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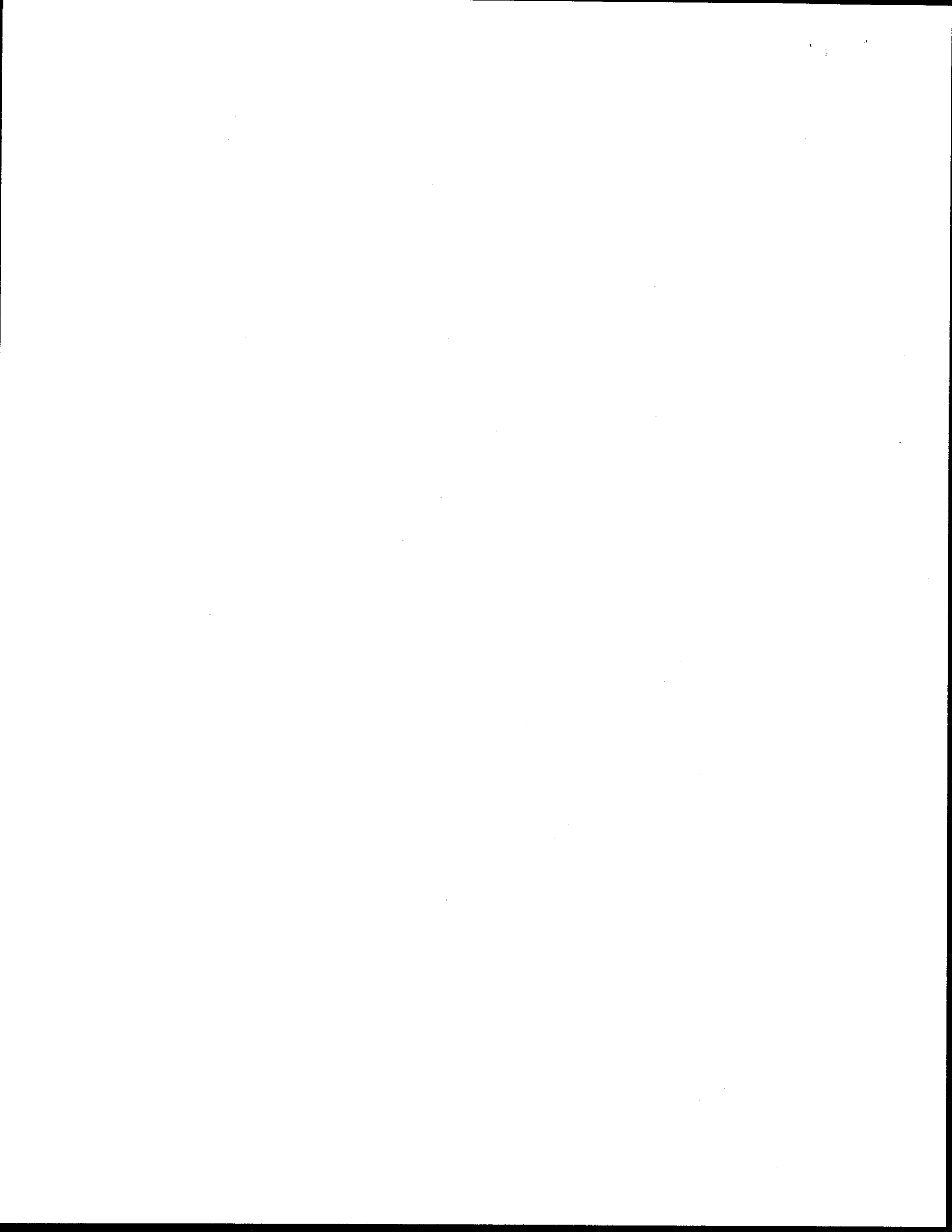
CERTIFIED PUBLIC ACCOUNTANTS | BUSINESS & FINANCIAL ADVISORS



Internal Audit

Housing Department

October 2010



# **Bernalillo County Internal Audit Housing Department**

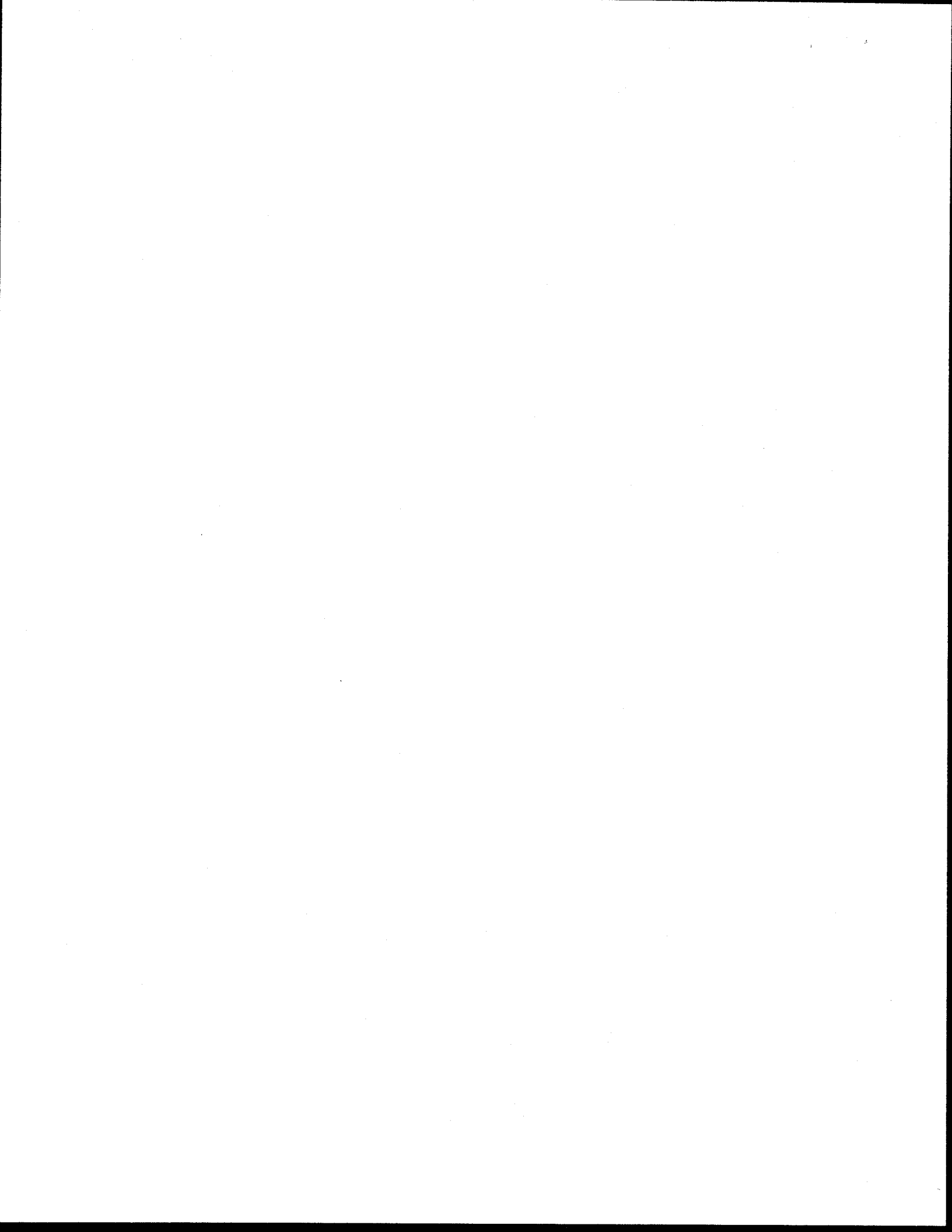
## **Executive Summary**

### **SUMMARY OF PROCEDURES**

REDW performed an internal audit of the Bernalillo County Housing Department (the "Housing Department"). The internal audit focused on evaluating policies and procedures over the Section 8 Voucher Program tenant files and Family Self Sufficiency Program participants. The audit also evaluated the process of entering financial data in the form of journal entries into the accounting system and established whether controls over this journal entry process appear to be adequate and operating as designed.

In order to determine whether policies and procedures are followed and if adequate controls are in place over Section 8 Voucher Program tenant files, Family Self Sufficiency Program participants, and the journal entry process at the Housing Department, we performed the following:

- Read the Housing Department policies and procedures revised 2005;
- Read relevant Housing and Urban Development (HUD) federal regulations;
- Interviewed relevant department personnel;
- Selected a sample of tenant files to test for compliance with certain HUD regulations and the Housing Department policies and procedures;
- Selected a sample of Family Self Sufficiency Program graduates and tested to ensure they were properly enrolled and met the criteria to graduate from the program;
- Selected a sample of rent increase requests and tested them to ensure that a rent reasonableness determination was completed and the rent was properly changed in the system;
- Selected one month of manual journal entries for specific housing programs and:
  - Tested bank reconciliations and the Bernalillo County Finance Department invoice for accuracy;
  - Compared the manually prepared journal entries with the invoices, reconciliations and the trial balance.



- Obtained the quality control worksheets for Housing Quality Standards Department and the Section 8 Voucher Department. Selected a sample and tested for compliance with policies and procedures;
- Selected a sample of housing quality complaints and tested to ensure that an inspection was performed and issues were resolved;
- Obtained the Fiscal Year 2010 housing assistance Payments (HAP)/Utility Allowance Payments (UAP) from the accounting department and:
  - Searched the listing for duplicate payments and tested those that appeared to be duplicate payments to ensure that they were not.
  - Searched the listing for descriptions or names that appeared unusual and selected those items to test that the utility payment was in compliance with applicable policies and procedures.

## SUMMARY OF OBSERVATIONS AND RECOMMENDATIONS

We noted the following:

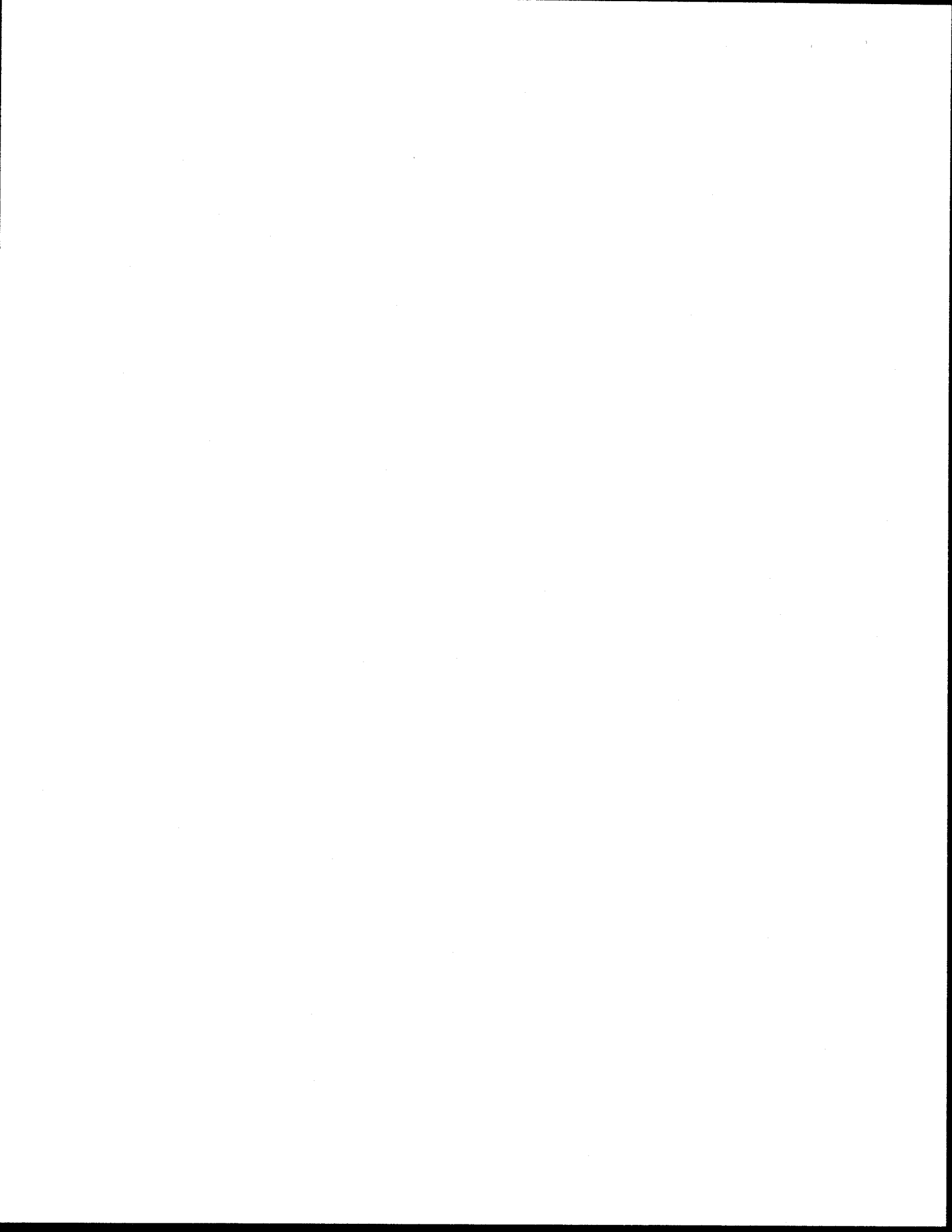
- **Financial reporting** — The Housing Department uses Emphasis Elite to manage its housing programs and accounting functions, while the Finance Department uses SAP. There is no interface between the two programs, so data is manually transferred between the two systems monthly. We recommend automating the process to increase the financial reporting efficiency and reduce the risk of human error.

\* \* \* \* \*

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

*REDW LLC*

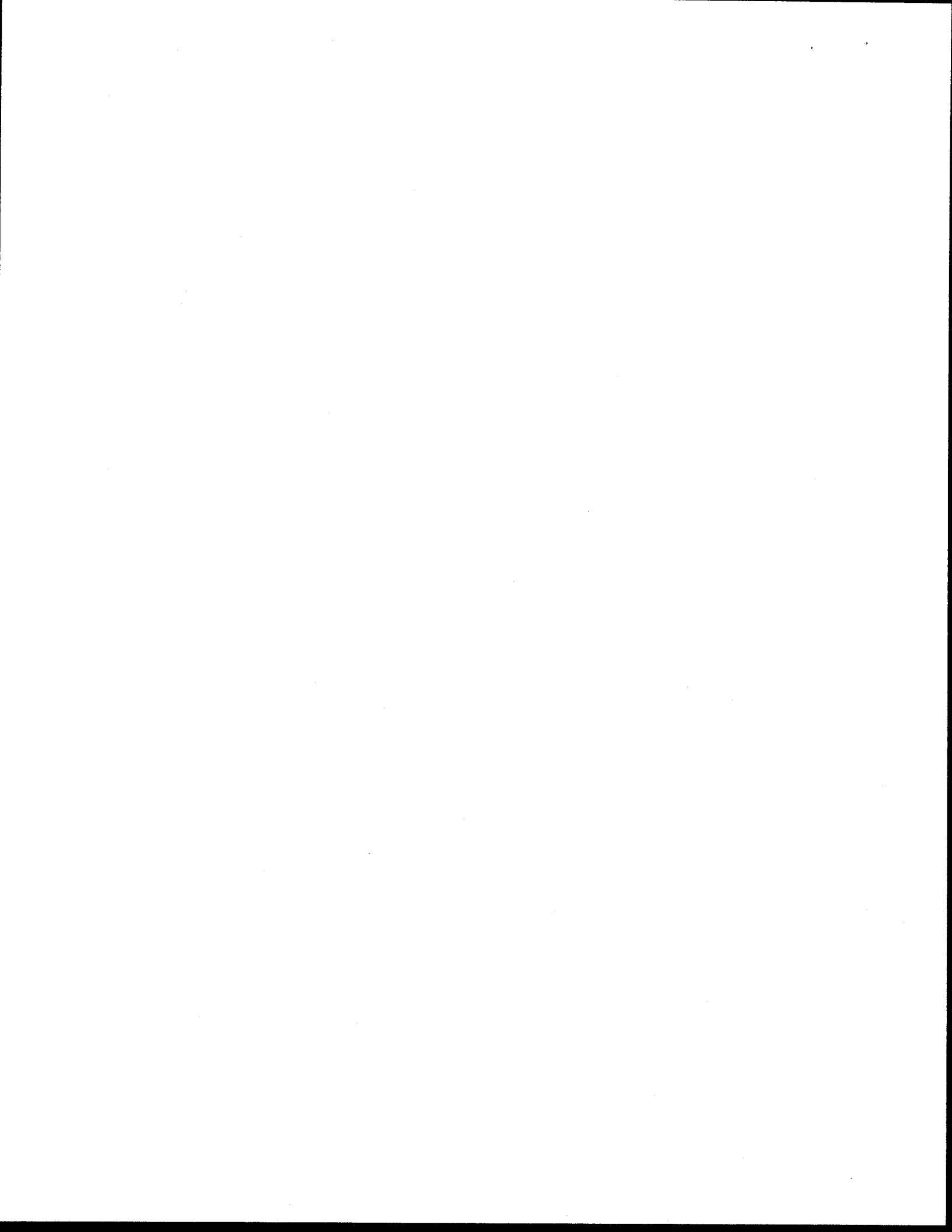
January 20, 2011



# 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 processes and procedures over 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.

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 the Section 8 Voucher Program management of the participant files. This included testing the files for completeness, ensuring rent reasonableness determinations were being completed, and verifying that inspections were being performed when necessary. The audit also evaluated the policies and procedures over the Family Self Sufficiency Program participants who receive payments. The audit also evaluated the Housing Department's process over journal entries and entry into the accounting system.

### SCOPE AND PROCEDURES PERFORMED

**Interviews:** In order to gain an understanding of the processes and controls over operations, we interviewed the following personnel:

- Betty Valdez, Housing Director
- Ruth Lott, Housing Administrator
- Christi Baker, Housing Program Manager



- Patrick Pearson, Housing Inspector Coordinator
- Angeline Perea, Section 8 Housing Specialist
- Monette Lopez, Housing Program Assistant 3
- David Montoya, Accounting Technician Senior
- Lisa Robles, Financial Specialist Housing
- Marilyn Ayala, Housing Family Self Sufficiency Coordinator

**In order to understand Housing Department policies and procedures:**

- We read Housing Department policies and procedures for the Section 8 Voucher Program, Housing Quality Standards Department, and Family Self Sufficiency Program.
- We read relevant Housing and Urban Development federal regulations.

**We performed the following testwork:**

- Selected a statistical sample, based on a 90% confidence level and a 10% tolerable error, of 44 tenant files and for each project:
  - Verified that the tenant file had a completed and signed initial certification packet and the most current recertification packet.
  - Verified that the Housing Department had completed all requirements for the annual recertifications. This included verifying completion of annual inspections, income/household verifications, utility allowances, and submittal of the HUD form 50058.
  - Verified that there were no duplicate payments made to landlords for housing assistance payments or utility allowances during the fiscal year.
  - Traced the April 2010 payments to the bank statement and check register to ensure name and amount agreed to what was in the Elite System.
  - Verified that the tenant and landlord files contained all required documentation. This included the proof of ownership, tax information, housing assistance payment contract, and signed copy of the lease between the tenant and landlord.
  - Tested to determine if the payments were allowable under the grant.
- Selected 5 housing complaints from July 1, 2009 to June 30, 2010 and tested to ensure that the inspection was documented in the tenant file, the inspection was completed within the required time frame, and any issues identified were resolved in the follow-up inspection.
- Selected 5 quality control worksheets between August 1, 2009 and September 30, 2010 for the Section 8 Voucher Program. We also selected 4 housing quality standards assurance reviews from between July 1, 2009 and June 30, 2010 for the Housing Quality Standards Department. We tested the reviews to ensure that they were complete, included who performed the inspection, and included the date of the review. If the review had identified issues, we verified that they were resolved.



- Selected 5 rent increase requests from July 1, 2009 to June 30, 2010 to test that a rent increase request was in the tenant file, a rent reasonableness study was completed on 3 comparable properties, and the rent was properly increased in the tenant file.
- Completed a walkthrough of the controls in place over the journal entry process for the Housing Department to test for accuracy and completeness of the financial information. We also selected two housing program journal entries, Low Income Public Housing-Seybold and the Section 8 Voucher Program, for November 2009 and traced each journal entry to the invoices, reconciliations, and trial balances.
- Scanned the expense listing from July 1, 2009 to June 30, 2010 and investigated payments that appeared to be duplicates.
- Scanned the utility allowance payments from July 1, 2009 to June 30, 2010 and investigated payments that were made payable to the tenant instead of the utility company.
- Selected large unusual payments and tested that these payments were to tenants who had been properly enrolled in and properly graduated from the Family Self Sufficiency Program.

## **OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES**

We identified the following weaknesses relating to the Bernalillo County Housing Department.

### ***1) Financial Reporting***

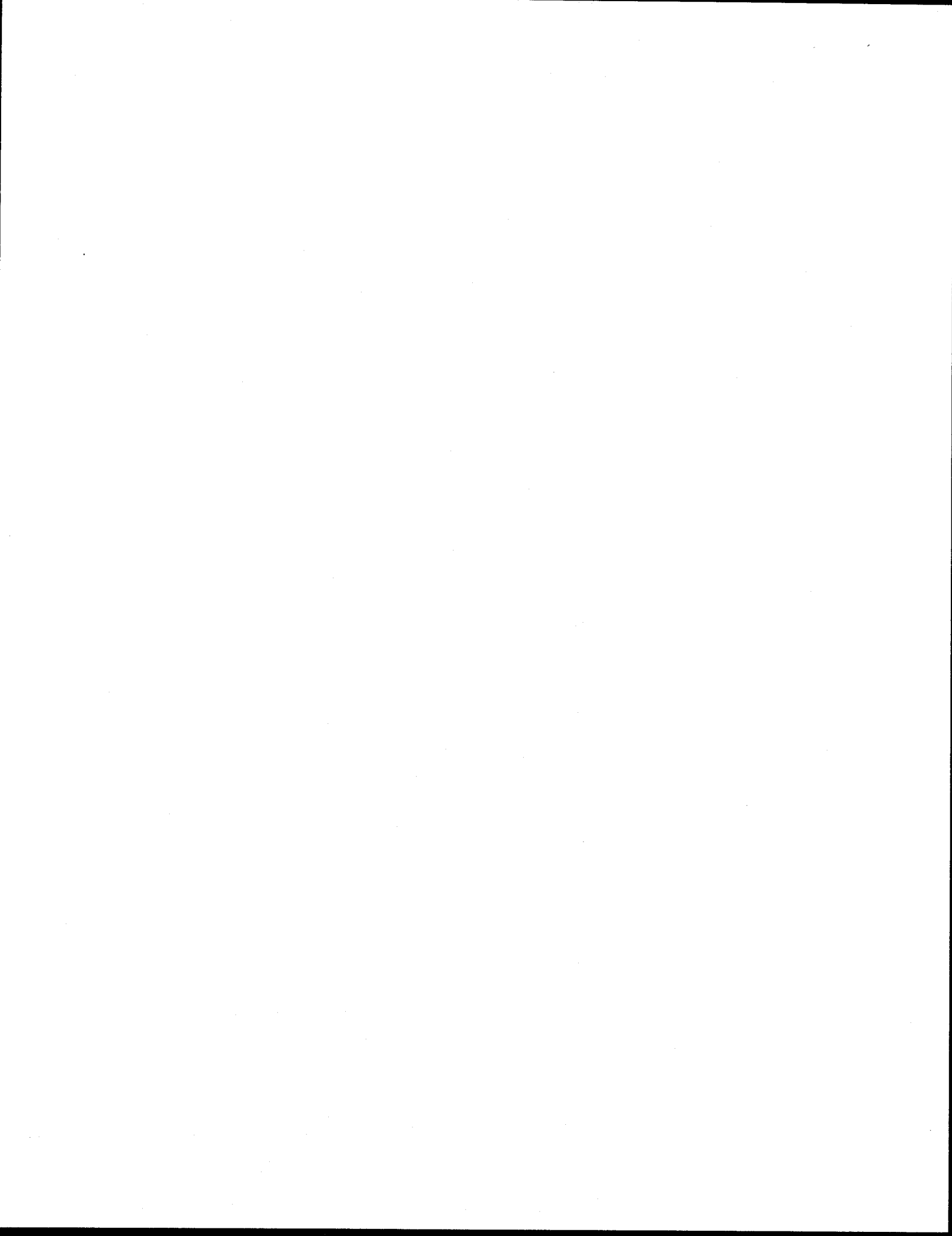
The Housing Department uses Emphasis Elite to manage their housing programs and accounting functions, while the Finance Department uses SAP. There is no interface between the two programs, so data is manually transferred monthly between the two systems.

#### **Recommendation**

Automating the process will increase the financial reporting efficiency and reduce the risk of human error. The Housing Department is currently considering new software that will fit the needs of both the Housing Department and the Finance Department. We recommend that the Housing Department and Finance Department work together to find the most efficient system to automate the process and effectively achieve the County's financial reporting objectives.

#### **Management Response**

Bernalillo County Housing, the IT Department, and Finance Department have been diligently working on the interface between Housing financial information and the County's fiscal automated system. We are looking at all possibilities including updating, training and utilizing our current Housing system or obtaining a new system that meets our fiscal goals and information needs for Housing and Urban Development (HUD) and the County. Our goal is to utilize the ERP system to the fullest extent we can and make our financial information transparent internally and externally. This is a long-term project that requires review and budget, but Housing and the County are fully committed to getting this accomplished.



\* \* \* \* \*

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.

*REDW LLC*

January 20, 2011

