

**SUBMITTAL TO THE BOARD OF SUPERVISORS
COUNTY OF RIVERSIDE, STATE OF CALIFORNIA**



FROM: County Auditor-Controller

SUBMITTAL DATE:
January 12, 2009

SUBJECT: Internal Audit Report 2008-010: Economic Development Agency, Housing Authority of the County of Riverside

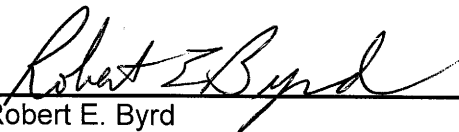
RECOMMENDED MOTION: Receive and file Internal Audit Report 2008-010: Economic Development Agency, Housing Authority of the County of Riverside.

BACKGROUND: The Auditor-Controller completed an audit of the County of Riverside Economic Development Agency - Housing Authority of the County of Riverside (Housing Authority). The objective of this audit was to provide an independent assessment of the adequacy and effectiveness of internal controls over Housing Authority's Affordable Public Housing Program.

The audit found the internal controls over Housing Authority's Affordable Public Housing Program are adequate and effective. To improve internal controls, it was recommended that rental receipts are deposited daily in accordance with established county policy.

Management concurred with the audit findings and recommendations, and indicated that corrective actions had been taken. A follow-up audit will be performed within one year to verify the full implementation of these corrective actions.

Departmental Concurrence


 Robert E. Byrd
 County Auditor-Controller

FINANCIAL DATA	Current F.Y. Total Cost:	\$ 0	In Current Year Budget:	N/A
	Current F.Y. Net County Cost:	\$ 0	Budget Adjustment:	N/A
	Annual Net County Cost:	\$ 0	For Fiscal Year:	N/A

SOURCE OF FUNDS: N/A	Positions To Be Deleted Per A-30	<input type="checkbox"/>
	Requires 4/5 Vote	<input type="checkbox"/>

C.E.O. RECOMMENDATION:

County Executive Office Signature

Dept't Recomm.: Consent Policy
 Per Exec. Ofc.: Consent Policy

Prev. Agn. Ref.: | **District:** | **Agenda Number:**



County of Riverside

INTERNAL AUDIT REPORT

Economic Development Agency Housing Authority of the County of Riverside

September 24, 2008

Office of
Robert E. Byrd, CGFM
County Auditor-Controller

4080 Lemon Street
P.O. Box 1326
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COUNTY OF RIVERSIDE
AUDITOR-CONTROLLER

Robert E. Byrd, CGFM
AUDITOR-CONTROLLER

Bruce Kincaid, MBA
ASSISTANT
AUDITOR-CONTROLLER

September 24, 2008

Ms. Robin Zimpfer
Assistant County Executive Officer
Economic Development Agency
P.O. Box 1180
Riverside, CA 92502

Subject: **Internal Audit Report 2008-010: Economic Development Agency, Housing Authority of the County of Riverside**

Dear Ms. Zimpfer:

We have completed an audit of the Economic Development Agency, Housing Authority of the County of Riverside (Housing Authority). Our objective was to provide an independent assessment of the adequacy and effectiveness of internal controls over Housing Authority's Affordable Public Housing Program. We conducted the audit during the period October 16, 2007, through March 24, 2008, for operations of July 1, 2005, through January 31, 2008.

We conducted our audit in accordance with the International Standards for the Professional Practice of Internal Auditing. These standards require that we plan and perform the audit to obtain reasonable assurance that our objective as described in the preceding paragraph is achieved. An audit includes examining, on a test basis, evidence about the adequacy and effectiveness of internal controls, compliance with applicable laws, reliability of financial information, and performing such other procedures as we considered necessary in the circumstances. We believe the audit provides a reasonable basis for our opinion.

In our opinion, internal controls over Housing Authority's Affordable Public Housing Program are adequate and effective. To improve internal controls, we recommend that rental receipts are deposited daily in accordance with established county policy.

We discussed the results contained in this report, as well as comments and suggestions of lesser significance, with the appropriate levels of management.

We thank the Housing Authority management and staff for their full cooperation and assistance.

Robert E. Byrd, CGFM
County Auditor-Controller

A handwritten signature in black ink, appearing to read "Michael G. Alexander", with a long horizontal stroke extending to the right.

By: Michael G. Alexander, MBA, CIA
Deputy Auditor-Controller

cc: Board of Supervisors
County Counsel
Jennifer Sargent, Executive Office
Grand Jury

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Executive Summary

Overview

The Economic Development Agency (EDA) is one of two agencies implementing the County of Riverside's housing programs. EDA is a federal entitlement jurisdiction that receives an annual allocation of federal funds from the U.S. Department of Housing and Urban Development (HUD). EDA implements the housing programs through the Housing Authority of the County of Riverside (Housing Authority), a special-purpose entity chartered under the State of California.

The subject of this audit is the Affordable Public Housing Program, one of three programs administered by Housing Authority. The program's mission is providing affordable housing to qualified low-income families.

Housing Authority owns 486 rental housing units throughout the County of Riverside. The residents of these units, depending on their income, pay either a flat rate or approximately 30 percent of their adjusted income toward rent and utilities. The low rent charged by Housing Authority is subsidized by HUD. The average monthly rental revenue during the year ended June 30, 2007, was \$134,000 or \$275 per housing unit.

Selected financial data relative to the Affordable Public Housing Program taken from the audited financial report for the fiscal year ending June 30, 2007, are presented below:

Rental revenue for the year	\$ 1,604,639
Delinquent accounts written off for the year.....	\$ 37,000
Rent receivable.	\$ 72,161
Interest receivable	\$ 15,656
Allowance for doubtful accounts	\$ 2,814

Audit Objective

Our objective was to provide an independent assessment of the adequacy and effectiveness of internal controls over Housing Authority's Affordable Public Housing Program.

Conclusion

In our opinion, internal controls over Housing Authority's Affordable Public Housing Program are adequate and effective. To improve internal controls, we recommend that rental receipts are deposited daily in accordance with established county policy.

Details about our audit objective, methodology, results, findings and recommendations are provided in the body of this report.

Detailed Audit Objective and Methodology

We evaluated the adequacy and effectiveness of the existing internal controls over Housing Authority's Affordable Public Housing Program by performing the following:

- Obtained an understanding of the Affordable Public Housing Program, including applicable codes, regulations, and ordinances;
- Reviewed policies, procedures and internal documents relative to rent billing and collection process;
- Interviewed Housing Authority personnel about existing practices;
- Reviewed Housing Authority's financial reports for the fiscal year ending June 30, 2007;
- Completed a risk assessment; and
- Tested transactions involving rent billing, collections, and write-offs.

Results

Rent Billing and Collection Process

The Housing Authority utilizes the Modern Software Technology (MST) system for billing tenants and maintaining rent accounts. A monthly statement is sent to the tenants listing the rent due and, if applicable, late fees, interest and other charges. During the first and second week of the month, rental receipts are deposited with Bank of America on Tuesdays or Thursdays. After the second week, rental receipts are deposited on Wednesdays.

Rents are due on the first day of the month and considered delinquent when not paid after the first day. If the rent is not paid by the 5th of the month, interest is added and a 14-day notice for eviction for non-payment is served to the tenant in accordance with federal regulations. An unlawful detainer is filed with the court after the lapse of a 14-day notice. After the receipt of the court judgment and after the tenant's appeal period elapses, a writ of possession is filed to remove the tenant from the dwelling.

A tenant's account is considered uncollectible when no payment is received from the tenant for two consecutive months. Delinquent accounts are referred to J.J. Mac Intyre Co., Inc., a debt collection agency handling collection services for the Housing Authority since December 1999. A collection fee of fifteen percent is paid on amounts collected within the first thirty days of referral, and thirty-five percent on amounts collected thereafter.

To increase the chances of recovering delinquent accounts, information is provided to the Franchise Tax Board (FTB) intercept program. This program allows FTB to intercept state tax refunds and lottery winnings of Californians with delinquent money owed to a state or local agency.

We randomly selected 63 of the 464 occupied units listed on the December 2007 MST system report to test whether current practices are consistent with established billing and collection policies and procedures.

Finding 1

The contract with J.J. Mac Intyre Co., Inc., debt collection agency, expired in December 2002 and was not renewed. However, Housing Authority continues to refer accounts to the agency for collection. On November 7, 2007, the debt collection agency reported holding \$1,048,742 in collection accounts on behalf of Housing Authority. Board Policy A-18 (Contracting for Professional or Personal Services) requires county departments contemplating to secure a professional service contract to follow a procurement process, which include steps for requesting for proposals and bidding.

Recommendation 1 Initiate immediate action to establish a new contract for debt collection services. (On June 7, 2008, Housing Authority entered into a new two-year collection service contract with J.J. Mac Intyre Co., Inc.)

Management Reply **Concur.** “As acknowledged in your draft letter, on June 7, 2008, the Housing Authority entered into a new two-year agreement, which may be extended for two additional one-year periods, with the collection agency JJ McIntyre.

Actual/ estimated Date of Corrective Action: June 7, 2008”.

Finding 2 The current schedule for depositing rental receipts, as described earlier in this report, is not compliant with the Auditor-Controller Standard Practice Manual III-E-1-3.1 (Daily Deposit of Cash) requiring that deposits be made daily. The delay in depositing rental receipts lengthens the time Housing Authority will get “bad check” bank notification which could impact the timely resolution of overdue tenant accounts. Furthermore, keeping of rental collections overnight increases the risk of loss.

Recommendation 2 Deposit rental receipts daily in accordance with the Auditor-Controller Standard Practice Manual III-E-1-3.1 (Daily Deposit of Cash.)

Management Reply **Concur.** “The Housing Authority of the County of Riverside (HACR) has taken steps to make daily deposits to comply with the Auditor Controller’s Standard Practice. In addition, a remote deposit system is in progress of being installed, which will enable the Fiscal staff to transmit all payments (besides cash) from the HACR Fiscal office through a scanner. Deposits via the Remote Deposit Software can be credited to the HACR’s checking account multiple times throughout the day. Further, this new system will allow authorized users to view and manage incoming receipts across all locations.

Actual/ estimated Date of Corrective Action: Daily deposits - August 25, 2008, Remote deposit - end of September 2008”.




HOUSING AUTHORITY of the County of Riverside

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Website: hartvco.org

DATE: September 23, 2008
TO: Auditor-Controller
Audits and Specialized Accounting Division
FROM: ~~Deanna Korson~~ 
Managing Director
EDA- Housing Authority
SUBJECT: Reply to Draft Audit Report

Recommendation Number 1:

Initiate immediate action to establish a new contract for debt collection services.

a. Management position concerning the recommendation:

Concur Disagree

b. Comments:

As acknowledged in your draft letter, on June 7, 2008, the Housing Authority entered into a new two-year agreement, which may be extended for two additional one-year periods, with the collection agency J.J. McIntyre.

c. Actual/estimated Date of Corrective Action: June 7, 2008

d. Estimated cost to implement recommendation (if material)

\$0.00

Recommendation Number 2:

Deposit rental receipts daily in accordance with the Auditor-Controller Standard Practice Manual III-E-1-3-1.

a. Management position concerning the recommendation:

Concur Disagree

b. **Comments:**

The Housing Authority of the County of Riverside (HACR) has taken steps to make daily deposits to comply with the Auditor Controller's Standard Practice. In addition, a remote deposit system is in progress of being installed, which will enable the Fiscal staff to transmit all payments (besides cash) from the HACR Fiscal office through a scanner. Deposits via the Remote Deposit Software can be credited to the HACR's checking account multiple times throughout the day. Further, this new system will allow authorized users to view and manage incoming receipts across all locations.

c. **Actual/estimated Date of Corrective Action:** Daily deposits – August, 25, 2008
Remote deposit – end of September 2008

d. **Estimated cost to implement recommendation (If material)**

\$0.00

The HACR Fiscal Department continues to periodically assess its internal control structure to ensure that they are using their resources efficiently and effectively, and that internal procedures are established and are reasonably accurate.