City of Phoenix

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Project Number

1230078

This report can be made available in alternate format upon request.

Housing Department
System Reconciliation Process

December 21, 2023

Report Highlights

Reconciliations

We selected transactions that occurred between the Housing Department's system and the City's financial system, and determined that they were posted accurately, timely, and in accordance with relevant policies.

Oversight

We found that the reconciliation processes for these transactions were designed with adequate segregation of duties. However, procedures to document the reviews of these reconciliations were not in place.

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Executive Summary

Purpose

Our purpose was to confirm that accurate and timely reconciliations take place between the City's financial accounting system, SAP, and the Housing Department's software, Elite, for the Housing Choice Voucher (HCV) and the Public Housing (PH) programs.

Background

The City of Phoenix Housing Department (Housing) is classified as a Public Housing Agency (PHA) by the U.S. Department of Housing and Urban Development (HUD). Accordingly, the City receives federal funds from HUD to administer housing programs to assist qualifying participants. To manage the federal funds, Housing uses a software program called Elite that is marketed by Emphasys Software. Elite software is module-based for each HUD program.

Similarities and Differences between HUD HCV and PH Programs.
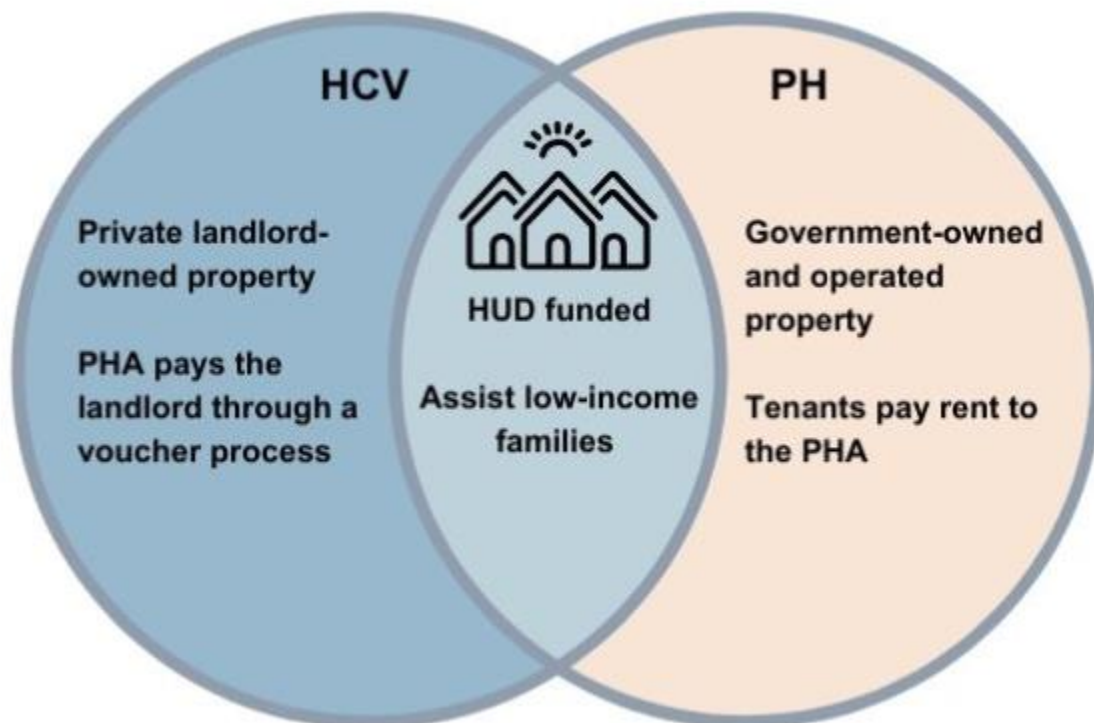
Programs are HUD funded, but differ in who owns and manages the properties.

The HCV program is HUD's major program for assisting very low-income[1] participants afford housing in the private market. Since housing assistance is provided on behalf of the family or individual, participants are able to find their own housing. The participant is free to choose any housing that meets the program's requirements and is not limited to units located in subsidized housing developments. The City of Phoenix locally administers housing choice vouchers. HUD established the PH program to provide rental housing for eligible low-income tenants. The City of Phoenix owns and operates Public Housing apartment communities throughout the Phoenix area. Apartments range in size from one to five bedrooms with electric and water utilities included.

For the HCV program, HUD assistance totaled approximately $75 million from July 1, 2022, through June 30, 2023. In the City's PH program, HUD funding totaled approximately $11.6 Million for fiscal year 2022, and $9.4 Million for fiscal year 2023. Tenant rent payments received by the City for the PH program totaled approximately $3.5 Million for the period July 1, 2021, through December 31, 2022.

For the City to report Housing financial activity to the City's general ledger system of record, SAP, data from Elite must be posted to SAP. This process, performed by Housing and Finance Department staff, involves a system of reconciliations, data downloads, and reviews, to ensure the activity posts to SAP accurately.

Results in Brief

HCV and PH journal entries selected for testing were posted accurately and timely, and the process occurred per policy. However, procedures to document the reviews of these reconciliations were not in place.

For HCV and PH Housing programs, we judgmentally selected and tested five journal entries that had posted to SAP totaling $12.4 million. We reperformed the entire posting process for each program to determine the accuracy of the data as presented. Activity was posted accurately for the programs.

The last step in Housing's posting process is a review by Housing management. This review is not documented, and accordingly, evidence that a review was performed was not available to be verified. The review process is critical to help prevent errors such as the posting to incorrect accounts or the transposition of numbers.

HCV and PH posting processes were designed with adequate segregation of duties.

A critical element of the internal control environment that helps prevent errors or misappropriation of assets is the segregation of duties. In Housing's posting processes, no individual performs consecutive tasks in the process. Additionally, the Finance department is involved in the reconciling and posting of HCV activity to SAP, which strengthens the segregation of duties.

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[1] Effective May 15, 2023, HUD defines very low-income for the Phoenix area as a range from $32,750 for 1 person to $61,750 for an 8-person household.

Department Response to Recommendation

Rec. 1.1: Retain an initialed, reviewed copy of the journal entry postings (with support documentation) to be filed, to ensure that management reviews have occurred.	
Response: A procedure has been drafted between Housing fiscal staff and Finance fiscal staff include approval documentation saved with the 1st of the month journal entry support in SAP.	*Target Date*: February 15, 2024
Explanation, Target Date > 90 Days: N/A	

1 – Housing Choice Voucher Program

Background

The HCV program is HUD's major program for assisting very low-income participants to afford housing in the private market. Since housing assistance is provided on behalf of the family or individual, participants are able to find their own housing. The participant is free to choose any housing that meets the requirements of the program and is not limited to units located in subsidized housing projects. Housing choice vouchers are administered locally by the City of Phoenix, who contracts with Quadel, LLC to provide the service to participants. There were approximately 8,100 voucher participants in the HCV program at the City, with HUD assistance totaling approximately $75 million from July 1, 2022, through June 30, 2022.

The City's general ledger and system of record for accounting is SAP. For the City to record Housing activity, data from Elite must be posted to SAP. Regarding HUD grant funding, the City uses a modified accrual basis of accounting where revenues are recognized when measurable and available, and expenditures are recorded when incurred. This process involves a system of data downloads, reconciliation, and review to post to SAP accurately. Additionally, the Finance department is involved in the reconciling and posting of HCV activity to SAP, which strengthens the segregation of duties.

We interviewed staff and reviewed Housing's policies and procedures governing the posting of Elite activity to SAP for HCV. We performed testing by sampling journal entries, and reperforming the process from start to finish. Additionally, we reperformed a monthly accrual entry to ensure accuracy and to test the reversal at the start of the next activity period.
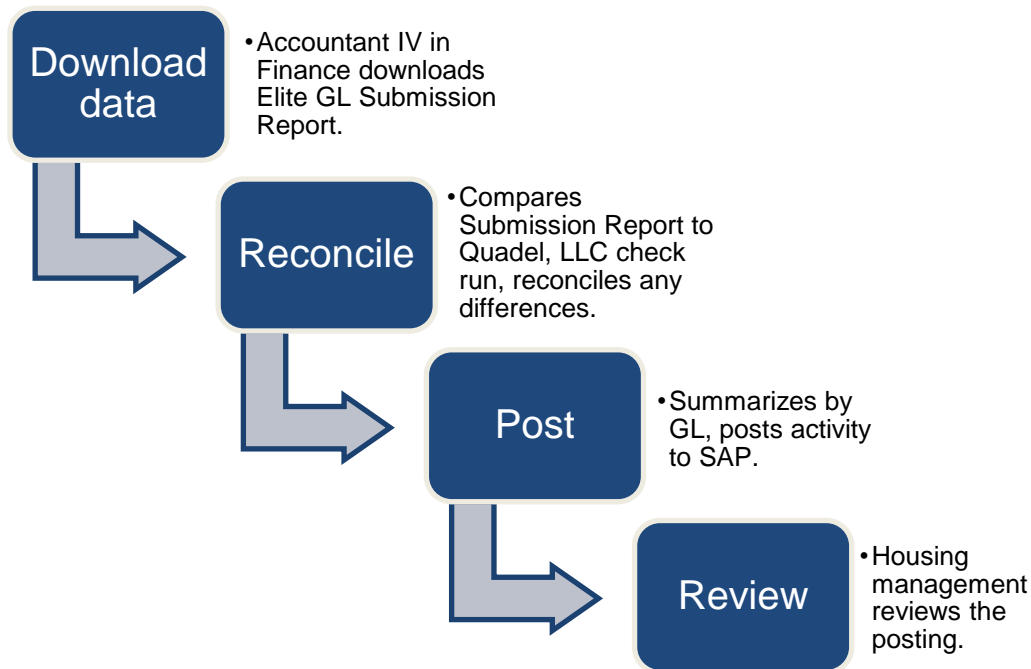
Results

HCV journal entries selected for testing were posted accurately and timely, and the process occurred as per policy. However, procedures to document the review of this process were not in place.

Finance books two journal entries per month to record HCV activity. For the period July 1, 2021, through December 31, 2022, 18 total journal entries were booked. Within these journal entries, approximately 8,100 vouchers per month are paid on behalf of HCV program participants. We judgmentally selected two journal entries for testing from the HCV program. The first journal entry, dated 7/1/2021, contained activity totaling approximately $6 million. The second journal entry, dated 9/1/2022, contained activity totaling approximately $6.2 million. We reperformed the entire process to determine the accuracy of the data posted to SAP.

Housing's processes to post Elite HCV activity to SAP are documented step by step in a written policy. In summary, the process occurs as below:

Process for Posting Elite HCV Activity into SAP

Download data
- Accountant IV in Finance downloads Elite GL Submission Report.

Reconcile
- Compares Submission Report to Quadel, LLC check run, reconciles any differences.

Post
- Summarizes by GL, posts activity to SAP.

Review
- Housing management reviews the posting.

The posting process incorporates multiple controls.

For the HCV journal entries selected for testing, the supporting documents were complete, accurate, and prepared by appropriate personnel. All cost centers and amounts from the Elite data were captured in our recalculation and were subsequently traced to the source worksheet prepared by Finance. The worksheet was then compared to SAP without exception.

At the end of a reporting period, Housing is required to book HCV activity performed even though the payment for the service has yet to be made. We judgmentally selected the 9/30/2021 entry for testing. For the period ended 9/30/2021, Housing needed to accrue approximately $217,000 net HCV revenue in the clearing accounts. To properly reflect the activity of the HCV fund account balances at the end of the reporting period, the revenue in the clearing account is accrued to the next period. The first day of the next reporting period, the accrual was reversed to accurately account for the Section 8 activity in the subsequent period.

The journal entry selected for testing tied out to the supporting detail and all the appropriate SAP accrual accounts, except for one item. There was $2,521 in revenue clearing that had a credit balance and should have been offset to an accrued payable rather than offsetting the accrued receivable as posted. The net effect of this error was zero, since the accrual was appropriately reversed the first day of the next reporting period, and the error was one of classification rather a missing amount. For the accrual

entry selected for testing, the accrual was deemed properly prepared and accurate. No other exceptions were noted.

The last step in Housing's posting process is a review by Housing management. After the journal entry is posted in SAP, the reconciliation documentation is attached and archived. An email is sent to Housing notifying them that the journal entry is available for review. Per Housing management, this procedure is performed but it is not documented. Accordingly, evidence that a review was performed was not available. The review process is critical to help prevent errors such as posting to incorrect accounts or transposition of numbers.

Housing's HCV posting process was designed with adequate segregation of duties.

Another critical element of the internal control environment that helps prevent errors or misappropriation of assets is the segregation of duties. In Housing's posting procedure, no individual performs consecutive tasks in the process. Quadel, LLC is booking the activity in Elite, the City's Finance department is downloading that activity and posting it to SAP, and Housing is reviewing the posting. The design of Housing's procedure for posting of Elite activity in SAP had adequate segregation of duties.

All Elite accounts within the system were able to be matched to a corresponding account in SAP.

With activity occurring in a separate database from the system of record, there is risk that activity is not being captured in totality when it gets posted to the system of record. In order to establish that Housing is capturing activity completely, we obtained a download of all Elite accounts present in the HCV module. There were 2,610 accounts, with 1,685 set up and in use and 925 accounts inactive. We also obtained the City's chart of accounts from SAP and joined the two lists based on account number. All Elite accounts were able to be matched to a corresponding SAP account.

Recommendation

1.1 Retain an initialed, reviewed copy of the journal entry postings (with support documentation) to be filed, to ensure that management reviews have occurred.

2 – Affordable Public Housing Program

Background

HUD established the PH program to provide rental housing for eligible low-income tenants. The City of Phoenix owns and operates Public Housing apartment communities throughout the Phoenix area. Apartments range in size from one to five bedrooms with electric and water utilities included. Up to 30 percent of a participant's monthly income goes toward rent. Tenants typically pay their rent through the City's cashiering system or mail-in payments that are captured by the City's lockbox. In the City's PH program, there were approximately 520 public housing units, with HUD funding of approximately $11.6 Million for fiscal year 2022, and $9.4 Million for fiscal year 2023. Total tenant rent received for the scope period July 1, 2021, through December 31, 2022, was approximately $3.5 Million.

The City's general ledger and system of record for accounting is SAP. For the City to report Housing activity, data from Elite must be posted to SAP. This process involves a system of reconciliations, data downloads, and reviews to post accurately.

We interviewed staff and reviewed Housing's policies and procedures governing posting of Elite activity to SAP for PH. Additionally, we performed testing by sampling journal entries and reperforming the process from start to finish.
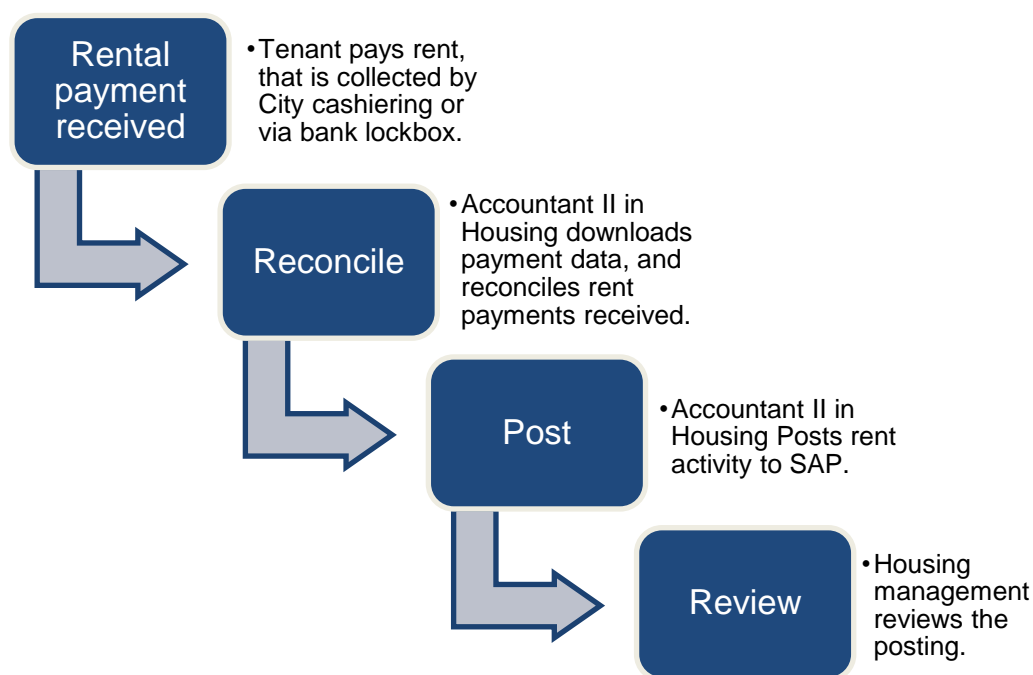
Results

PH journal entries selected for testing were posted accurately and timely, and the process occurred according to policy. However, procedures to document the review of these transactions were not in place.

The majority of tenants in the PH program typically pay on the first of the month, but payments are collected daily and posted throughout the month. There were 394 journal entries booked during the scope period. We judgmentally selected two daily journal entries for testing from the PH program. The first journal entry, dated 9/15/2022, contained activity totaling approximately $5,600. The second journal entry, dated 11/15/2022, contained activity totaling approximately $10,000. We reperformed the reconciliation process of tenant rent payments received from the City's cashiering system to the Elite accounts receivable report, verified the posting of rent payments to SAP, and verified that management reviewed the accuracy of the process.

Housing's procedures to post Elite PH activity to SAP are documented step by step in a written policy. In summary, the process occurs as below:

Process for Posting PH Activity into SAP

Rental payment received	• Tenant pays rent, that is collected by City cashiering or via bank lockbox.
Reconcile	• Accountant II in Housing downloads payment data, and reconciles rent payments received.
Post	• Accountant II in Housing Posts rent activity to SAP.
Review	• Housing management reviews the posting.

The process incorporates multiple controls.

For the PH journal entries selected for testing, the supporting documents were complete, accurate, and prepared by appropriate personnel. All tenant rents received from the payment data were captured in our recalculation and subsequently verified to SAP without exception.

The last step in Housing's posting process is a review by Housing management. After the journal entry is posted in SAP, the reconciliation documentation is attached and archived. At month end, Housing management reviews the daily tenant rent postings. Per Housing management, this procedure is performed but it is not documented, and accordingly, evidence that a review was performed was not available. The review process is critical to help prevent errors such as posting to incorrect accounts or the transposition of numbers. See recommendation 1.1.

Housing's PH posting process was designed with adequate segregation of duties.

A critical element of the internal control environment that helps prevent errors or misappropriation of assets is the segregation of duties. In Housing's procedure, no individual performs consecutive tasks in the process. City cashiering or the bank lockbox collects tenant rent payments. Housing accounting staff then download that activity and post it to SAP. Housing management reviews the posting. The design of Housing's procedure for posting of Elite PH activity in SAP had adequate segregation of duties.

Recommendation

None

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Scope, Methods, and Standards

Scope

We evaluated data posted to SAP from the Elite system from July 1, 2021, through December 31, 2022.

The internal control components and underlying principles that are significant to the audit objectives are:

- Control Activities
  - Management should design control activities to achieve objectives and respond to risks.
  - Management should design the entity's information system and related control activities to achieve objectives and respond to risks.
  - Management should implement control activities through policies.
- Monitoring Activities
  - Management should establish and operate activities to monitor the internal control system and evaluate the results.

Methods

We used the following methods to complete this audit:

- We interviewed City management and staff.
- We reviewed Housing department policies and procedures.
- We tested Elite activity posted to SAP.
- We performed data validation procedures on Elite and iNovah data.

Unless otherwise stated in the report, all sampling in this audit was conducted using a judgmental methodology to maximize efficiency based on auditor knowledge of the population being tested. As such, sample results cannot be extrapolated to the entire population and are limited to a discussion of only those items reviewed.

Data Reliability

SAP data was previously determined to be reliable through an independent audit review. We assessed the reliability of Elite and iNovah data by (1) performing electronic testing, (2) reviewing existing information about the data and the system that produced it, and (3) interviewing agency officials knowledgeable about the data. We determined that this data was sufficiently reliable for the purposes of this audit.

Standards

We conducted this performance audit in accordance with generally accepted government auditing standards. Those 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. Any deficiencies in internal controls deemed to be insignificant to the audit objectives but that warranted the attention of those charged with governance were delivered in a separate memo. We are independent per the generally accepted government auditing requirements for internal auditors.

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