



COMMISSIONERS COURT
COMMUNICATION

REFERENCE NUMBER CO#117298

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DATE: 3/18/2014

SUBJECT: **RECEIVE AND FILE THE AUDITOR'S REPORT OF THE HOUSING ASSISTANCE OFFICE**

COMMISSIONERS COURT ACTION REQUESTED:

It is requested that the Commissioners Court receive and file the Auditor's report of the Housing Assistance Office.

BACKGROUND:

In accordance with Chapter 115 of the Local Government Code, the Auditor's Office reviewed the financial transactions of the Tarrant County Housing Assistance Office for fiscal year 2013. The objective of the review was to determine whether controls were adequate to reasonably ensure that the financial transactions were accurately recorded and were in compliance with selected federal regulations.

Attached to this report is a written response from the Director of the Housing Assistance Office.

FISCAL IMPACT:

There is no fiscal impact associated with this item.

SUBMITTED BY: Auditor

PREPARED BY: S. Renee Tidwell
APPROVED BY:



TARRANT COUNTY

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February 6, 2014

Mr. Wayne E. Pollard, Jr., Director of Housing Assistance Office
The Honorable District Judges
The Honorable Commissioners Court
Tarrant County, Texas

Re: Auditor's Report – Tarrant County Housing Assistance Office

SUMMARY

In accordance with Chapter 115 of the Local Government Code, we reviewed the financial transactions of the Tarrant County Housing Assistance Office (Housing) for the fiscal year 2013. The objective of our review was to determine whether controls were adequate to reasonably ensure that the financial transactions were accurately recorded and were in compliance with selected federal regulations. As a result, we found the following:

- Observation 1 We could not determine whether all monies collected were properly recorded and deposited.
- Observation 2 Total accounts receivable recorded by Housing did not reconcile to the balance recorded in the county's general ledger.
- Observation 3 More than \$223,300, or 67%, of the net accounts receivable balances are two years of age or older.
- Observation 4 Procedures were not adequate to prevent duplicate vendor payments.
- Observation 5 Deposits were not always made in accordance with the Local Government Code.

We discussed these issues with management on February 28, 2014. Attached to this report is a written response from the Director of Housing.

BACKGROUND

During fiscal year 2013, Tarrant County received over \$16.7 million in federal grant funds from the U.S. Department of Housing and Urban Development (HUD) for the Housing Choice Voucher Program. The Housing Choice Voucher Program is administered by local Public Housing Agencies (PHAs) that receive federal grant funds from HUD. HUD also pays the local PHA a fee to administer the program. Upon entering into a contract, the PHA pays the landlord a housing subsidy on behalf of the qualified participating family. Annually, PHAs are required to re-examine the income and composition of participating families and to re-inspect each rental unit to ensure it meets minimum housing quality standards.

Federal regulations covering the Housing Choice Voucher Program are found in 24 CFR Part 982. The Tarrant County Housing Assistance Office publishes an Administrative Plan that must be approved by HUD and the Commissioners Court. The Administrative Plan includes Housing's policies and procedures relative to the program.

Housing records the grant funds in the Housing Pro System, and manages its receivables in the Tenant Accounts Receivable module, an integral module of the Housing Pro System. Payments to housing vendors are initiated by Housing and then processed by the Accounts Payable function of the Auditor's Office and recorded into the county's general ledger.

OBSERVATIONS AND RECOMMENDATIONS

Observation 1 We could not determine whether all monies collected were properly recorded and deposited.

Background

Housing collection and deposit procedures state, "Receptionist/operator opens the check and logs it into the appropriate check log spreadsheet as evidence of the date and amount received." Also, "...the Bookkeeper then records all Port-In, Fraud Repayment money, Landlord refund checks, and Utility refund checks onto the Cash File spreadsheet by date of deposit." According to management, the receptionist does not collect cash, but collects payment only by check and money order. The payments are recorded in the Check Log. Both the monies collected and the Check Log are forwarded to the Finance Manager. The Finance Manager forwards a Cash File, along with the collected monies, to the Auditor's Office for deposit into the county's consolidated bank account.

Observation

We could not determine whether all monies collected were recorded and subsequently deposited with the Auditor's Office. This condition occurred because staff did not follow documented policies and procedures related to the collection and reconciliation of funds. Specifically, we observed the following:

- Four collections totaling \$1,225.74 were recorded on the Check Log but were not recorded in the Cash File or the county's general ledger. Documentation did not exist indicating that these collections were returned or voided. Housing staff stated that the Finance Manager occasionally identifies a check or payment that should have gone to another county office or entity upon recording the payment.

- Collections totaling \$101,943 were recorded in the Cash File and posted to the county's general ledger but were *not* recorded in the Check Log. Management indicated that this occurred because the Office Manager received collections during the absence of the front desk receptionist but did not record the collections in the Check Log, as required by procedures.

Recommendations

In order to provide stronger controls over the collection of funds, management should ensure that staff complies with the department's documented policies and procedures. Specifically, all collected funds should be recorded in Check Log and the Cash File. The Check Log should also be revised to document any returned and voided payments, including the reasons.

Management should also ensure that staff performs a reconciliation of the Check Log, Cash File, and deposits prepared for the Auditor's Office. We also recommend that copies of checks returned and voided are attached to the reconciliation in the event that inquiries are made from the payee about the status of the payment. The reconciliation should also be independently reviewed by a supervisor or a manager for accuracy and resolution of any unexplained differences *before* sending the Cash File and deposit to the Auditor's Office.

Cash collection and reconciliation duties should also be properly segregated to qualified trained staff. Cross-training may need to occur in the event of staff absences.

Observation 2 Total accounts receivable recorded by Housing did not reconcile to the balance recorded in the county's general ledger.

Background

The Tenant Accounts Receivable (TARs) module has limited functionality. Only payments received in full on accounts receivable balances can be recorded into TARs. Housing staff records any partial payments separately on an Excel spreadsheet. When payment is received in full, staff records the full amount into TARs.

Housing accounts receivable balances are also recorded into SAP in *total*. However, SAP does not have accounts receivable subsidiary accounts. Therefore, the Auditor's Office maintains the individual subsidiary account balances using an Excel spreadsheet.

Observation

During our review, we observed that the total accounts receivable balances recorded in the TARs module did not reconcile to the total balance recorded in the county's general ledger. This condition occurred because Housing staff did not reconcile the balances recorded in TARs and the county's general ledger. As a result, recording errors or misappropriation of funds could occur and not be detected.

Recommendations

Management should ensure that the account receivable balances recorded by Housing reconciles to the accounts receivable balances recorded in the county's general ledger. The reconciliation should also include any partial payments received that are not recorded in TARs.

Observation 3 *More than \$223,300, or 67%, of the net accounts receivable balances are two years of age or older.*

Background

HUD allows families on the Housing Choice Voucher Program to relocate without the loss of housing assistance. When a qualified family moves from another PHA jurisdiction into Tarrant County, the family is referred to as a “port-in.” HUD *requires* that the PHA, Tarrant County in this case, to accept the family into the program. Port-in accounts receivable balances are amounts owed by other PHAs for tenants who have moved into Tarrant County.

Tenant repayment agreements are outstanding balances due from program participants that fail to inform the PHA of changes in their financial situation or family composition resulting in a full or partial overpayment of housing subsidy. Housing records accounts receivable balances for both port-ins and tenant repayment agreements.

Landlord accounts receivable balances are recorded in the county’s general ledger as a recoupment, or a contra account, to accounts payable. Any future payments made to the landlord will be reduced by the amount of the recoupment. Landlord balances are not always recouped, or recovered. Using the balances recorded in SAP, the following table summarizes accounts receivable balances.

Accounts Receivable Category	As of 09/30/12	As of 09/30/13	Net Change	Less than 2 years old	More than 2 years old
Landlord	88,536.80	100,815.94	12,279.14	18,703.34	82,112.60
Port-ins ¹	162,677.61	230,890.96	68,213.35	-	-
Tenant Repayment Agreements	273,730.00	205,633.23	(68,096.77)	64,353.00	141,280.23
Total Accounts Receivable	524,944.41	537,340.13	12,395.72	83,056.34	223,392.83
Allowance for bad debts	(273,730.00)	(205,633.23)	(68,096.77)	-	-
Net Accounts Receivable	251,214.41	331,706.90	80,492.49	83,056.34	223,392.83

HUD also provides guidance to write off accounts receivable balances that are deemed uncollectible.

Observation

More than \$223,300, or 67%, of the *net* accounts receivable balances are two years of age or older, port-ins excluded. A large portion of this balance is owed by inactive tenants that Housing management has ended the tenants’ participation in the program or has terminated the tenants’ vouchers per HUD regulations. Although Housing staff have made attempts to collect some of these outstanding balances, the collectability of these balances is very unlikely.

The Auditor’s Office established a 100% allowance on all tenant repayment agreements. Since fiscal year ending 2010, HUD has stated that this methodology may indicate that tenant repayment agreements have not been properly written off and that corrections should be made. Tarrant County responded to HUD indicating that a Bad Debt Policy would be developed.

¹ Housing could not provide the information required to calculate aged port-in accounts receivable balances.

In March 2013, the Auditor's Office worked with Housing management in developing a Bad Debt Policy. However, this policy has not been finalized and presented to Commissioners Court for approval. Until then, uncollectible balances cannot be written off.

Recommendations

We recommend Housing finalize the drafted Bad Debt Policy and present it to Commissioners Court for approval. Management should also ensure that staff understands the policy and make every attempt, as stated in the policy, to collect the debt before writing it off.

Observation 4 Procedures were not adequate to prevent duplicate vendor payments.

Background

Each month, using data extracted from the Housing Pro System, the Finance Manager generates a payment file to send to the Accounts Payable (A/P) function in the Auditor's Office for processing and posting to the general ledger in SAP. This file contains thousands of payments to be made to Housing vendors. The Finance Manager visually inspects this report looking for duplicated records and changes in the tenants' housing subsidies. Upon receipt, A/P uploads the file into SAP and verifies that the total amount of the Housing Pro file matches the total amount of the uploaded data.

At the end of each month, the A/P Audit function of the Auditor's Office performs a monthly desk review to identify potential duplicate payments. A/P Audit staff prepares a list of the potential duplicate payments which is sent to Housing for research and resolution.

Observation

A/P Audit found 92 duplicate payments totaling \$49,812 that were made to vendors during FY 2013. These duplicate payments were recovered from subsequent vendor payments. The results of the monthly desk review suggest that Housing staff's visual inspection of the payment file for duplicate payments is not sufficient to prevent such payments from occurring. A visual inspection of the current payment file *may* only detect duplicate payments within the current period but not any duplicate payments made in prior periods.

Recommendations

Housing management should update procedures to include more robust methods using advanced technological tools to detect potential duplicate payments prior to sending its payment files to the Auditor's Office for processing. The updated procedures could include, but are not limited to, comparing current payments to previous payment files and accounts, performing ratio analysis of vendors' balances over at least two consecutive periods, and reconciling the vendors' records in the payment file with the vendors' master file to ensure they all have active records. The Auditor's Office will assist Housing staff in developing such a method.

Observation 5 *Deposits were not always made in accordance with the Local Government Code.*

Background

Local Government Code 113.022(a), Time for Making Deposits, states:

A county officer or other person who receives money shall deposit the money with the county treasurer on or before the next regular business day after the date on which the money is received. If this deadline cannot be met, the officer or person must deposit the money, without exception, on or before the fifth business day after the day on which the money is received.

Observation

We found 23 checks totaling \$17,873.43 that were not deposited by the fifth business day after the day the money was received. Untimely deposits increase the risk of loss, theft, or misappropriation of funds.

Recommendation

To comply with Local Government Code, deposits should be made within 5 business days after receipt of the funds.

CLOSING REMARKS

We appreciate the responsiveness and cooperation of Housing management and staff during our review. Please call me if you have any questions regarding the contents of this report.

Sincerely,



S. Renee Tidwell, CPA
County Auditor

Attachment: Management response dated March 10, 2014

Distribution: G.K. Maenius, County Administrator
Patricia Ward, Director of Community Development

Team: Imad Mouchayleh, Audit Manager
Matt Jones, Staff Auditor

Memorandum

To: Matthew Jones; Kim Trussell; Renee Tidwell
CC: Patricia Ward; Rilla Masters; Delilah Lopez
From: Wayne Pollard
Date: 3/10/2014
Re: Response to Auditor's Report – Tarrant County Housing on February 6, 2014

Response to Observation #1:

Our response regarding the statement that there were four collections totaling \$1,225.74 recorded on the Check Log that were not recorded in the Cash File or the County's General Ledger is as follows.

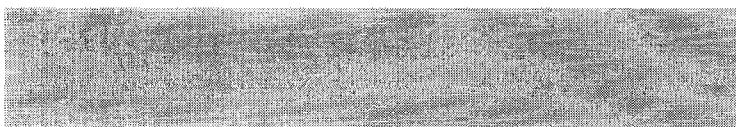
There are times when a payment comes into our office, but the money is not deposited because it is for a different department or it is sent back to the originator because of an error on the payment itself. Since the Finance Manager does not have access to the digital Cash Log, notes will be made on the physical printout of the Check Log and a copy of the check that is not deposited will be attached.

Solution: We are modifying our internal processes which would designate the Office Manager as the person to log all monies on the Check Log rather than the front desk receptionist and we are assigning 'backup' staff for each person responsible in lieu of staff absence.

Our response to the statement that \$101,943 were recorded on the Cash File and posted to the general ledger but were not recorded on the Check Log is as follows.

There is mention that Management indicated that this occurred because the Office Manager received collections during the absence of the front desk and failed to log onto the Check Log. Though human error is a factor and it is possible money was received by the Office Manager and not recorded on the log.

Solution: Again, we are modifying our internal processes which would designate the Office Manager as the person to log all monies on the Check Log rather than the front desk receptionist and we are assigning 'backup' staff for each person responsible in lieu of staff absence.



Response to Observation #2:

Our response to the statement that total accounts receivable recorded by Housing did not reconcile to the balance recorded in the county's general ledger is as follows.

TARS is our receivable database for Port-in tenants and Tenant Fraud (repayments). It has limited capabilities and does not allow for the most accurate allocation all of payments received.

Because of these limitations, the information available to the auditor from our TARS database was not comparable for the review in this audit.

It was stated by the auditor that only payments received in full on accounts receivable balances can be recorded into TARS. To clarify, TARS does allow and we do record all payments received for Port-In tenants and Tenant Fraud payments in TARS. TARS also **does** allow for posting payments less than what is in the receivable so that an unpaid balance can be determined. TARS **does not** allow for posting payments over what is in the receivable, so that if more money paid for any particular tenant this money will not show as a credit for that particular tenant but will show as an unapplied amount of the full check.

Note: We recognize that the data integrity in TARS, due to its current limitations, is near impossible to reconcile exactly with the spreadsheets maintained by our internal auditor's office.

Solution: We have developed an Excel spreadsheet which tracks both our Port-in payments by housing authority and by tenant as well as a one that tracks our tenant fraud payments. The Excel spreadsheets that Housing uses to track Port-In payments and Tenant Fraud are reconciled with the Auditor's Port-in and Tenant Repayment spreadsheets. Additionally, Housing staff are working on a full clean-up of the TARS historical data so that it also balances with the auditors Excel spreadsheets.

Response to Observation #3:

We recognize that the large volume of receivables more than 2 years of age or older is likely to be uncollectable and welcome the idea of a 'bad-debt write off policy.' In fact, in the past we were working with county legal representatives to write a policy to allow for the write off of this debt. This policy was left in the care of the DA's office and has not been completed at this time.

In lieu of the landlord debt owed, we do make routine attempts to collect this debt. Initial debt owed/recoupment letters are mailed by program staff and any follow up attempts to collect this money are done by the finance department staff. Second and third attempts are made within the first six months of the debt being discovered then collection attempts are made annually thereafter. A spreadsheet tracking the progress of this debt is kept on site with notes and specifics related to the attempt, denial to pay back, returned mail etc. Until the bad debt policy is finalized, attempts will be made to collect as needed.

In lieu of the tenant debt owed, we have an internal process which follows up on all debts owed. If the tenant is still on our program the monthly follow up consists of a letter insisting on timely payments to repay the debt or termination will occur. If the tenant is no longer on our program, one attempt is made to collect the debt consisting of a statement of the debt owed and reminder that they will not be eligible to receive housing assistance with another program until the debt is paid in full.

Solution: We will continue to pursue the finalization of the 'Bad Debt Policy' which is currently in the DA's office for review. We will continue to make attempts at collecting debts according to our current policy. Until such time as the 'Bad Debt Policy's is in place, this uncollectible debt cannot be written off.

Response to Observation #4:

It was stated in the report that the audit found 92 duplicate payments totaling \$49,812. To put this in perspective, we make approximately 3000 separate payment transactions totaling over \$1.4M per month or an average of \$16.8M for a fiscal year.

Happy Software does have a glitch which occasionally duplicates a payment. We have been discussing with the software designers of this program and other businesses who also use this software to determine the root cause of this problem.

Solution: We have internal processes in place to review internal reports and we are also provided reports from the internal auditor's office which are reviewed 'after' the payment is made. This review enables proper 'recouping' or recovery of those funds in a timely manner. Also, we are in the process of acquiring additional reporting software (IDEA) which will allow review of payment data prior to the issue of payment in hopes of alleviating this duplication issue.

Response to Observation #5:

Our response to the statement that there were 23 checks totaling \$17,873.43 that were not deposited within the 5 day window of time as set forth by the local government code is as follows.

NOTE: In the last calendar year we have logged approximately 1,380 checks and/or ACH deposits, each involving multiple tenants and multiple transactions totaling approximately \$1,570,000.

Solution: We are also modifying internal processes which would designate the Office Manager as the person to log all monies on the Check Log rather than the front desk receptionist and we are assigning 'backup' staff for each person responsible in lieu of staff absence.