



McCLURE & WOLF, LLP

CERTIFIED PUBLIC ACCOUNTANTS

Established 1926

538 MORGANTOWN STREET
UNIONTOWN, PA 15401-5412

TELEPHONE 724-437-2000
FAX 724-438-8566

www.mcclurewolfcpas.com

JEFFREY W. McCABE, CPA
ELI T. ELIAS, JR., CPA
CLAYTON E. GREGG IV, CPA
AMANDA J. SMITH, CPA
DREW D. DuPONT, CPA

INDEPENDENT AUDITORS' REPORT

Board of Housing Commissioners
Fayette County Housing Authority
624 Pittsburgh Road
Uniontown, PA 15401

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Fayette County Housing Authority (the Authority), as of and for the year ended June 30, 2022, and the related notes to the consolidated financial statements, which collectively comprise the Authority's consolidated financial statements as listed in the table of contents.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Authority, as of June 30, 2022, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for one year after the date that the financial statements are issued or when applicable, within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 12; and the Schedule of Changes in Total OPEB Liability on page 34 be presented to supplement the consolidated financial statements. Such information, although not a part of the consolidated financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the consolidated financial statements, and other knowledge we obtained during our audit of the consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements that collectively comprise the Authority's financial statements as a whole. The accompanying schedule of expenditures of Federal Awards shown on page 40 is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit*

Requirements for Federal Awards, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the above-described supplemental information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 17, 2023, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.



McClure & Wolf, LLP
Uniontown, Pennsylvania
February 17, 2023

Fayette County Housing Authority
Schedule of Findings and Questioned Costs
June 30, 2022

SECTION II—FINANCIAL STATEMENT FINDINGS:

A. MATERIAL WEAKNESS(ES):

2022-001 Control Environment

Criteria:

The 2 CFR section 200.303 requires that non-federal entities receiving federal awards establish and maintain internal control over the federal awards and financial reporting of those awards that provides reasonable assurance that the non-federal entity is managing the federal awards in compliance with federal statutes, regulations, and the terms and conditions of the federal awards.

The control environment is the foundation for an internal control system. It provides the discipline and structure, which affect the overall quality of internal control. It influences how objectives are defined and how control activities are structured. The oversight body and management establish and maintain an environment throughout the entity that sets a positive attitude toward internal control including a commitment to integrity and ethical values.

The non-federal entity is to develop a control environment which demonstrates a commitment to integrity and ethical values by setting a tone at the top whereby those charged with governance and members of management lead by an example that demonstrates the organization's values, philosophy, and operating style. Additionally, standards of conduct should be developed which communicate expectations for integrity and ethical behavior throughout the organization. Lastly, the organization should develop processes to evaluate performance against the standards of conduct previously established to address deviations in a timely manner to ensure policies are being followed. This adherence to established policies is crucial to maintaining compliance with financial reporting and grant compliance standards.

Condition:

For the year ended June 30, 2022, the Authority experienced numerous deficiencies in the control environment related to the tone at the top and adherence to standards of conduct and policies which posed challenges to its financial reporting and compliance over federal grants.

1. We were notified by the HUD field office in May 2022, that the board of housing commissioners had passed a resolution granting it the ultimate authority for the hiring and termination of authority personnel and for the approval of education related travel. Under HUD appropriations guidance, this activity is to be performed by members of management who have obtained the necessary training and understanding of budgetary requirements. This board involvement in the day-to-day operations of the Authority may be in violation of the Authority's ACC contract due to failing to follow the HUD guidelines related to Title 24 of the HUD appropriations guidance. The board later rescinded the resolution in question.
2. During the course of our procedures, we became aware that the board unofficially met with union representatives and indicated a willingness to authorize a change in contract prior to the start of official negotiations, despite the advisement of its general legal counsel to avoid this activity. During the subsequent period, the board appears to have agreed to a change in contract with this union and resolved to execute such contract without the involvement of management. This approval of a union contract without the consultation of trained

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members of management and without consultation of the related housing authority asset management budgets may be an additional instance where the board of housing commissioners is in violations of its ACC contract.

3. During one of the unofficial meetings with union members in the subsequent period, the board advised those members that they would not need to use paid leave for their time in attendance of the meeting. This directive was contrary to the previously developed and approved payroll policies of the Authority. This created additional confusion within the Authority for members of management, as they did not know what they should follow, the directive by the board or the established policy. As a result, the direct supervisors for these individuals refused to approve the employee time sheets because they were not completed properly in accordance with established policy. However, upper management moved forward with paying these individuals despite not having approved time sheets, an apparent violation of the established personnel policy in the subsequent period resulting in questioned costs of \$4,243.15.
4. During review of a contract for masonry work which had followed the Authority's procurement policies, one board member asked why a local company was not being used. It was explained that the company chosen was done so by following the HUD approved procurement policy. The board member is documented in the approved minutes as indicating that there are ways around this.
5. During the year, a maintenance worker who had a positive drug test result was not immediately suspended to await the confirmation of the positive drug test. Instead, the employee was authorized by management to take ten hours of paid time off to await the confirmation. The Authority's policy requires employees to be immediately suspended without pay until the confirmation is received. Furthermore, it was noted that in the month that this issue took place, the typical reporting of drug test activity was missing from the executive director's report to the board and did not return to the report until several months later. This policy was established by the Authority to maintain compliance with the Federal Drug-Free Workplace Act. Additionally, the PTO paid to this employee contrary to the established policy results in a questioned cost of \$220.
6. During the year, the Authority did not properly follow its policy regarding the personal use of Authority tools and equipment. The policy requires an approved sign-out sheet to be maintained. However, the Authority has not kept sign-out sheets in accordance with this policy.
7. We became aware of a non-exempt office employee who has been working overtime but not entering their time for payroll purposes and therefore, not being paid overtime compensation. While every indication is that the employee may have done this of their own volition, this failure to follow policy may still present a risk to the Authority under the Federal Fair Labor Standards Act.

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Cause:

Newer board members may not be fully aware of their roles and responsibilities related to the HUD appropriations guidelines or the ACC contract. However, several members have been on the board for many years and have received HUD training and therefore should be aware of these responsibilities. The confusion created by the board's actions have then resulted in several instances when management then believes it also must breach established policies. Overall, there lacks a cohesive environment where both management and governance abide by the approved policies of the Authority in a consistent manner to achieve the mission and objectives of the Authority.

Effect or potential effect:

The board's apparent willingness to disregard both HUD appropriations guidance regarding the separation of duties between management and those charged with governance, as well as its own internally developed policies and procedures demonstrates a material weakness in the control environment of the Authority. Additionally, the lack of adherence to standards of conduct and policies by management further displays the result of this weak control environment. This condition could result in actions or transactions which do not meet federal expenditure standards. This could result in sanctions by HUD who could withhold funding or result in reductions of the Authority's performance score in the HUD Financial Assessment Subsystem (FAAS) which could also have an impact on the funding of the Authority.

Additionally, the subsequent authorization of a union contract without the involvement of management or consideration of the asset management budget of the Authority could create questioned costs which would not be chargeable against federal grant funds. This could create additional sanctions by HUD or require the Authority to pay these funds back since they were not properly approved in accordance with HUD appropriations guidelines.

Furthermore, the lack of adherence with policies and procedures have created potential compliance issues for the Authority. The policy for personal use of tools and equipment was established to safeguard assets purchased with federal funding. The lack of adherence to this policy potentially placed federally funded assets at risk. Also, the Authority's inconsistent handling of payroll overtime and documentation issues creates a potential regulatory issue related to the Federal Fair Labor Standards Act, while the lack of adherence to its drug-testing policy may create a regulatory issue related to the Drug-Free Workplace Act.

Recommendation:

Management should work closely with the HUD field office to correct the weaknesses in its control environment. All Authority policies and standards of conduct should be reviewed, updated, and communicated to all members of the board, members of management, and employees.

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Views of responsible officials:

The Authority acknowledges this finding and has provided a corrective action plan to address the material weaknesses in the control environment.

B. NONCOMPLIANCE WITH PROVISIONS OF LAWS, REGULATIONS, CONTRACTS, AND GRANT AGREEMENTS:

Finding 2022-001 includes potential instances of noncompliance with provisions of laws, regulations, contracts, and grant agreements which have either occurred or are likely to have occurred related to the following:

1. Code of Federal Regulations Title 24-Housing and Urban Development.
2. The annual contributions contract between HUD and the Authority.
3. Federal Fair Labor Standards Act.
4. Federal Drug-Free Workplace Act.

Whether a particular act is, in fact, noncompliance with provisions of laws, regulations, contracts, and grant agreements may have to await final determination by a court of law or other adjudicative body.

SECTION III—FEDERAL AWARD FINDINGS:

A. MATERIAL WEAKNESS(ES):

Finding 2022-001 related to the Control Environment of the Authority is also considered to be a material weakness in internal controls over the Authority's ability to comply with federal award program requirements of 2CFR Section 200.303.