

2016

**Process and Efficiency Review of the Housing
Authority of Travis County & the Strategic
Housing Finance Corporation**

**Risk Evaluation & Consulting Division
Travis County Auditor's Office
September 29, 2016**

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To: Patrick Howard
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From: Nicki Riley, CPA
Travis County Auditor

Date: September 29, 2016

Re: Evaluation of the Housing Authority of Travis County and the Strategic Housing Finance Corporation Internal Controls and Financial Processes

At the request of the CEO of the Housing Authority of Travis County (CEO), the Risk Evaluation & Consulting Division (REC) of the Travis County Auditor's Office has completed an evaluation of the internal controls and financial processes of the Housing Authority of Travis County (HATC) and the Strategic Housing Finance Corporation (SHFC). The overall objectives of this review were to provide input to the CEO and staff regarding the efficiency and effectiveness of each financial process and to provide actionable recommendations based on our findings. Additionally, we will provide HATC with our flowcharts and other supporting documentation created during this project.

SCOPE

Our evaluation consisted of a general assessment of all internal controls and financial processes used by HATC and SHFC employees. The processes evaluated were cash receipts and disbursements, accounts receivable and payable, coin collection, payroll, budget, petty cash, mail handling, general ledger, travel, interlocal agreements, open records, and the health management system. The primary methods used to gain the necessary understanding to adequately assess each process were employee interviews and work performance observations. These methods focused on gathering information through detailed discussions about how processes are performed and verifying performance through observation.

The evaluation was performed in five phases: 1) identifying processes and personnel, 2) interviews and observations, 3) document and flowchart, 4) efficiency evaluation, and 5) recommendations. An overview of the five phases is provided below:

1. **Phase I** – identified the general accounting and internal control processes for both entities and the personnel responsible for each process. To do this, we met with the process owners to discuss the details of each process and the roles that each individual is responsible for in each process.
2. **Phase II** – conducted one-on-one interviews to discuss and observe each process in order to gain a detailed understanding of the identified processes.
3. **Phase III** – documented all processes and/or procedures in order to create process flowcharts.
4. **Phase IV** – evaluated the efficiency and effectiveness of each process.
5. **Phase V** – provided recommendations and products that will assist HATC and SHFC with making business processes more efficient.

ITEMS NOTED

Based on our evaluation, we have the following recommendations:

1. Coordinate with HAB, Inc. (financial software support) to provide the necessary system updates and training in order to minimize manual processes and utilize system functionality to enhance time management and eliminate redundancies.
2. Review and implement necessary control improvements in the following areas: open records, cash receipts, coin collection, and petty cash.
3. Transition financial processes from Brown, Graham, and Company (BGC) to in-house personnel within 180 days after hiring the new Director of Finance and Administration.
4. Review and update the interlocal agreement between HATC and SHFC.

Our detailed findings and recommendations can be found on pages 7 through 15.

ENGAGEMENT TEAM

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CLOSING

This report is intended solely for the information and use of the CEO, HATC/SHFC Board, HATC/SHFC staff, Commissioners Court, and the Auditor's Office. We greatly appreciate the cooperation and assistance received from management and staff during this review. Please contact our office if you have any concerns or questions regarding this report.



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TABLE OF CONTENTS

Transmittal Letter.....	i
Background	2
Housing Authority of Travis County (HATC).....	2
Public Housing.....	2
Housing Choice Vouchers	2
Continuum of Care.....	2
Non-HUD Funded Housing	3
Strategic Housing Finance Corporation (SHFC)	3
Relationship Between HATC and SHFC.....	3
Significant Developments	4
Management Changes	4
Organization Restructure	4
Finance Background.....	5
HATC Personnel Job Descriptions	5
Assistant Director of Finance and Administration.....	5
Accounting Clerk	5
Executive Assistant.....	5
Director of Finance and Administration (New Position).....	5
Brown, Graham and Company	5
Financial Systems	6
Housing Management Software (HMS)	6
Electronic Line of Credit Control System (eLOCCS)	6
Voucher Management System (VMS).....	6
Findings/recommendations	7
1. Reduce Brown, Graham, and Company Services (BGC).....	7
2. Inefficient Processes	8
Accounts Payable.....	8
Accounts Receivable.....	8
Cash Receipts.....	9
Bank Accounts	10
Port-In	10
General Ledger.....	11
Payroll.....	11
Housing Assistance Payments (HAPs)	12
Open Record Requests	12
Budget.....	13
Travel	13
3. Improve Internal Controls.....	14
Petty Cash	14
Coin Collection	14
4. Renewed Interlocal Agreement Between HATC and SHFC	15

BACKGROUND

HOUSING AUTHORITY OF TRAVIS COUNTY (HATC)

Chapter 392 of the *Texas Local Government Code* was adopted to address the shortage of safe and/or sanitary housing for low-income residents through the creation of county, municipal, and regional housing authority entities. Section 392.012(e) of this chapter requires the Commissioners Court of Texas counties to determine if there is a need for a housing authority. On September 10, 1975, Travis County Commissioners Court passed a resolution declaring the need for, and the creation of, the Housing Authority of Travis County.

The HATC procures grants and other subsidies from the U.S. Department of Housing and Urban Development (HUD) to fund the housing programs which HATC has implemented to assist low-income and other eligible residents in Travis County. The programs (Public Housing, Housing Choice Vouchers, Continuum of Care, and Non-HUD Funded Housing) currently provided by HATC are summarized below:

Public Housing

HUD administers federal aid to local housing authorities to enable them to develop, manage, and maintain housing for eligible residents at an affordable rental cost. With HUD funds, HATC was able to build three public housing developments in the early 1980s. They are able to continue funding the operation and maintenance of these properties with tenant rents, along with annual HUD capital and operating subsidies. Capital funds are used for major repairs and/or remodeling, while operating funds are provided to help maintain services and provide minimum operating reserves. The HATC is currently able to provide 105 units of public housing at these developments.

Housing Choice Vouchers

The Section 8 Housing Choice Voucher Program was created to assist low-income and other eligible residents in obtaining affordable housing in the private marketplace. Participants are free to choose any housing that meets program requirements, including their current residence, as long as the property owner agrees to participate in the program. HUD provides housing authorities with housing subsidies and administrative funding to operate the program. The Housing Authority makes housing assistance payments (HAPs) directly to the property owners on behalf of the participants, who are responsible for paying the difference between the actual rent charged by the property owner and the HAP. The HATC currently operates this program with 568 HUD-approved units (amount does not include the 105 units noted in the public housing paragraph above).

Continuum of Care

Continuum of Care, formerly known as Shelter Plus Care, was designed to provide permanent housing and support services (medical and behavioral health care) to homeless people, primarily those with serious mental illnesses and chronic problems with alcohol and/or drug usage. HUD provides HATC with rental assistance grants which must be matched in value by HATC by providing supportive services. HATC pays the rent payments directly to the landlords. HATC administers the voucher rental assistance program and partners with Austin Travis County Integral Care to meet this matching requirement. Participants may choose their own housing and keep their rental assistance if they move, although limits can be placed on where they may live based on

availability of the support services. HATC currently operates this program serving approximately 103 families.

Non-HUD Funded Housing

The HATC owns and operates two housing developments, which they acquired without federal assistance: Carson Creek (duplexes) and Manor Town Apartments (for seniors). These developments provide 49 units of affordable housing to low-income Travis County residents. Carson Creek and Manor Town Apartments have no dedicated funding source, they are funded through rent collected and supplemented by SHFC.

STRATEGIC HOUSING FINANCE CORPORATION (SHFC)

Chapter 394 of the *Texas Local Government Code* (or *Texas Housing Finance Corporations Act*) was adopted to “provide a means to finance the cost of residential ownership and development that will provide decent, safe, and sanitary housing at affordable prices for residents of local governments.” Housing finance corporations created under this chapter are public, nonprofit corporations authorized to issue limited obligation bonds to fund their public purpose. The Commissioners Court created Travis County’s SHFC on June 11, 2004.

TAG Associates, Inc., a company that specializes in providing specialized investment and advisory services to public and subsidized housing providers, was hired by HATC to prepare a business plan for SHFC. TAG provided the following purpose statement for the SHFC in their report dated November 5, 2013:

“The purpose of the organization is the promotion and advancement of neighborhood economic development, related employment opportunities and housing revitalization and urban renewal through the provision of decent, safe, and affordable housing to low and moderate income families within the Travis County community. Specific areas of focus for SHFC can be expected to include housing development, including the entering of partnerships in tax credit and other affordable housing deals, site acquisition for future development activities and property management.”

SHFC is involved in development, site acquisition, and property management activities. SHFC’s involvement in these activities results in an increase in HATC’s inventory of affordable housing and it brings in funding in the form of ownership interests and fees from developers. These funds may be used to further increase the available inventory of affordable housing and provide financial assistance to HATC.

RELATIONSHIP BETWEEN HATC AND SHFC

On June 30, 2016, HATC and SHFC renewed their interlocal agreement. HATC agrees to provide facilities, personnel, other benefits and overhead expenses to SHFC. In return for providing these services, on a regular basis SHFC shall transfer funds to HATC to assist HATC with its operating deficit. The funds will be transferred in accordance with the annual budget adopted by the Board of Commissioners of HATC and Board of Directors of SHFC.

Under the old interlocal agreement, SHFC regularly provided funding to HATC when HATC did not have sufficient funds to meet its obligations. HATC typically treated this funding as a short-term loan and HATC reimbursed SHFC when they received HUD funds. However, there were occasions when SHFC forgave these debts and treated them as contributions because HATC did not have adequate funds to reimburse the expenses to SHFC.

SIGNIFICANT DEVELOPMENTS

Management Changes

The HATC and SHFC have undergone substantial changes in their management during the past two years. The previous Executive Director tendered his resignation effective July 31, 2014. In response, an interim HATC Executive Director was installed, providing oversight to both HATC and SHFC without receiving compensation. On June 15, 2015, the newly hired Portfolio Manager assumed duties as the new interim HATC Executive Director until he was officially appointed as HATC's Executive Director on January 8, 2016. In addition, one member of SHFC's Board of Commissioners and one member of HATC's Board resigned their positions effective March 1, 2016. Subsequent to those resignations, the Commissioners Court decided that the Boards would be composed of the same members to ensure better continuity and alignment of goals. The final Board member for both Boards was confirmed on May 31, 2016.

Organization Restructure

HATC is currently restructuring its organization. During the budget process, the HATC Board approved a position for a Director of Finance and Administration. The CEO consulted with BGC, as well as the Auditor's Office, on the appropriate qualifications for this new position. The CEO is currently interviewing for the Director of Finance and Administration position. The organization restructure will have the current Assistant Director of Finance and Administration and Accounting Clerk reporting directly to the Director of Finance and Administration.

FINANCE BACKGROUND

HATC PERSONNEL JOB DESCRIPTIONS

Assistant Director of Finance and Administration

Performs in a supervisory role a variety of accounting/bookkeeping duties such as payroll, receivables, and payables. Responsible for reviewing and approving transactions and accounting records; monitors and reviews documents for accuracy, completeness, and compliance with accounting standards and control practices; and corrects errors as required. Provides financial information to BCG and external auditors as needed. Duties also include: preparing all monetary requests for HUD programs, updating HUD reports for public housing programs, preparing monthly HUD reports and maintaining all grants in accordance with Federal Regulations.

Accounting Clerk

Responsible for processing payroll and invoice payments, preparing bank deposits, coding revenue and expenses to multiple programs, monitoring daily cash balances, filing all accounting transactions, and assisting the Assistant Director of Finance and Administration in the preparation of documents to transmit to BGC.

Executive Assistant

Performs executive office and secretarial duties for the CEO. This position is responsible for maintaining calendars, coordinating meetings, preparing agendas and minutes, preparing a variety of correspondence, and is charged with the travel, open records, and petty cash programs. Also includes processing admin charges for the port-in payments (received from another Housing Authority due to a tenant relocating to Travis County) and receptionist duties.

Director of Finance and Administration (New Position)

Performs administrative, managerial, and supervisory duties relating to the management, administration, and operation of all fiscal and administrative activities. This includes treasury management, accounting, budgeting, financial reporting, budgetary controls, procurement, purchasing, financing, management information systems, grants, contracting, taxation, pensions, and other employee benefit plans.

BROWN, GRAHAM AND COMPANY

BCG is an accounting professional corporation that provides assistance with business accounting, bookkeeping processes, payroll, payables, receivables, and financial reporting. In January 2012, HATC changed fee accountants from Natalia Sanchez-Hernandez to BGC. The agreement between HATC and BGC has been renewed for each of the last four years. HATC agrees to pay \$2,600 a month for their services and an hourly rate ranging from \$125 to \$300 for any additional services. The majority of the services BGC is providing are entry-level accounting services. BGC provides the following services:

Monthly

- Post Cash transfer in HMS and reconcile bank statements
- Post monthly journal entries
- Reconcile prepaid insurance and insurance expense

- Reconcile capital assets depreciation schedule

Quarterly

- Prepare payroll tax returns

Annually

- Reconcile capital fund/grants revenue with HUD grant disbursement system reports
- Assist HATC in preparing the annual operating budget
- Prepare and submit annual unaudited Financial Data Schedule
- Assist HATC in preparation of the Management Discussion and Analysis
- Assist HATC in providing financial information to its external auditors

As Necessary

- Assist in training HATC's staff to fully utilize its available accounting systems
- Assist HATC in improving its internal control
- Consultation and technical assistance on general accounting issues as requested

FINANCIAL SYSTEMS

HATC uses both commercial systems and systems provided by HUD. The HATC Assistant Director of Finance and Administration is HATC's Administrator for all systems. The Assistant Director of Finance and Administration is responsible for providing proper accesses in accordance with roles and responsibilities. Below is a list of systems utilized by HATC:

Housing Management Software (HMS)

HMS is the primary financial system used by HATC and BGC to process all financial transactions and produce financial statements.

Electronic Line of Credit Control System (eLOCCS)

eLOCCS is a web based system provided by HUD. eLOCCS is HUD's grant disbursement system, handling disbursements for the majority of HUD programs. eLOCCs is used by HATC to request monthly draws for the Public Housing Programs.

Voucher Management System (VMS)

VMS is a web based system provided by HUD. The primary purpose of VMS is to manage Public Housing Agency vouchers. HATC is required to submit a report monthly with data detailing how vouchers were used.

FINDINGS/RECOMMENDATIONS

During the course of our evaluation of HATC and SHFC, we noted the following areas of consideration:

1. REDUCE RELIANCE ON BROWN, GRAHAM, AND COMPANY SERVICES (BGC)

BGC provides monthly, quarterly, annually, and as needed accounting services to HATC. Several of the services provided are entry-level accounting services (e.g. interfacing financial system with the general ledger, journal entries, cash transfers, bank account reconciliations, payroll taxes, etc.).

Finding

BGC logs in remotely into HMS via a Virtual Private Network (VPN) and interfaces with the modules in the General Ledger. BGC imports HMS data into their financial software to create HATC financial statements. HATC does not have the capability to provide the CEO with real-time data on a daily basis because this interface only occurs monthly. BGC provides services to another housing authority similar to HATC and, unlike HATC, that entity performs all accounting transactions in-house. HATC provides BGC with the following:

- Bank access (view and print)
- Cash register access
- Draw request for Low Rent and Continuum of Care
- Housing Choice Voucher disbursement schedule

BGC uses this data to complete the contracted services at month end. Once all system reports are completed, HATC manually reconciles the reports to their spreadsheets. This creates significant redundancies. BGC has offered employee training so entry-level accounting services can be brought in-house. The current Assistant Director of Finance and Administration and Accounting Clerk have basic bookkeeping knowledge, but require additional training on HMS in order to perform these duties internally. It appears no effort has been made to bring the entry-level services back in-house.

Recommendation

We recommend that HATC hire a qualified Director of Finance and Administration as soon as possible. The new Director of Finance and Administration should assess the current financial processes and internal controls and make necessary adjustments. We recommend that they meet with BGC within 180 days of their hire date to implement a plan to bring the contracted monthly and quarterly services back in-house. Performing the monthly and quarterly accounting services internally will reduce redundancies, improve time management, and provide cost savings. We recommend HATC continue to utilize BGC for services that are more complex and in an advisory role.

2. INEFFICIENT PROCESSES

During our interviews and observations, it was noted that several processes were being completed manually. Additionally, several employees were involved in transactions that should only require two employees. Insufficient employee training to use and understand the functionality of the financial system is a likely cause of the continued use of manual processes. The following details our observations:

Accounts Payable

Accounts payable are funds owed by an entity to their suppliers for goods or services obtained in the regular course of the entity's business. An entity's accounts payable function is responsible for properly processing and making payments on these balances due. At HATC, the Accounting Clerk is responsible for most of the accounts payable functions such as processing all invoices for payment. The Accounting Clerk enters all invoices into HMS, obtains payment approval and allocation information from the proper parties, confirms funds availability, creates/files the supporting documentation, and processes the ACH/check to complete the payment.

Finding

All invoices, including recurring invoices, are manually entered into the AP module. The CEO signs approximately 50 to 60 manual checks monthly to vendors. The Accounting Clerk is working with HAB, Inc. to update the AP module to eliminate paying vendors with hard copy checks.

Recommendation

We recommend HATC calculate a set vendor allocation for recurring items or pay invoices from the operating account and split utilities on a set allocation using a reasonable variable such as square footage, unit count, head count, etc. HATC should continue to work with HAB, Inc. to completely eliminate hard copy checks or reduce the number printed as much as possible.

Accounts Receivable

Accounts receivable are funds owed to HATC from tenants for services rendered. An entity's accounts receivable function is responsible for mailing statements and collecting the balances due from customers. At HATC, the Housing Specialist collects Public Housing payments and enters them into the WinTAR module in HMS. The Accounting Clerk scans and deposits all collections on receivables.

Finding

HATC finance personnel are not using the accounts receivable module in HMS properly. Currently, on the first of every month, all new rent payments or changes to existing rent payments are entered in HMS. When payments are received and entered in the system, the balance due created at the beginning of the month nets to zero. A receivable is never created in the general ledger because HATC does not interface systems daily and payments are received before month end. In addition, a subsidiary ledger report cannot be generated because the accounts receivable module is not being properly utilized.

Recommendation

We recommend HATC coordinate with BGC for training on how to create a receivable in HMS and coordinate with HAB, Inc. to update the receivable module in HMS so all payments can be posted in HMS.

Cash Receipts

Cash receipts are the collection of funds in the form of check, currency, and coins. An entity's cash receipts function is responsible for collecting and processing any funds received. At HATC, collections are received and recorded by the Administrative Assistant. The Administrative Assistant distributes funds to the Housing Specialist for entry into the WinTAR module in HMS. The Accounting Clerk processes these funds and makes deposits.

Finding

1. HATC finance personnel are not using the cash receipt module. The Accounting Clerk tracks all cash transactions on an excel spreadsheet. Although the fee accountants perform bank reconciliations, the Accounting Clerk still must perform an account reconciliation to ensure funds are sufficient for daily operations. In addition to this process being an inefficient and redundant process, excel spreadsheets can be inappropriately manipulated, maintain no audit trail, and can become corrupted or deleted from the system. The Administrative Assistant makes three copies of all payments received and they are maintained with three different parties: the Administrative Assistant, the Housing Specialist, and the Accounting Clerk. According to BGC, they have offered to assist with cash module set-up in HMS and to provide employee training.
2. Payments are received in the mail, in person, or picked up at the locked drop-box locations. All payments received are recorded with the exception of corporate checks. Corporate checks are delivered directly to the CEO or Senior VP, Asset Manager and Development. The bank scanner automatically endorses checks/money orders; however, only the scanned image will show the endorsement. The endorsement does not print directly on the check/money order; instead, a number is printed on the check/money order. This is meant to prevent the check/money order from being scanned more than once; however, simply whiting out the number allows for rescanning.

Recommendation

1. We recommend HATC coordinate with HAB, Inc. to obtain the latest version of the cash module so HATC staff can track cash transactions automatically and more securely. HATC should coordinate with BGC for module set up and training. The cash module should automatically interface with the other modules on a real time basis. If this is not possible, manual interfacing of modules will be sufficient, provided it occurs daily. In addition, all payments should be scanned into HMS, if possible, and maintained on a shared drive. This will alleviate the need for three copies of each payment.
2. We recommend date stamping and logging corporate checks. In addition, we recommend any checks that may have been previously scanned (e.g. those that have a number on the back or appear to have been whited out) not be rescanned until HATC can confirm the check was not previously deposited.

Bank Accounts

The function of a bank account is to safeguard an entity's cash and it allows an entity to make withdrawals and deposits. An entity's bank account function is responsible for ensuring there are funds available for daily financial operations. At HATC, the Accounting Clerk is responsible for managing the entity's bank accounts and ensuring availability of funds. The Accounting Clerk logs all transactions on an excel spreadsheet and reconciles the spreadsheet to the bank statements. BGC performs the bank reconciliations.

Finding

HATC manages 22 bank accounts, many with limited activity. Managing 22 bank accounts is time consuming and increases the risk for potential overdrafts. Many of these accounts were created in response to the OIG Audit Report issued August 17, 2009. However, there is no HUD directive that requires a bank account for each program.

Recommendation

We recommend HATC conduct an evaluation of all bank accounts. This process should occur over time with the intent of eliminating unnecessary accounts. Successful implementation of the cash module will make comingling of funds less cumbersome because the system will maintain balances and track activity.

Port-In

A Port-In payment is a payment received from another Housing Authority due to a tenant relocating and using Housing Vouchers issued from the tenant's previous Housing Authority. The issuing Housing Authority transmits the funds to the authorized Housing Authority. At HATC, the Housing Specialist is responsible for processing Port-In payments and ensuring tenant data is entered into HAP. The Accounting Clerk makes any additional adjustments and deposits the funds.

Finding

There are three parties involved in the Port-In process: the Accounting Clerk, the Executive Assistant, and the Housing Specialist. The Housing Specialist is responsible for the initial setup of the customer in the system and makes any necessary adjustments due to change in customer income to HAP payments. The Executive Assistant verifies the administrative portion of the HAP payment and makes necessary adjustments. The Accounting Clerk records any adjustments and deposits funds. The Assistant Director of Finance and Administration does not have the authority to provide limited access to the financial system. If the Assistant Director of Finance and Administration provides access to the financial system, it grants extensive access that may weaken the segregation of duties internal control currently in place.

Recommendation

We recommend eliminating the Executive Assistant from the process; the Housing Specialist is capable of making the necessary adjustments. We recommend HATC coordinate with HAB, Inc. to obtain an updated version of the HAP module in HMS and receive training. In addition, we recommend the Assistant Director of Finance and Administration coordinate with HAB, Inc. to find a way to grant limited access to the financial system. This will allow the Housing Specialist to enter adjustments in the system and submit for approval without violating segregation of duties controls.

General Ledger

The general ledger is the master set of accounts that summarizes all transactions occurring in an entity. The primary function of the general ledger is to generate financial reports. At HATC, financial personnel do not use general ledger real-time data because BGC makes all general ledger entries and only updates the general ledger monthly.

Finding

The general ledger module should be used to generate financial reports for internal and external use. BGC enters monthly journal entries and interfaces with all available modules. After interfacing, the Assistant Director of Finance and Administration reconciles the general ledger report to supporting documents to ensure no errors occurred. Because all data in the general ledger module is populated using HATC information, this reconciliation is not necessary. Finance department employees are not properly trained on the general ledger module and, as a result, its full functionality is not being utilized. BGC has offered to provide training on this module, but HATC personnel have not obtained this training as of yet.

Recommendation

We recommend Finance personnel receive proper training on the general ledger module so that HATC staff can record all journal entries and reports can be completed in-house. HATC pays a flat fee to HAB, Inc. for training and support. We recommend HATC utilize this service to bridge the gap in training within HMS. In addition, more frequent interfacing will provide more timely and relevant data to the CEO.

Payroll

The payroll function includes the recording and disbursement of compensation and taxes paid by an entity to its employees for a service rendered. An entity's payroll function ensures employee compensation is correct and processed in a timely manner. At HATC, the Accounting Clerk is responsible for most of the payroll function and for ensuring total compensation is processed in a timely manner. The Accounting Clerk collects and enters timesheets, prepares payroll reports for review and approval, transfers program funds to the payroll account, uploads the direct deposit file, updates the cash sheet to reflect payroll, and files reports to complete the payroll process.

Finding

Employees manually complete their timesheets and paid-time off requests and they submit them to their supervisor for review and approval. The Accounting Clerk manually enters employee timesheets, including allocation of hours by program and comp time accruals, into the WinPAY module in HMS.

Recommendation

We recommend HATC update the WinPAY module in HMS and train employees on time entry within the module. This will eliminate manual entry of timesheets by the Accounting Clerk and automate the approval process for supervisors. In addition, we recommend HATC consider using a set allocation for payroll hours per program based on a time study, a methodology which could be created using employee timesheets from prior periods.

Housing Assistance Payments (HAPs)

The HAP is a supplemental payment provided to qualified applicants as rent assistance. At HATC, the Housing Specialist and Accounting Clerk are responsible for processing HAPs in HMS. The Housing Specialist initiates the request forms and routes them through to the proper approval authority. The Accounting Clerk enters request information in WinHAP, obtains payment approval and allocation information from the proper parties, confirms funds availability, creates/files the supporting documentation, and processes the ACH/check to complete the payment.

Finding

HAP payment request forms are manually completed and routed for approval. The Housing Specialist enters HAPs into the WinHAP module in HMS, the Accounting Clerk completes any adjustments, and the Director of Operations approves both. Currently, only the Assistant Director of Finance and Administration is able to process a request for a draw from the eLLOCs system. Additionally, other employees have access to eLLOCs, but are not trained on how to execute the draws. This lack of a trained backup could lead to a delay in payments if the Assistant Director of Finance and Administration is sick or on vacation.

Recommendation

We recommend the Housing Specialist enter any adjustments directly into WinHAP allowing for in-system approval by the Director of Operations. Pro-rated rents can then be automatically calculated by the system, reducing errors. We recommend another employee be trained in drawing down funds to act as a backup for the Assistant Director of Finance and Administration.

Open Records Requests

Open record requests are submissions for public information for inspections and copying. According to Government Code 552.221 (d), an office has 10 days to respond to an open records request from the date the request was received. An entity's open record requests function is to provide the public with information in accordance with the Government Code. At HATC the CEO, Assistant Director of Finance and Administration, and Executive Assistant are responsible for the open records request function. Open records are generally received by the CEO via email or mail. The CEO determines if an open record request requires a legal review and sends it to a lawyer for review as needed. The Executive Assistant or Assistant Director of Finance and Administration completes the open records request and sends it to the requestor.

Finding

1. Open record requests are received through either email or mail. The open records request is then distributed to the appropriate employee for action. There is no central location where requests are received and distributed. The lack of centralization could result in HATC not meeting the 10 day statutory response requirement.
2. The open records requests process does not have a mechanism for tracking when an initial request arrives and when it is completed.

Recommendation

1. We recommend HATC create an open records request form and make it available on the HATC website. The website should provide detailed instructions on how to complete the request form,

including the Executive Assistant contact information if further instructions are needed. Employee emails should be linked to the request forms so that open record requests are sent to the appropriate employee directly and automatically.

2. We recommend HATC implement a log that records when the open records request was received and when it was completed to help prevent noncompliance with statute. In addition, the Assistant Director of Finance and Administration should review this log weekly to ensure all requests are in compliance with the 10 day requirement.

Budget

A budget is an estimate of an entity's revenues and expenses expected in a future period. An entity's budget function develops a budget plan and executes spending in accordance with this plan. At HATC, the CEO develops the budget with the assistance of BGC. The CEO manages the budget plan under the guidance of the HATC Board. The Assistant Director of Finance and Administration tracks the budget on a excel spreadsheet and provides a copy to the Board monthly.

Finding

The CEO and BGC completed the Fiscal Year 2017 budget preparations using historical data and recommendations provided by BGC. The department directors did not provide input, primarily due to not having proper training on budget preparation and management. In addition, the Board did not provide budget priorities because it was undergoing board member transitions. The Board unanimously approved the budget. Currently, the budget is tracked manually on an excel spreadsheet by the Assistant Director of Finance and Administration.

Recommendation

We recommend the Board provide annual budget priorities to the CEO who, in turn, creates budget strategies that are in line with the budget priorities. The CEO should establish budget guidance and provide it to the department directors. Department directors should receive proper training on budget preparation and management in order to provide input and manage their department budgets. The budget should be uploaded in HMS and budget to actual reports should be reviewed on a monthly basis.

Travel

Travel occurs when an authorized person travels away from home for business purposes including seminars, conferences, training, and meetings. An entity's travel process ensures travel is authorized and expenses incurred are reimbursed in accordance with regulations and policy. At HATC, the Executive Assistant processes travel requests, advances, and settlements. The Executive Assistant reviews travel requests for completeness, obtains CEO approval, schedules travel arrangements, and processes advances and settlements for payment.

Finding

Travel requests and settlements are submitted on a manual form and routed for approval. Currently, there is no travel log to track employees' travel status. The CEO established a new travel policy that requires Board approval for the policy to be official. However, the new policy has not been approved by the Board; therefore, the old policy is still in effect.

Recommendation

The travel module in the HMS should be configured to process and approve all travel requests, advances, and settlements submitted by all HATC employees, effectively eliminating the current manual processes. We recommend the CEO submit the new travel policy to the Board for approval immediately.

3. IMPROVE INTERNAL CONTROLS

During our interviews and observations, we noted areas where internal controls were missing or insufficient.

Petty Cash

Petty cash is \$400 of cash kept on hand for small purchases or reimbursements and maintained by an entity's designated representative. An entity's petty cash function is responsible for managing the cash in accordance with policy. At HATC, the Executive Assistant is responsible for the petty cash. The Executive Assistant processes requests, reimburses the fund, records transactions on an excel spreadsheet, maintains supporting documentation and conducts account reconciliations.

Finding

The petty cash program does not have a formal request form with which to request petty cash funds. Petty cash funds are requested on notebook paper, approved at the discretion of the Executive Assistant, and tracked on an excel spreadsheet. The Executive Assistant is the only approving authority for petty cash distribution. Although a reconciliation is conducted, no policy is in place regarding the frequency of reconciliation. The petty cash policy, established February 4, 2004, has not been reviewed or updated since adoption.

Recommendation

We recommend the CEO or Board review and update the petty cash policy. We recommend the Executive Assistant create a petty cash request form that requires approval by the Director of Finance and Administration or Assistant Director of Finance and Administration before funds are disbursed. In addition, we recommend the Assistant Director of Finance and Administration perform unannounced quarterly cash counts on the petty cash fund while the Executive Assistant should conduct a monthly reconciliation of funds. Results of both counts should be documented and reviewed.

Coin Collection

Coin collections consist of obtaining coins from the washers and dryers at HATC Public Housing locations. The Housing Specialist and Accounting Clerk are responsible for the coin collection functions. The Housing Specialists collect the coins from the washers and dryers biweekly and deposit the coins at the bank. They provide the deposit slip to the Accounting Clerk who enters the deposit into an excel spreadsheet and files the deposit slip.

Finding

The Housing Specialists collect coins from the washers and dryers at Manor Town Apartments on a bi-weekly basis. There is one set of keys available; these keys are kept on a keychain with one of the Housing Specialist's personal keys.

Recommendation

We recommend HATC make a second set of keys and require all HATC keys be kept separate from personal items and secured in the HATC office when not in use.

4. RENEWED INTERLOCAL AGREEMENT BETWEEN HATC AND SHFC

The interlocal agreement between HATC and SHFC's was renewed on June 30, 2016 with terms to renew automatically for successive one year terms. It will do so until it is terminated in accordance with the terms of the agreement. If either party chooses to terminate the agreement, a written notice must be issued to the other party within 90 days. The terms of the agreement require HATC to provide facilities, personnel, other benefits and overhead expenses to SHFC. In return for providing these services, on a regular basis SHFC shall transfer funds to HATC to assist HATC with its operating deficit. The funds will be transferred in accordance with the annual budget adopted by the Board of Commissioners of HATC and Board of Directors of SHFC.

Under the old interlocal agreement, SHFC regularly provided funding to HATC when HATC did not have sufficient funds to meet its obligations. HATC typically treated this funding as a short-term loan and HATC reimbursed SHFC when they receive HUD funds. However, there were occasions when SHFC forgave these debts and treated them as contributions because HATC did not have adequate funds to reimburse the expenses to SHFC.

Finding

Through this fiscal year budget process, historical financial data indicated that federal funding is not sufficient to fund all Federal Programs provided by HATC, particularly the Housing Choice Voucher program. Based on the FY17 approved budget by the Board of Commissioners, there are shortfalls in Housing Choice Vouchers (\$445,701), Low Rent (\$116,779), Manor (\$51,759) and Continuum of Care (\$32,783) that exceed the annual fee of \$174,000 that SHFC is required to pay HATC. In the FY17 approved budget, these shortfalls are transferred in from the SFHC FY17 operating budget.

Recommendation

We recommend the SHFC continue to operate under the guidelines of the renewed interlocal agreement and provide funding based on the program loss estimation determined during the annual budget process.