \$2,800 for each project as required by the funding agreement.

OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES

We identified the following weaknesses relating to the Bernalillo County's processes:

1) *System access and sensitive information*

The Emphasys Elite system tracks all tenant and some landlord records by unmasked social security number. Whenever a record is accessed sensitive information is available to the user. Users include all Housing Department employees, consultants and interns. Additionally, five of 46 users were no longer working at the Housing Department and access had not been updated to inactive status. For four of the five users, termination dates could not be determined because three were interns, one user could not be identified and the fifth user was terminated three months prior to the audit.

Potential Risk: Moderate—Failure to properly mask tenant and landlord social security numbers creates security risk for those individuals listed in the system. Lack of timely system access removal increases the risk of inappropriate information being accessed.

Recommendation: The Housing Department should investigate options for masking social security numbers or consider options for restricting access to records. Periodic training should be conducted to educate personnel on securing sensitive information. Housing should ensure that employee access is removed upon termination or transfer.

Management's Response

System access

We agree with the auditors' comments in regard to system access and the following corrective action plan will be taken to remediate the situation. The remediation plan will ensure that the Housing Authority removes terminated or transferred employee access upon departure. Training is required according to HUD regulation on an annual basis; to ensure compliance of securing sensitive information.

Corrective action plan

On December 12, 2014 terminated/transferred employee(s) access was disabled by the IT Housing Administrator; upon auditor's observation. A communication process has been established between the Housing Authority personnel responsible for removing terminated or transferred employee system access. The Housing Authority will correlate with established Bernalillo County procedures by completing an Employee Clearance Form specific to temporary and full time employees. The process was implemented effective January 26, 2015.

Sensitive information

We agree with the auditors' comments in regard to unmasked sensitive information comprised of tenant and landlord social security number(s). The Elite software is configured to distinguish respective parties by social security number, according to HUD requirements. Reference the Administrative Plan, chapter (7) which was provided on December 11, 2014, by the Executive Director of Housing Department, via e-mail. The HUD CFR Regulation stipulates as a requirement that housing authorities ensure safeguarding of social security numbers, maintain record of end-users, comply with computer usage regulations, and record keeping. In addition, training is provided to new hire(s) and on an annual basis, to all staff on safeguarding social security numbers. HUD does not require that social security numbers be masked but does require protection of private information. Masking of social security numbers is a preference on behalf of each respective housing authority.

Corrective action plan

The Elite software offers a policy setting feature to mask social security numbers within canned reports, which only exposes the last four digits of the social security number. Bernalillo County Housing Department will enhance safekeeping by adopting the policy setting feature for all canned reports. The IT Housing Administrator will work with Elite support to configure the system, in effort to mask social security numbers.

2) *Recording of financial activity*

The New Mexico Administrative Code (NMAC) Section 2.20.1 requires Bernalillo County to capitalize fixed assets with a cost of \$5,000 or more. One of 25 expenditures tested exceeded the \$5,000 capitalization threshold, but was recorded to the Emphasys Elite general ledger as a repair and maintenance expenditure. This expenditure was for new fencing in the amount of \$19,833.68 and should have been capitalized as a land improvement.

The Department of Housing and Urban Development (HUD) requires the preparation of the Financial Data Schedule (FDS), which is incorporated into the County's Comprehensive Annual Financial Report. The summary trial balance is generated from the Emphasys Elite system to facilitate preparation of the FDS by an independent financial consultant. For fiscal year 2014, nine of 25 expenditures tested in the amount of \$24,670 (which included the fencing referenced above) were not recorded correctly to the general ledger, resulting in inaccurate information reported on the FDS. The total value of the exceptions identified represented 24.5% of the total value of the population tested (\$100,636). Invoices not recorded to the correct general ledger accounts appear to be due to the absence of dedicated financial staff at the Housing Department.

Potential Risk: Low—Failure to properly capitalize assets will result in lower total assets reported on the balance sheet, and assets will not be properly tracked and depreciated as required. Failure to properly classify expenditures to the general ledger will lead to inaccurate information reported on the FDS required by HUD.

Recommendation: Additional and reoccurring training should be performed to ensure that Housing Department personnel that perform financial duties understand the requirements. The existing P&P's should be consolidated, indexed, and reviewed to ensure all necessary information is documented and easy to follow for new staff. The Housing Department should consider filling the open position to have a full time dedicated financial employee to ensure that financial data is recorded accurately and timely to the general ledger.

Management's Response

Capitalization

We agree with the auditors' comments in regard to capitalizing of fixed assets with a cost over \$5,000, referenced under Inaccurate Recording of Financial Activity. According to the New Mexico Administrative Code (NMAC) Section 2.20.1.9, Classification of Fixed Assets; Land improvement such as fencing should be capitalized and asset cost recognized for the life of the asset.

Corrective action plan

The Housing department will adhere to NMAC requirements in properly capitalizing fixed assets with a cost of \$5,000 or more. The Seybold Village Fence indicated in the observation was capitalized January 30, 2015.

Classification of expenditures

We agree with the auditors' comments in regard to the classification recommendation of Contractual Services activity. HUD recommends (not a requirement) for Housing Authorities to record contractual services in alignment with the chart of accounts cross-walk. The recommendation is beneficial to HUD in identifying cost within the states, to measure per unit cost.

Corrective action plan

Bernalillo County Housing Department elects to comply with HUD recommendations and record services in alignment with the cross-walk to sustain consistency of cost measures.

Policies and Procedures

The Housing Department has agreed to consolidate, index, and review the policies and procedures to ensure all necessary information is documented and easy to follow for new staff. Accounting will provide support for Housing until the open positions are filled. Once these positions are filled they will report to the Accounting Department.

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This report is intended for the information and use of Bernalillo County management, the audit committee, members of the Board of Commissioners of Bernalillo County and others within the organization. However, this report is a matter of public record, and once accepted its distribution is not limited.

We discussed and resolved other minor observations with management and received excellent cooperation and assistance from the Housing Department during the course of our interviews and testing. We sincerely appreciate the courtesy extended to our personnel.

REDW LLC

Albuquerque, New Mexico
February 3, 2015