**Mecklenburg County
Department of Internal Audit**

Community Support Services
Shelter Plus Care Program Audit
Report 1962

June 26, 2019

Internal Audit's Mission	To support key stakeholders in cultivating an environment of accountability, transparency, and good governance.
Internal Audit Contacts	Joanne Prakapas, CPA/CFF, CIA, CRMA, CFE, Audit Director (980) 314-2889 or joanne.prakapas@mecklenburgcountync.gov Felicia Stokes, CIA, CISA, CRMA, Audit Manager (980) 314-2893 or felicia.stokes@mecklenburgcountync.gov
Staff Acknowledgements	Brian Roberts, CPA, CFE, Auditor-in-Charge
Obtaining Copies of Internal Audit Reports	This report can be found in electronic format at https://www.mecknc.gov/audit/reports/pages/default.aspx

MECKLENBURG COUNTY
Department of Internal Audit

To: Stacy Lowry, Director
Community Support Services

From: Joanne Prakapas, Director
Department of Internal Audit

Date: June 26, 2019

Subject: Community Support Services Shelter Plus Care Program Audit Report 1962

The Department of Internal Audit has completed its audit of the Community Support Services Shelter Plus Care program's accounts payable and cash handling processes to determine whether internal controls effectively manage key business risk inherent to these activities. Internal Audit interviewed key personnel; reviewed and evaluated policies, procedures, and other documents; observed operations; and tested accounts payable and cash receipts activities from July 1, 2015 to June 30, 2018.

This audit was conducted in conformance with The Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

OVERALL EVALUATION

Overall, key risks inherent to the financial processes were managed to an acceptable level; however, opportunities exist to improve the design and operation of some control activities.

RISK OBSERVATION SUMMARY

The table below summarizes the risk observations identified during the audit, grouped by the associated risk factor, and defined in Appendix A. The criticality or significance of each risk factor, as well as Internal Audit's assessment of the design and operation of key controls to effectively mitigate the risks, are indicated by the color codes described in Appendix B.

RISK OBSERVATION SUMMARY			
Risk Factors and Observations	**Criticality**	**Design**	**Operation**
1. Policies and Procedures Risk	🔴	🟡	🟡
1.1 Formal Documentation 1.2 Periodic Review			
2. Segregation of Duties Risk	🔴	🔴	🔴
2.1 Segregation of Duties			
3. Reconciliation Risk	🔴	🟡	🔴
3.1 Cash Receipts			
4. Compliance Risk	🔴	🟡	🔴
4.1 Lease Addendum Signatures 4.2 Deposit Processing			
5. Payment Accuracy Risk	🔴	🟡	🟢
5.1 Reviewing and Approving			
6. Receipt Risk	🟡	🔴	🟡
6.1 Cash Receipting			
7. Human Resources Risk	🟡	🔴	🔴
7.1 Training			
8. Documentation Risk	🟡	🟢	🟢
No risk observations noted			
9. Payment Timeliness Risk	🟡	🟢	🟢
No risk observations noted			

10. Accounting Risk	●	●	●
No risk observations noted			

The risk observations and management's risk mitigation strategies defined in Appendix C are discussed in detail in the attached document. Internal Audit will conduct a follow-up review to verify management's action plans have been implemented and are working as expected.

We appreciate the cooperation you and your staff provided during this audit. Please feel free to contact me at 980-314-2889 if you have any questions or concerns.

c: County Manager
   Assistant County Managers
   Deputy County Attorney
   Senior County Attorney
   Board of County Commissioners
   Audit Review Committee

BACKGROUND

Community Support Services (the Department) maximizes community partnerships and collaborative opportunities to better provide services for military veterans; people experiencing homelessness; people seeking substance use treatment; and people needing prevention and intervention for community or domestic violence. The Department has three divisions: Homeless Services, Veterans Services, and Prevention and Intervention Services.

Homeless Services Division

The Homeless Services Division has six programs and services, providing assessment, outreach, funding, and case management to individuals and families who are homeless or working toward housing stability. One program that connects people who are homeless with available community resources and services is Shelter Plus Care.
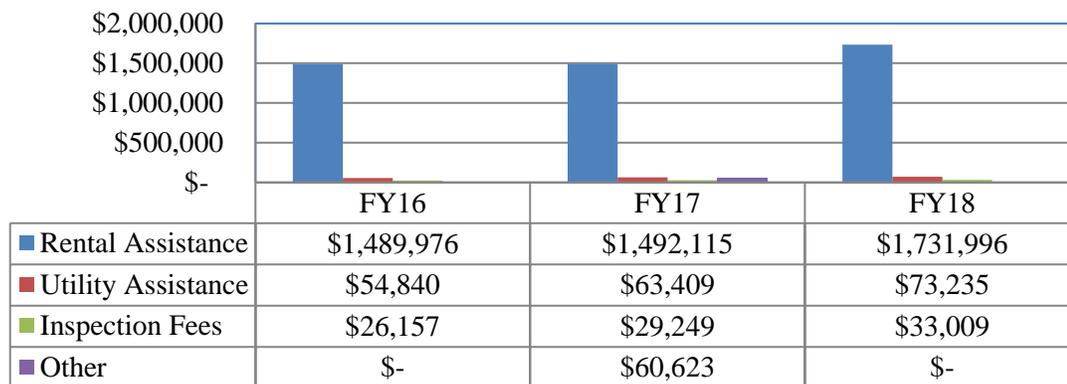
Shelter Plus Care

Shelter Plus Care is a permanent housing program funded through the United States Department of Housing and Urban Development's (HUD) Continuum of Care Program. The program provides rental assistance for low-income, homeless individuals and families. In addition, program participants with no income are eligible to receive utility assistance based on calculations by HUD and provided by the Charlotte Housing Authority. The three main program goals are to increase housing stability, income potential, and self-sufficiency.

Accounts Payable

Shelter Plus Care acts on behalf of program participants to facilitate subsidy payments for housing rentals, utilities, and rental housing inspections. Rental leases and utilities are in the participants' names. Participants receive their utility bills and send them to the program for payment directly to the utility companies. Program staff creates payment requests for rental subsidies and rental inspection fees based on rental agreements and inspection reports provided by the inspectors.

Vendor payments processed July 1, 2015 through June 30, 2018 are shown below.

Shelter Plus Care Vendor Payments

	FY16	FY17	FY18
■ Rental Assistance	$1,489,976	$1,492,115	$1,731,996
■ Utility Assistance	$54,840	$63,409	$73,235
■ Inspection Fees	$26,157	$29,249	$33,009
■ Other	$-	$60,623	$-

Source: Advantage Financial System, unaudited

Cash Receipts

The Shelter Plus Care program receives refunds for rental overpayments when participants either understate income and are not eligible for benefits previously granted, or if they leave the rental unit before the end of the month. In addition, the program receives rental deposit refunds for payments that were advanced to the participants when they first entered into their rental agreements.

The table below shows the program's cash receipts processed July 1, 2015 through June 30, 2018.

Shelter Plus Care Cash Receipts

	FY16	FY17	FY18
■ Participant Payments	$115	$2,698	$5,551
■ Vendor Payments	$329	$5,576	$7,765
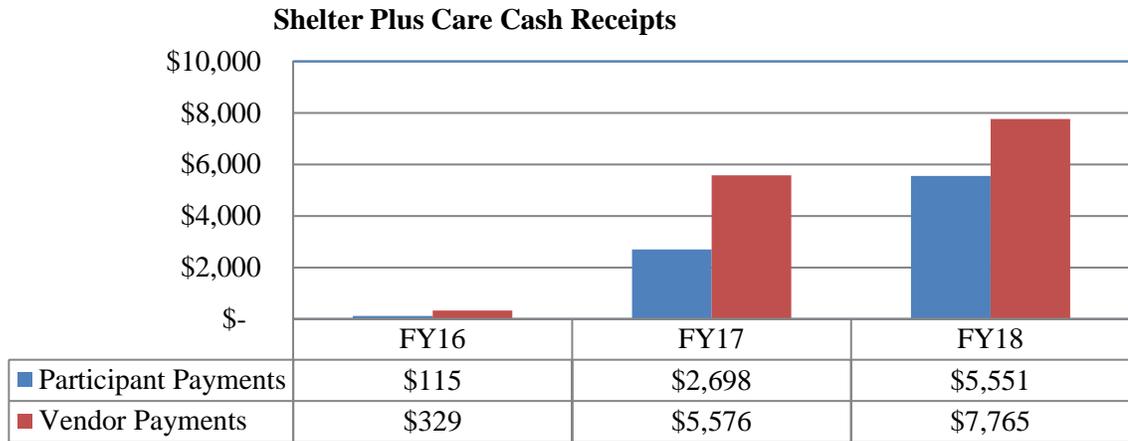
Source: Advantage Financial System, unaudited

COUNTY MANAGER'S OVERALL RESPONSE

The County Manager concurs with all risk mitigation strategies and timeframes for implementation.

RISK OBSERVATIONS AND MITIGATION STRATEGIES

Risk Factor	Criticality	Design	Operation
1. Policies and Procedures Risk	🔴	🟡	🟡

Risk Observations

1.1 Formal Documentation—While the Shelter Plus Care program had formal, documented policies and procedures for many aspects of its accounts payable and cash receipts processes, some policies and procedures did not reflect current and/or best practices. For example, the policies did not identify staff roles, responsibilities, and training requirements. Yet, policies and procedures are important control activities to help management ensure its directives are carried out while mitigating risks that may prevent the organization from achieving its objectives.

1.2 Periodic Review—Management did not have a process in place to ensure its program accounts payable and cash handling procedures were periodically reviewed, updated, and approved to ensure they were effective and reflect current and best practices.

Recommendations

1.1 Internal Audit recommends management partner with Finance to update the program's accounts payable and cash receipts policies and procedures and train staff accordingly. The updates should be comprehensive, consistent with applicable County requirements, and include at a minimum:
- Essential operating activities for cash receipts and payment requests, e.g., initial cash receipt recordation and reconciliation; payment request creation, processing and approval; and supervisory oversight and monitoring
- Staff roles and responsibilities, including proper segregation of duties
- Staff training requirements
- Periodic procedure reviews and updates
- Internal and external communication requirements

1.2 Internal Audit recommends management establish and implement a process to ensure its program accounts payable and cash handling procedures are periodically reviewed, updated, and approved. Evidence of the approval should be documented.

Management's Responses

1.1 **Risk Mitigation Strategy:** Reduce **Implementation Date:** October 2019

Action Plan: The Department agrees with the feedback regarding the need to update the program's accounts payable and cash receipts policies and procedures to maintain and monitor proper controls. The Department will partner with Departmental Financial Services to update the current policies and procedures and ensure that the policies and procedures outline the essential roles and responsibilities of both Departmental Financial Services and Shelter Plus Care staff for cash receipt and reconciliation; payment request creation, processing and approval; and supervisory oversight.

Shelter Plus Care program staff will be trained on payment processes annually and it will be documented in a training manual kept by the Program Supervisor.

1.2 **Risk Mitigation Strategy:** Reduce **Implementation Date:** October 2019

Action Plan: The Department agrees with the feedback to implement a process to ensure the program's accounts payable and cash handling procedures are periodically reviewed to implement needed updates. The program will establish and implement a process to ensure program accounts payable and cash handling procedures are periodically reviewed. Shelter Plus Care's policies and procedures will be reviewed annually or more often if needed, i.e., if any changes per HUD or County policy needs to be incorporated by the Community Support Services' Performance Improvement Council. This committee meets monthly and reviews policies and procedures across the department to make recommendations of any updates that need to be made. The Performance Improvement Council will also follow up with the program to ensure the updates are implemented.

Risk Factor	Criticality	Design	Operation
2. Segregation of Duties Risk	🔴	🔴	🔴

Risk Observation

2.1 Segregation of Duties—Duties for creating and approving payment requests, as well as receiving and depositing cash receipts, were not always adequately segregated. Specifically, a single staff person created and approved payment requests for rental and utility subsidy payments and rental inspection fees. Furthermore, on occasion that staff person also received cash receipts and prepared the bank deposit. Allowing the same individual to carry out incompatible duties increases the risk of error or theft.

Recommendation

2.1 Internal Audit recommends management separate incompatible duties or implement appropriate compensating controls.

Management's Response

2.1   **Risk Mitigation Strategy:** Reduce   **Implementation Date:** July 2019

      Action Plan: The Department agrees with the feedback regarding the need to separate incompatible duties in the payment process to ensure proper controls are in place. Shelter Plus Care will ensure segregation of duties by having one staff member (Admin III, Sr. Case Coordinator or Program Supervisor) prepare the invoice for payment. For rental payments, this includes ensuring the payment amounts in the program's database match the rent calculation and printing out the invoice and supporting documentation. For utility payments, this includes ensuring the amounts paid toward utility bills are less than or equal to the calculated utility allowance and only include fees that can be paid per HUD guidelines. For inspection payments, this includes reconciling the invoices submitted by the vendors with inspection reports on file. Invoices will be reviewed for accuracy and approved by either the Senior Case Coordinator or the Program Supervisor before they are sent to Departmental Financial Services for payment processing. The same person will not prepare and approve an invoice.

      All client repayments and vendor refunds will be sent directly to Departmental Financial Services. For client repayments, Finance staff will record the payment received on the client repayment spreadsheet, mail a receipt to the client, make the deposit, record the cash receipt in Advantage and reconcile the repayments to the general ledger. Program Supervisor will review and approve the reconciliation monthly. For vendor refunds, Finance staff will record the refund on the vendor refund spreadsheet, make the deposit, record the cash receipt in Advantage and reconcile the refunds to the general ledger. Program Supervisor will review and approve the reconciliation monthly.

Risk Factor	Criticality	Design	Operation
3. Reconciliation Risk	🔴	🟡	🔴

Risk Observation

3.1   Cash Receipts—Program staff did not reconcile cash received to the final amount entered by the Departmental of Financial Services into Advantage, the County's financial system, to ensure cash receipts were entered correctly.

Recommendation

3.1   Internal Audit recommends management partner with Finance to ensure cash receipts are reconciled monthly to the general ledger. The reconciliations should evidence the preparer; preparation date; support for reconciling items; any related corrective actions taken; and management's review and approval of the reconciliation.

Management's Response

3.1   **Risk Mitigation Strategy:** Reduce   **Implementation Date:** July 2019

      Action Plan: The Department agrees with the feedback that the program should partner with Finance to ensure cash receipts are reconciled monthly to the general ledger in order to ensure proper controls.

Finance will complete the reconciliation against the general ledger monthly for client repayments and vendor refunds. Program Supervisor will review and sign off on the reconciliation monthly.

Risk Factor	Criticality	Design	Operation
4. Compliance Risk	🔴	🟡	🔴

Risk Observations

4.1 Lease Addendum Signatures—Lease addendums were not always signed according to program policy. Of 69 lease addendums sampled, 42 or 61% were signed by program staff only; eight or 12% were signed by program staff and the participant; and one was signed by program staff and the landlord.

Effective May 2018, only program staff is required to sign the lease addendum. Copies are sent to the landlord and participant requesting but not requiring their signatures. Without all three signatures on the addendum, there is no evidence of acknowledgment and agreement between all parties.

4.2 Deposit Processing—Ten out of 45 or 22% of cash receipt transactions sampled were not timely deposited in accordance with County policy, in part because the assigned staff person was not always available to make the deposit.

Recommendations

4.1 Internal Audit recommends management provide appropriate oversight to ensure required signatures are present on lease addendums. We further recommend management consult with County Legal to determine whether the landlord and participant signatures should still be required on the lease addendums. Procedures should be updated as necessary and staff should be trained accordingly.

4.2 Internal Audit recommends management designate a backup staff person to prepare the deposit when necessary. In addition, management should reemphasize to staff the importance of ensuring deposits are made in accordance with County policy.

Management's Responses

4.1 **Risk Mitigation Strategy:** Reduce   **Implementation Date:** October 2019

Action Plan: The Department agrees with the feedback about the lease addendum document. As recommended by County Legal, the program will create a document that will include the tenant's name, program client ID, unit address, base contract rent, tenant portion of rent (as calculated based on the tenant's income), program's portion of the rent, utility allowance, utility reimbursement (if applicable), security deposit amount and how it will be paid (for new moves), the effective date of the payment amounts and any notes related to the payments. The purpose of the document is to notify both the landlord and the tenant of the rent payment breakdown. The lease is between the landlord and the tenant. The program makes rent and utility payments on behalf of the tenant if the tenant is in good standing with the program.

Program staff will email or fax the document to the landlord and will include documentation of sending it to the landlord in the client's program file. Program staff will mail the document to the client or fax it to the client's payee and will document this using the mailed stamp. Clients sign the participant responsibilities agreeing to pay their portion of the rent as calculated by the program in accordance with HUD's regulation 24 CFR 578.77.

Program staff will be trained to complete the new document in September 2019 in order to implement the document by 10/1/19 and the training will be documented in the program's training manual.

4.2   **Risk Mitigation Strategy:** Reduce   **Implementation Date:** July 2019

Action Plan: The Department agrees with the feedback that the program should designate a backup person to prepare the deposit when necessary in order to ensure County policy is followed. All client repayments and vendor refunds will be sent directly to Departmental Financial Services. For client repayments, Finance staff will record the payment received on the client repayment spreadsheet, mail a receipt to the client, make the deposit, record the cash receipt in Advantage and reconcile the repayments to the general ledger. Program Supervisor will review and approve the reconciliation monthly. For vendor refunds, Finance staff will record the refund on the vendor refund spreadsheet, make the deposit, record the cash receipt in Advantage and reconcile the refunds to the general ledger. Program Supervisor will review and approve the reconciliation monthly.

Risk Factor	Criticality	Design	Operation
5. Payment Accuracy Risk	🔴	🟡	🟢

Risk Observation

5.1   Reviewing and Approving—Management did not review and approve rental and utility subsidy payment requests prior to submission to the Department of Financial Services. As a result, management cannot effectively ensure payments are appropriate and in compliance with County policy.

Recommendation

5.1   Internal Audit recommends management review and approve payment requests created for utility and rental assistance payments.

Management's Response

5.1   **Risk Mitigation Strategy:** Reduce   **Implementation Date:** July 2019

Action Plan: The Department agrees with the feedback about having management review and approve payment requests for utility and rental assistance payments to ensure payments are appropriate and in compliance with County policy. The Department partnered with Departmental Financial Services to update the current policies and procedures. Invoices will be reviewed for accuracy and approved by either the Senior Case Coordinator or the Program Supervisor before they are sent to Departmental Financial Services for payment processing.

Risk Factor	Criticality	Design	Operation
6. Receipt Risk	🟡	🔴	🟡

Risk Observation

6.1 Cash Receipting—When a vendor sends the program a refund as a result of a participant leaving the rental unit before the end of the month, staff did not record the date in the vendor reimbursement spreadsheet. As a result, management cannot ensure compliance with County policy related to timely cash deposits.

Recommendation

6.1 Internal Audit recommends management ensure staff properly documents all vendor cash receipt dates.

Management's Response

6.1 **Risk Mitigation Strategy:** Reduce **Implementation Date:** July 2019

Action Plan: The Department agrees with the feedback that management should ensure staff properly documents all vendor cash receipt dates to ensure compliance with County policy. All vendor refunds will be sent directly to Departmental Financial Services. For client repayments, Finance staff will record the payment received on the client repayment spreadsheet, mail a receipt to the client, make the deposit, record the cash receipt in Advantage and reconcile the repayments to the general ledger. The Program Supervisor will review and approve the reconciliation monthly. For vendor refunds, Finance staff will record the refund on the vendor refund spreadsheet, make the deposit, record the cash receipt in Advantage and reconcile the refunds to the general ledger. The Program Supervisor will review and approve the reconciliation monthly.

Risk Factor	Criticality	Design	Operation
7. Human Resources Risk	🟡	🔴	🔴

Risk Observation

7.1 Training—There was no evidence that program staff had received formal training on County and program-level accounts payable and cash handling activities. Further, only a single staff person had the knowledge to create and process payment requests. As a result, accounts payable and cash receipt activities may not be carried out in accordance with County policy and management expectations.

Recommendation

7.1 Internal Audit recommends management train all program staff on its accounts payable and cash handling activities. Training documentation should be retained.

Management's Response

7.1   **Risk Mitigation Strategy:**   Reduce   **Implementation Date:** October 2019

   Action Plan: Staff will be trained on payment process annually and it will be documented in a training manual kept by the Program Supervisor. Program staff will be trained annually on the process developed with DFS and Cash Receipts policy.

APPENDIX A—Risk Factor Definitions

Risk Factor	Definition
Accounting Risk	Failure to accurately and timely record transactions may result in untimely or inaccurate compilation of information needed for financial and operational reporting and analysis.
Compliance Risk	Failure to comply with established policies, procedures, and/or statutory requirements may result in unacceptable performance that impacts financial, operational, or customer objectives.
Documentation Risk	Failure to adequately collect, file, and retain documentation may impair the organization's ability to sufficiently support accounts payable or cash receipts activities, financial reporting, and/or disclosure requirements.
Human Resource Risk	Failure to attract, train, develop, deploy, and/or empower competent personnel may inhibit the organization's ability to execute, manage, and monitor key business activities.
Payment Accuracy Risk	Inadequate execution of disbursement processes may result in paying vendors the incorrect amount or duplicate payments.
Payment Timeliness Risk	Inadequate execution of disbursement processes may cause bills to be paid earlier or later than desired resulting in suboptimal cash management, missed discounts, or additional interest and penalties.
Policies and Procedures Risk	Failure to have formal, documented, clearly stated, and updated policies and procedures may result in poorly executed processes and/or increased operating costs.
Reconciliation Risk	Failure to consistently and completely reconcile cash receipts activity may prevent errors or omissions in accounting information from being detected and adjusted timely.
Receipt Risk	Failure to properly receipt cash may compromise accountability and result in untimely or inaccurate compilation and reporting of information needed for financial or internal analysis of operating results.
Segregation of Duties Risk	Failure to adequately segregate duties may allow an employee or group of employees to perpetrate and conceal errors or irregularities without timely detection.

APPENDIX B—Color Code Definitions

The criticality of a risk factor represents the level of potential exposure to the organization and/or to the achievement of process-level objectives before consideration of any controls in place (inherent risk).

Criticality	Significance and Priority of Action
🔴	The inherent risk poses or could pose a significant level of exposure to the organization and/or to the achievement of process level objectives. Therefore, management should take immediate action to address risk observations related to this risk factor.
🟡	The inherent risk poses or could pose a moderate level of exposure to the organization and/or to the achievement of process level objectives. Therefore, management should take prompt action to address risk observations related to this risk factor.
🟢	The inherent risk poses or could pose a minimal level of exposure to the organization and/or to the achievement of process level objectives. Risk observations related to this risk factor, however, may provide opportunities to further reduce the risk to a more desirable level.

The assessment of the design and operation of key controls indicates Internal Audit's judgment of the process and system design to mitigate risks to an acceptable level.

Assessment	Design of Key Controls	Operation of Key Controls
🔴	The process and system design do not appear to be adequate to manage the risk to an acceptable level.	The operation of the process' risk management capabilities is not consistently effective to manage the risk to an acceptable level.
🟡	The process and system design appear to be adequate to manage the risk to an acceptable level. Failure to consistently perform key risk management activities may, however, result in some exposure even if other tasks are completed as designed.	The operation of the process' risk management capabilities is only partially sufficient to manage the risk to an acceptable level.
🟢	The process and system design appear to be adequate to manage the risk to an acceptable level.	The operation of the process' risk management capabilities appears to be sufficient to manage the risk to an acceptable level.

APPENDIX C—Risk Mitigation Strategy Definitions

Risk Mitigation Strategy	Definition
Reduce	Risk response where actions are taken to reduce a risk or its consequences.
Accept	Risk response where no action is taken to affect the risk.
Transfer	Risk response where a portion of the risk is transferred to other parties.
Avoid	Risk response to eliminate the risk by avoiding or withdrawing from the activity giving rise to the risk.