

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



ITEM
2.2
(ID # 2832)

MEETING DATE:

Tuesday, November 8, 2016

FROM : AUDITOR CONTROLLER:

SUBJECT: AUDITOR CONTROLLER: Internal Audit Report 2016-010: Riverside County Housing Authority, Control Environment, [District: All]; [\$0]

RECOMMENDED MOTION: That the Board of Supervisors:

1. Receive and file Internal Audit Report 2016-010: Riverside County Housing Authority, Control Environment

ACTION: Consent

Paul Angulo

Paul Angulo, Director of Auditor Controller 10/27/2016

BACKGROUND:

Summary

We have completed an audit of the Riverside County Housing Authority to provide management and the Board of Supervisors with an independent assessment of internal controls over the control environment. We conducted the audit from April 11, 2016, through July 6, 2016, for operations for the period July 1, 2013, through June 30, 2016.

FINANCIAL DATA	Current Fiscal Year:	Next Fiscal Year:	Total Cost:	Ongoing Cost
COST	\$ 0	\$ 0	\$ 0	\$ 0
NET COUNTY COST	\$ 0	\$ 0	\$ 0	\$ 0
SOURCE OF FUNDS: N/A			Budget Adjustment: No	
			For Fiscal Year: N/A	

C.E.O. RECOMMENDATION: APPROVE

BACKGROUND:

Summary (continued)

Based upon the results of our audit, we identified areas of opportunity that can help Riverside County Housing Authority management optimize the internal control component known as the control environment. Specifically, in areas related to the county mandatory training on ethical conduct, performance management process, exit interviews, and succession planning.

Impact on Residents and Businesses

Provide an assessment of internal controls over the audited areas.

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

SUPPLEMENTAL:

Additional Fiscal Information

N/A

ATTACHMENT A:

Riverside County Auditor-Controller Internal Audit Report 2016-010: Riverside County Housing Authority, Control Environment

Internal Audit Report 2016-010

**Riverside County Housing Authority,
Control Environment**

Report Date: October 18, 2016



**Office of Paul Angulo, CPA, MA
Riverside County Auditor-Controller
4080 Lemon Street, 11th Floor
Riverside, CA 92509
(951) 955-3800**

www.auditorcontroller.org



COUNTY OF RIVERSIDE
OFFICE OF THE
AUDITOR-CONTROLLER

County Administrative Center
4080 Lemon Street, 11th Floor
P.O. Box 1326
Riverside, CA 92502-1326
(951) 955-3800
Fax (951) 955-3802



Paul Angulo, CPA, MA
Riverside County Auditor-Controller

Frankie Ezzat, MPA
Assistant Auditor-Controller

October 18, 2016

Mr. Robert Field
Assistant CEO/Director
Economic Development Agency
Riverside County Housing Authority
3403 10th Street, Suite 400
Riverside, CA 92501

**Subject: Internal Audit Report 2016-010: Riverside County Housing Authority,
Control Environment**

Dear Mr. Field:

We have completed an audit of the Riverside County Housing Authority to provide management and the Board of Supervisors with an independent assessment of internal controls over the control environment. We conducted the audit from April 11, 2016, through July 6, 2016, for operations for the period July 1, 2013, through June 30, 2016.

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 sufficient, reliable, relevant and useful information to provide reasonable assurance that our objective as described above is achieved. An internal audit includes the systematic analysis of information to evaluate and improve the effectiveness of internal controls. We believe this audit provides a reasonable basis for our conclusion.

Internal controls are processes designed to provide management reasonable assurance of achieving efficiency of operations, compliance with laws and regulations, and reliability of financial and non-financial information. Management is responsible for establishing and maintaining adequate internal controls. Our responsibility is to assess the adequacy of internal controls.

Based upon the results of our audit, we identified areas of opportunity that can help Riverside County Housing Authority management optimize the internal control component known as the control environment. Specifically, in areas related to the county mandatory training on ethical conduct, performance management process, exit interviews, and succession planning.

Internal Audit Report 2016-010: Riverside County Housing Authority, Control Environment

As requested, in accordance with paragraph III.C of the Board of Supervisors Resolution 83-338, management responded to the reported conditions and recommendations contained in our report. Management's responses are included in the report.

We thank the Riverside County Office of the Riverside County Housing Authority management and staff for their cooperation. Their assistance contributed significantly to the successful completion of this audit.

Paul Angulo, CPA, MA
Riverside County Auditor-Controller



René Casillas, CPA, CRMA
Interim Chief Internal Auditor

cc: Board of Supervisors
Executive Office
Grand Jury

Table of Contents

	Page
Executive Summary	4
 Audit Results:	
Control Environment.....	5

Executive Summary

Overview

Riverside County Housing Authority (Housing Authority) is a public agency chartered by the State of California to administer the development, rehabilitation or financing of affordable housing programs. Riverside County Board of Supervisors serves as the Housing Authority's Board of Commissioners in ex officio status. The primary mission of the Housing Authority is to provide affordable, decent, safe and sanitary housing opportunities to low and moderate income families including elderly and handicapped persons, while supporting programs to foster economic self-sufficiency. The Housing Authority has been serving Riverside County for over 60 years.

The Housing Authority operates and administers the following programs:

- Housing Choice Voucher Section 8 (HCV)
- Shelter Plus Care
- Housing Opportunities for Persons with AIDS (HOPWA)
- Security Deposit Assistance (SDA)
- Rapid Rehousing and Homeless Prevention
- Veterans Affairs Supportive Housing (VASH)
- Family Self-sufficiency (FSS)
- Supportive Services for Veteran Families (SSVF)
- Affordable Public Housing
- Capital Fund

During Fiscal Year 2014-15, the Housing Authority facilitated the subsidy of the monthly rent for over 8,000 low-income families throughout Riverside County, invested \$8 million for the development of 138 affordable rental housing units. (*Source: County of Riverside Economic Development Agency 2014-2015 Annual Report*)

The Housing Authority is a special purpose government agency and is a blended component unit of Riverside County. It conducts its financial operations in a business-type approach and is defined as an enterprise fund by generally accepted accounting principles for government. The Housing Authority engages an external Certified Public Accounting firm to perform the required single audit required by Code of Federal Regulation part 200, subpart F.

Audit Objective

Our objective is to provide management and the Board of Supervisors with an independent assessment of the adequacy and effectiveness of the Housing Authority's control environment.

Audit Conclusion

Based upon the results of our audit, we identified areas of opportunity that can help Riverside County Housing Authority management optimize the internal control component known as the control environment. Specifically, in areas related to the county mandatory training on ethical conduct, performance management process, exit interviews, and succession planning.

Control Environment

Background

Internal controls are a coordination of policies and procedures established to provide reasonable assurance regarding the achievement of respective organization objectives related to the effectiveness and efficiency of operations, compliance with applicable laws and regulations, reliability of reporting, and the safeguarding of assets. Every member in an organization affect internal controls, but it is the ultimate responsibility of management to implement them and to ensure the controls are functioning as intended. Doing so allows management to stay focused on its pursuit of an organization's strategic objectives.

In support of management efforts to achieve the objectives of the organization, management should consider the following five internal control components:

- Control Environment: Sets the tone to the organization and is the foundation of all other internal control components.
- Risk Assessments: Identifies and analyzes the risk associated with the achievement of the entity's objectives.
- Control Activities: Actions established by policies and procedures to help ensure that management's directives are carried out.
- Information and Communication: Actions to carry out the responsibilities in support of the achievement of the objectives.
- Monitoring Activities: Ongoing or separate evaluations to ascertain whether each of the components of internal controls is present and functioning.

For an organization to have an effective control environment, management should consistently demonstrate and communicate its commitment to integrity and ethical values, establish adequate governance oversight processes, implement an organizational structure with adequate authority and responsibility, demonstrate a commitment to attract, develop and retain a competent workforce, and have strong workforce accountability measures for the achievement of the organizational objectives.

Our audit scope focused on the Control Environment component since it is the foundation of an effective system of internal controls. It provides discipline and structure to the achievement of the primary objectives of an entity and establishes the tone from the top-down of organizations. As such, when management, at every level of the organization views internal controls as

Internal Audit Report 2016-010: Riverside County Housing Authority, Control Environment

essential to the successful achievement of its objectives, it is expected that the same view will be conveyed to everyone within the organization and as a result, internal controls will work effectively. The opposite effect will occur when management view the internal controls as obstacles and/or unrelated to the achievement of the entity's objectives.

Our scope included the following areas:

- Code of ethics – implementation, training, and communication
- Employee development training program
- Evaluations – completion and goal setting
- Organizational and reporting structure – effectively structured to facilitate effective reporting and communication about internal controls among various positions of management, establishing roles and reporting responsibilities
- Succession planning – development for business continuity
- Communication of mission and other pertinent matters
- Employee exit interviews – organizational improvement opportunities as viewed from department employees
- Policies and Procedures – development, implementation, and communication

The Housing Authority's executive management, through the development, review, and execution of its policies and procedures, exercises oversight over the internal controls and ethical values of its staff. Management consistently shows and communicates its commitment to integrity and ethics through direct communication, meetings, and internal reports. Management views their internal controls and ethical values as an essential part of achieving the organization goals and objectives as outlined in the organizations' mission statement. Management has established a modeling behavior program where they acknowledge and honor their employee who most embodies the organization's values.

Audit Objective

Our audit objective is to provide management and the Board of Supervisors with an independent assessment of the adequacy of Housing Authority's control environment.

Audit Methodology

To accomplish our objectives, we:

- Identified and reviewed applicable laws, codes, regulations, and policies
- Conducted interviews with department management and staff
- Reviewed organizational and reporting structure
- Selected a sample of employees and reviewed files for completion of employee evaluations, development training programs, and goal setting
- Reviewed department meeting agendas

Observation 1: Training on Ethical Conduct

The Housing Authority did not ensure that all employees received training on ethical conduct. Six of the 33 (18%) employee files reviewed, who have been with the department for an average of one-and-a-half years, did not attend the county mandatory training on ethical conduct. Riverside County Board Policy C-35, *Standards of Ethical Conduct to Address Fraud, Waste and Abuse*, is set forth in order to address fraud, waste and abuse in county government and establishes reasonable standards of ethical conduct for all county employees and officers. It also requires department heads to have all current employees provide written acknowledgment that they received and read this policy. This occurred since responsibility of who keeps track of employees attending mandatory training has not been assigned to respective staff members within the Housing Authority. By not attending this training, employees would not know the county's minimum expectations relative to their behavior and conduct in the execution of their duties as representatives of the county.

Subsequent to the completion of fieldwork, all six employees have completed the county mandatory training on ethical conduct.

Recommendation 1:

Respective supervisors should regularly review completed mandatory courses to ensure employees complete the required training within six months from their hire dates.

Management's Response:

"Concur."

Actual/estimated Date of Corrective Action: 12/31/16

"Supervisors will be checking COR Learning to ensure that staff have completed the mandatory trainings. The estimated date is based on availability of training schedules set by the County of Riverside."

Observation 2: Performance Evaluations

Housing Authority performance management process was not consistently performed as required. Board of Supervisors Policy C-21, *Employee Performance Evaluation Reports, Section 3 (b)* requires regular employees of Riverside County shall be evaluated on an annual basis, approximately on the anniversary of their initial employment with county or on the anniversary of promotion or entry into their current job classification. Our review of performance evaluations for 33 of 114 (29%) employees for the period July 1, 2013 through June 30, 2016 disclosed the following:

Internal Audit Report 2016-010: Riverside County Housing Authority, Control Environment

- 9 (27%) employee annual performance evaluations were not completed (*Subsequent to the completion of our fieldwork, annual performance evaluation reports for four employees were completed*).
- 13 (39%) of employee evaluations lacked signatures or performance evaluation acknowledgment forms.
- 11 (33%) evaluations did not have performance or development goals established.

Monitoring controls to ensure performance evaluations are completed for all employees are not in place for some of the functional areas within Housing Authority. Delayed performance evaluations may delay achievement of the department's overall missions since employees play a key role in the achievement of the mission. Furthermore, the strengths and areas of improvement for employees to align themselves with the overall mission and goals of Housing Authority are not formally being conveyed.

Recommendation 2.1:

Complete all performance evaluations when required.

Management's Response:

"Concur."

Actual/estimated Date of Corrective Action: 12/31/16

"Managers will be ensuring that all performance evaluations are completed within the year."

Recommendation 2.2:

Ensure performance reviews are signed by the employee and respective supervisor and/or department head.

Management's Response:

"Concur."

Actual/estimated Date of Corrective Action: 12/31/16

"Managers will be ensuring that all performance evaluations are completed within the year."

Recommendation 2.3:

Ensure employee goals are documented in performance evaluation reports and are based on agreed upon performance or achievement of goals.

Management's Response:

"Concur."

Actual/estimated Date of Corrective Action: 12/31/16

"Managers will be ensuring that all performance evaluations are completed within the year."

Observation 3: Employees Exit Interviews

Housing Authority does not conduct exit interviews when employees conclude employment with the department. County of Riverside Policy C-22, *Exit Interview*, states "upon separation, prior to leaving the county, the department will offer the employee an exit interview with the department head or a designee." The purpose of the policy is to "determine and document the reasons employees leave the county, to provide as opportunity for the airing of unresolved issues and to solicit constructive feedback to improve the county." The Housing Authority participates in the on-line exit interview program where Human Resources directly send a survey to departing employees; however, feedback from employees is not shared by county Human Resources. Without receiving feedback from employees, Housing Authority does not obtain information that could potentially help improve overall culture of the department.

Recommendation 3:

Ensure all separated employees complete an exit interview or document why an exit interview form was not completed.

Management's Response:

"Disagree. Ensure all separated employees are offered an exit interview or document why an exit interview online form was not offered."

Actual/estimated Date of Corrective Action: Completed upon receiving employee resignation

"Housing Authority will continue to rely on the County's HR Department to complete exit interviews. A request has been made to County HR to receive the results of all exit interviews completed as of September 9, 2016."

Auditor Note:

Pursuing feedback from the results of the exit interview conducted by Human Resources is encouraged. This practice in lieu of the Housing Authority conducting their own exit interview would allow them to obtain the feedback necessary to identify any areas needing improvement in their overall organizational culture.

Observation 4: Formal Succession Planning

Housing Authority does not have a written succession plan. Formal plans would identify risks and strategies, thereby providing a guiding background for specific succession initiatives, including how employees are eligible to participate. In addition, transfer of knowledge is a critical component of succession management. Housing Authority executive management cultivates an environment where in house promotions are encouraged and identified key staff members with growth potential are identified. Written procedures should be in place to formalize the transfer of knowledge from management and key personnel to successors. Without a succession plan, an organization may not have a means of ensuring that services important to its operations are maintained when management or key personnel changes occur.

Recommendation 4:

The Housing Authority should implement a formal written succession plan for management and key personnel.

Management's Response:

"Concur."

Actual/estimated Date of Corrective Action: 12/31/16

"Housing Authority has requested assistance from EDA-HR and County HR Service Team with preparation of succession plan. It would be helpful if the County developed a countywide procedure or template for the succession plan recommended."