




U.S. Department of Housing and Urban Development
District Office of the Inspector General
Office of Audit
Richard B. Russell Federal Building
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Atlanta, GA 30303-3388
(404) 331-3369

December 17, 2001

Audit Memorandum
2002-AT-1804

MEMORANDUM FOR: Arthur L. Wasson, Director, Public Housing Division, 4IPH

FROM: Nancy H. Cooper 
District Inspector General for Audit-Southeast/Caribbean, 4AGA

SUBJECT: Waverly Housing Authority
Waverly, Tennessee

At your request, we completed a limited review of the Waverly Housing Authority (Authority). Our primary objective was to determine the extent of funds diverted by the former Executive Director (ED) and identify any other potential fraud.

METHODOLOGY AND SCOPE

To accomplish the objectives, we:

- Reviewed Department of Housing and Urban Development (HUD) records;
- Reviewed Authority records;
- Interviewed HUD and Authority staff; and,
- Inspected 13 of the Authority's 70 public housing units.

We limited our review primarily to cash receipts and disbursements, procurement, tenant accounts, and property conditions. Our review generally covered the period October 1, 1999, through June 30, 2001. We conducted our review from June 22, 2001, through August 31, 2001. We conducted the review in accordance with generally accepted government auditing standards.

BACKGROUND

The Authority administers 70 low rent public housing units. A five member Board of Commissioners (Board), appointed by the Mayor, administers the Authority. Its office is located at 35 West Brookside Drive, Waverly, Tennessee.

The Independent Public Accountant's audit report for fiscal year ended September 30, 2000, questioned "bonuses" the former ED paid to himself, his wife, and Authority staff. The bonuses totaled \$49,750 for the fiscal year. The Authority's Board Chairman notified HUD's Public Housing Director in Nashville, Tennessee, of the diversions. Following an on-site review, the Director issued a report on June 11, 2001, stating the former ED diverted over \$165,000 during fiscal years 2000 and 2001. The report also concluded there was "...a general lack of proper management oversight in all program areas..." Because of the problems, you requested OIG audit the Authority.

The former ED and the bookkeeper resigned in March 2001. The only remaining office staff was the Occupancy Clerk. Thus, the Board contracted with the Dickson Housing Authority, Dickson, Tennessee, for management. On July 11, 2001, HUD's Nashville office issued Limited Denials of Participation restricting participation by the former ED and bookkeeper in HUD's programs.

SUMMARY

Because of mismanagement, abuse, and a lack of internal controls, the Authority is financially troubled and tenants are living in housing that is not decent, safe and sanitary. As discussed in Finding 1, between May 2000 and December 2000, the former ED diverted \$165,630. He diverted the funds to himself, his wife, and Authority staff. In a possible attempt to conceal or justify the diversions, the ED submitted a budget revision requesting an additional \$14,138, including funds for employee bonuses. When the Board and HUD approved the revision, they were unaware the ED had already paid bonuses totaling \$49,750.

Our review also confirmed HUD's finding that the Authority had a general lack of proper management oversight in all program areas. We found:

- Insufficient Board oversight;
- Poor financial conditions;
- Poor property conditions;
- Inadequate management controls;
- Inappropriate, inefficient, and undocumented expenditures; and,
- Missing, incomplete, and falsified records.

Because of the poor condition of the records, we could not fully assess operations. For example, because tenant records were in such disarray, we could not determine tenant eligibility or verify their rents were properly calculated.

We recommend you require the Authority to collect \$165,630 through its fidelity insurance policy or from the persons that received the inappropriate payments. Also, you should take appropriate actions, including administrative sanctions and employment terminations, to protect the interest of the Secretary of HUD and the Authority. Additionally, you should ensure the Board is properly trained to oversee the Authority and ensure the Authority is provided acceptable long-term management. You should also consult with the Memphis Troubled Agency

Recovery Center (TARC) and develop a plan to provide much needed financial and technical assistance to the Authority.

Details of the findings and recommendations are in Attachment A.

Please furnish to this office a reply within 60 days for each recommendation describing: (1) the corrective action taken; (2) the proposed corrective action and a planned implementation date; or (3) why action is not considered necessary. Also, please furnish us copies of any correspondence or directives issued because of the review. Note that Handbook 2000.06 REV-3 requires management decisions to be reached on all recommendations within 6 months of report issuance. It also provides guidance regarding interim actions and the format and content of your reply.

We provided a copy of this memorandum to the Authority.

If you have any questions, please contact me at (404) 331-3369 or Jerry Kirkland, Assistant District Inspector General for Audit, at (865) 545-4368.

Attachments:

- A – Findings and Recommendations
- B – Schedule of Bonus Payments
- C – Schedule of Ineligible Expenditures
- D – Auditee Comments
- E – HUD Comments
- F - Distribution

FINDINGS AND RECOMMENDATIONS

Finding 1: Former ED Diverted \$165,630 of Authority Funds

The Authority's former ED diverted \$165,630 of Authority funds. This occurred because the Authority did not have adequate management controls and the ED did not apprise the Board of transactions or the Authority's financial condition. Also, the Board was not fully aware of its duties and responsibilities for overseeing the Authority. As a result, the Authority is financially troubled and the funds are not available to ensure tenants are provided decent, safe, and sanitary housing. We recommend you require the Authority to collect \$165,630 through its fidelity insurance policy or from the persons that received the inappropriate payments. Also, you should take appropriate actions, including administrative sanctions and employment terminations, to protect the interest of the Secretary of HUD and the Authority. Additionally, you should ensure the Board of Commissioners is properly trained to oversee the Authority and ensure the Authority is provided acceptable long-term management. You should also consult with the Memphis TARC and develop a plan to provide much needed financial and technical assistance to the Authority.

The ED diverted \$165,630

In violation of requirements, the ED diverted \$165,630 of Authority funds to himself, his wife, and Authority staff. In a possible attempt to conceal or justify the diversions, the ED submitted a budget revision dated August 31, 2000, to the Board and HUD requesting an additional \$14,138. Among other items, the budget revision included bonuses of \$5,176 to the ED, \$3,500 each for the part-time bookkeeper and occupancy clerk, and \$2,500 for the maintenance mechanic. The Board approved the budget revision even though it conflicted with the Authority's personnel policy. When the Board and HUD approved the revision, they were unaware the ED had already paid bonuses totaling \$49,750. The bookkeeper recorded all of the payments as bonuses or salary payments in the accounting records.

The diversions occurred between May 25, 2000, and December 15, 2000. Appendix B is a detailed schedule of the payments. Below is the gross amount paid to each recipient and their annual salaries:

<u>Recipient</u>	<u>Bonus</u>	<u>Salary</u>
Part-time Bookkeeper	\$ 40,950	\$10,754
Occupancy Clerk	40,950	12,792
Former Executive Director	39,115	16,718
Maintenance Mechanic	38,365 ¹	22,963
Executive Director's wife	5,000	0
Part-time maintenance	<u>1,250</u>	<u>11,375</u>
Total	<u>\$165,630</u>	<u>\$74,602</u>

¹ The Maintenance Mechanic and the Occupancy Clerk are married.

The Authority's personnel policy permits "incentive payments" when an employee's efforts result in direct cost savings. However, the payments are limited to the lower of 5 percent of an employee's salary or \$1,000 annually. The employees knew, or should have known the payments violated the personnel policy. Thus, they had a responsibility to report the matter to the Board. Further, the Board did not approve the payments as required by the personnel policy.

The ED was required to provide an account of transactions and a report on the Authority's financial condition to the Board. We reviewed the minutes from 16 Board meetings and did not find any evidence the ED provided the required financial reports. Further, the Authority's bylaws required the Board Chairperson to sign all checks. However, we found the ED and the Occupancy Clerk signed checks, including the bonus checks, without review or approval by a Board member. While the ED may have concealed the payments from the Board, the Board was not fully aware of its duties and responsibilities for overseeing the Authority. We recommend you ensure the Board is properly trained to oversee the Authority.

Public housing units were not decent, safe, and sanitary

The diversions had a significant impact on the Authority's ability to provide quality housing. The Authority is required to provide decent, safe, and sanitary housing for its tenants. Further, HUD provided \$274,531 of modernization funds to the Authority to assist it in ensuring its housing was adequate. Of the \$274,531 (\$140,239 + \$134,292) of modernization funds received, the Authority only used about \$52,000 for property improvements.

The Authority's developments were built during the 1950s and 1960s. We inspected 13 of the Authority's 70 public housing units. We found the units to be in a general state of disrepair and in dire need of systems upgrades. The units had outdated heating/cooling systems and electrical systems. Most, if not all, windows and doors need to be replaced. The units also need routine maintenance, such as painting and repair/replacement of attic vents, gutters and downspouts. HUD's fiscal year 2000 physical assessment classified the Authority as "near troubled" because of the "Substandard Physical" condition of its units.

The heating/cooling systems and electrical systems need to be upgraded immediately. The Authority has not installed air conditioners in any of its units even though many of its residents are elderly. The only source of heat in the one and two bedroom units is a gas heater in the front room. The heater is not vented to the rest of the unit. According to the tenants, the heater does not adequately heat the units.

The units appear to have the originally installed 60 amp electrical system. The system is not adequate to support usage of many modern appliances, such as clothes dryers and window air conditioners. The Authority permitted residents to modify their units to accommodate such appliances. Many tenants modified their electrical systems, which resulted in numerous hazards. We found holes in concrete block walls to accommodate supplemental wiring, wires not in protective conduit, and wires strung on the outside of interior walls rather than within the walls. It appeared that the tenants made the modifications rather than a professional electrician. This could increase the risk of electrical shock or fires.

The units also still had the original aluminum-framed, non-insulated windows. The windows were severely deteriorated and in need of replacement. Similarly, the light duty aluminum storm doors were deteriorated. Most doors had missing closers, latches, or other deficiencies.

Units did not appear to have been painted for several years. The metal porch posts and handrails were rusted and had flaking paint. Likewise, most units had peeling/flaking paint on the interior walls and doors.

The developments also lacked suitable playground equipment for the children. The Authority had three developments, but the only play equipment was a rusted swing at the Authority office. We noted that children regularly used the swing. They should be entitled to proper playground equipment. However, rather than providing adequate playground equipment for the children, the Authority personnel diverted funds for their personnel benefit.

Modernization grant funds were diverted

The Authority relies on its operating subsidy from HUD and tenant rent receipts to pay its routine operating expenses. The Authority also received modernization grants from HUD, \$140,239 of Comprehensive Improvement Assistance Program (CIAP) funds for fiscal year 2000, and Capital Funds of \$134,292 for fiscal year 2001. These modernization grants were for non-routine expenditures such as building improvements. This includes major renovations, such as replacing worn electrical, plumbing and other major systems, or renovating dilapidated or outdated units.

HUD places restrictions on Authority funds through an Annual Contributions Contract (ACC), the Code of Federal Regulations, and grant agreements. The ACC required the Authority to operate the projects, at all times, in a manner that promotes serviceability, economy, efficiency, and stability. It also required the Authority to only incur operating expenses pursuant to an approved operating budget. Because HUD designated the Authority as “near troubled”, HUD required it to submit its annual budget for approval. The grant agreements require the Authority to use the funds for capital and management activities designed to ensure its developments are available to serve low-income families.

Because the Authority commingled its funds into one bank account, we could not specifically identify the source of the diverted funds. However, of the \$274,531 (\$140,239 + \$134,292) of modernization funds received, the Authority only used about \$52,000 for property improvements. Because the operating subsidy and tenant rent receipts are intended to pay the operating expenses, it appears the remaining modernization funds were either diverted or used for other inappropriate expenses.

In one instance, modernization funds were clearly diverted. On November 6, 2000, the Authority prepared “bonus” checks totaling \$43,472. On the same day, the bookkeeper requested, through HUD’s electronic funds transfer system, \$140,239 from the Authority’s fiscal year 2000 modernization grant. HUD transferred the funds into the Authority’s bank account on November 8, 2000. Prior to the deposit, the Authority’s bank account was overdrawn by more than \$4,000. By November 9, 2000, all the “bonus” checks had cleared the account.

The authority was financially troubled

The diversions had a significant impact on the Authority's financial condition. Because of the diversions and poor management, the Authority was financially troubled. The Authority's bank account was often overdrawn which required the Authority to pay penalties to the bank. For example, in July 2000, the account was overdrawn four times and the Authority incurred \$88 in penalties. This likely occurred because the Authority paid \$39,000 in "bonuses" in June 2000. Again in November 2000, the Authority incurred \$66 in penalties, shortly after paying bonuses of \$38,830 in October and \$56,800 in November. Although the penalties are not large, given the Authority's small operating budget and the physical condition of units, the penalties demonstrate the poor management.

Also, because the Authority did not have adequate funds, it liquidated its investments to pay operating expenses. On October 1, 1999, the Authority had investments of \$51,600. As of March 31, 2001, the Authority only had \$33,000 of its investment funds remaining. Because of inadequate operating fund, in April 2001 the Board Chairman had to use another \$3,000 of the investment funds to pay past due utility bills

Authority comments

In its November 26, 2001, response to the draft report, the Authority agreed with the finding, but did not agree with some of the draft recommendations. Primarily, it did not agree that the City of Waverly should be liable for any funds not recovered through insurance and did not feel the Authority should be turned over to HUD or the TARC. While there is a lot of work needed at the Authority, the ED of the Dickson Housing Authority, management agent, believes progress has already been made and with help from HUD the Authority can become a high performer.

HUD comments

In your November 13, 2001, response to the draft, you generally agreed with the finding. However, you had concerns with some of the recommendations. Specifically, you stated that HUD has neither the authority to require nor the means to force the City of Waverly to pay amounts not paid by the bonding company. You also did not agree that HUD should take over the Authority or that oversight should be transferred to the TARC. Further, you did not feel that actions should be taken against the Board.

OIG response to comments

On November 28, 2001, we met with the PIH Directors from the Louisville, KY, and Nashville, TN, HUD offices, and representatives from the Authority to discuss the draft report and reach agreement on the recommendations. We agreed the City of Waverly could not be held liable for the diversions; rather, amounts should be recovered through the Authority's fidelity insurance policy or from the persons that received the inappropriate payments. We also agreed the Authority should obtain and maintain responsible management by either: (1) combining it with the Dickson Housing Authority, or (2) entering into a long-term management agreement with the Dickson Housing Authority or another acceptable entity. We also agreed that you would consult

with the TARC regarding possible financial and technical assistance for the Authority. You will also ensure the Board receives adequate training and provides proper oversight to the Authority.

We made changes to the recommendations based on the comments and our discussions. We also made some revisions to the draft finding.

Recommendations

We recommend you:

- 1A. Require the Authority to recover the diverted funds of \$165,630 through its fidelity insurance policy or from the persons that received the inappropriate payments.
- 1B. Require the Authority to terminate all staff involved in the diversion of funds.
- 1C. Ensure the Authority obtains and maintains responsible management and staff either by; (1) combining it with the Dickson Housing Authority, or (2) entering into a long-term management agreement with the Dickson Housing Authority or another acceptable entity.
- 1D. Consult with the Memphis Troubled Agency Recovery Center and develop a plan to provide much needed financial and technical assistance to the Authority.
- 1E. Ensure the Board receives adequate training and provides proper oversight to the Authority.
- 1F. Take appropriate administrative sanctions against the Occupancy Clerk.
- 1G. Take appropriate administrative sanctions against the Maintenance Mechanic.

Finding 2: The Authority Did Not Have Adequate Management Controls

Authority expenditures were inappropriate, inefficient, and undocumented. Also, numerous records were missing, incomplete, falsified or in disarray. This occurred because Authority management did not establish effective management controls. As a result, the Authority was financially troubled, tenants were deprived of decent safe and sanitary housing, and we were unable to fully audit Authority operations. We recommend you ensure the Authority establishes policies and procedures necessary for an effective management control system.

Inadequate management controls

Title 24 of the Code of Federal Regulations, Part 85, requires the Authority to maintain effective control and accountability for all cash, property and other assets. Management is responsible for establishing effective management controls including:

- Methods and procedures to ensure its goals are met;
- Processes for planning, organizing, directing and controlling program operations; and
- Systems for measuring, reporting and monitoring program performance.

We found the Authority's controls were virtually nonexistent.

We found little evidence of written policies and procedures. Even when written policies and procedures existed, staff routinely ignored them. For example, except for a part-time maintenance employee, all employees collected tenant rent payments, wrote rent receipts and made the bank deposits. We also found that the ED's wife, not an Authority employee, signed rent receipts. Other examples of inadequate or missing controls included:

- No written job descriptions;
- Missing employee personnel files; and,
- No periodic inventories of assets and incomplete asset records.

We also found:

- Inappropriate, inefficient, and undocumented expenditures;
- Unreconciled bank statements; and,
- Missing, incomplete, and falsified records.

Inappropriate, inefficient and undocumented expenditures

The Authority was financially troubled before the cash diversions discussed in Finding 1 began. This was due largely to poor management and lack of controls. For example, we found numerous instances of inappropriate, inefficient, and undocumented uses of funds. Also, the Authority frequently incurred costs that were not in its approved budget. As a result, the Authority was often overdrawn on its bank account and did not have funds available to maintain its units. Since the Authority was financially troubled, management should have ensured that

funds were used prudently. However, management routinely incurred unreasonable expenses, including:

- Numerous video games and other personal computer software;
- Cable television for the office;
- Late fees and bank overdraft charges;
- IRS tax penalties for failing to make timely employee withholding tax deposits. From November 1999 through March 2001, the penalties totaled \$1,543;
- Overly generous health insurance benefits for employees including part-time staff. The Authority paid about \$13,000 annually for its two part-time employees' insurance;
- About \$10,000 annually to the employees Deferred Compensation Plan, for which employees contributed only a token amount; and,
- Employees' medical expenses for some costs that were not covered by employees' insurance.

The Authority also purchased three copiers, including one for over \$6,000, a color copier that was seldom used, and a standard copier that was missing from the Authority's office. It also spent about \$1,200 to remodel the conference room. Given the poor financial condition and poor physical condition of units as discussed in Finding 1, these purchases were unreasonable.

Further, the Authority routinely ignored its procurement policy designed to ensure fair and open competition. The Authority purchased a copier, refrigerators, furnaces and other items without bids. It did not maintain procurement files documenting the propriety of purchases.

Numerous records were missing, incomplete, falsified or in disarray

Personnel files for the former ED and Bookkeeper were missing. Tenant files were missing required documentation, such as leases and income information. Many of the leases that were in the files did not include required information, such as the rent amount.

Further, in many cases tenant rent amounts on the rent register did not match the rents calculated in the tenant files or the amounts collected from tenants. Routinely, the amounts collected were more than the amounts due according to the rent register. As a result, tenants' accounts would show the tenants overpaid their rents. In order to remove these overpayments from the books of record, employees created fictitious work orders showing maintenance charges to the tenants. We interviewed some tenants, none of whom had any knowledge of the overpayments or the work orders.

Also, the Authority submitted an operating budget to HUD that included the potential tenant rent income. The potential rent was based on the rent register, which was inaccurate. HUD paid the Authority operating subsidy based on the inaccurate potential rent. Thus, it appears that HUD overpaid the subsidy. Because of the poor condition of the records, we were unable to substantiate the amounts overpaid.

Given the lack of management controls and the poor condition of the records, there was a significant potential for fraud and abuse. The Authority must implement effective controls.

Authority comments

The Authority agreed with the finding and the recommendations. The Authority has implemented some new policies and procedures and taken other positive steps to improve operations.

HUD comments

HUD agreed with the finding and recommendations.

OIG response to comments

The Authority and HUD are in agreement with the finding and recommendations and have begun taking positive steps toward correcting weaknesses. We did not make any changes to the draft finding or recommendations based on the comments.

Recommendation

We recommend you:

- 2A. Ensure the Authority establishes policies and procedures necessary for an effective management control system.
- 2B. Require the Authority to review all tenant files to ensure records are complete and accurate, including reviewing tenant account balances.
- 2C. Closely monitor the Authority's operations and provide appropriate technical assistance.

SCHEDULE OF BONUS PAYMENTS

EMPLOYEE	CHECK DATE	AMOUNT	EMPLOYEE	CHECK DATE	AMOUNT
Bookkeeper	05/31/00	\$ 2,500	Maintenance Mechanic	05/31/00	\$ 2,500
	06/06/00	4,750		06/06/00	4,750
	06/15/00	4,750		06/15/00	4,750
	10/15/00	6,475		10/15/00	6,475
	10/17/00	4,525		10/17/00	1,940
	11/06/00	12,950		11/06/00	12,950
	12/15/00	5,000		12/15/00	5,000
Employee Total		\$ 40,950	Employee Total		\$ 38,365
Occupancy Clerk	05/31/00	\$ 2,500	Maintenance Aid	05/31/00	\$ 250
	06/06/00	4,750		06/06/00	250
	06/15/00	4,750		11/06/00	500
	10/15/00	6,475		12/15/00	250
	10/17/00	4,525			
	11/06/00	12,950			
	12/15/00	5,000			
Employee Total		\$ 40,950	Employee Total		\$ 1,250
Executive Director	05/31/00	\$ 2,500	Executive Director's Wife	05/25/00	\$ 500
	06/06/00	5,500		11/06/00	4,500
	06/15/00	4,750			
	10/15/00	6,475			
	10/17/00	1,940			
	11/06/00	12,950			
	12/15/00	5,000			
Employee Total		\$ 39,115	Employee Total		\$ 5,000

SCHEDULE OF INELIGIBLE EXPENDITURES

<u>Recommendation</u>	<u>Ineligible²</u>
1B	\$165,630

² Ineligible amounts obviously violate law, HUD or local agency policies or regulations.

AUDITEE COMMENTS



THE DICKSON HOUSING AUTHORITY

333 Martin Luther King Blvd.
EVANS HEIGHTS APARTMENTS
DICKSON, TENNESSEE 37055
PHONE (615) 446-4708
FAX (615) 441-1391

CHAIRMAN
JOE F. YOUREE
EXECUTIVE DIRECTOR
BUFORD L. REED, JR.

NOVEMBER 26, 2001

MS. NANCY COOPER, DISTRICT
INSPECTOR GENERAL
DEPARTMENT OF HUD
OFFICE OF AUDIT BOX 43
RICHARD RUSSELL FEDERAL BUILDING
75 SPRING STREET SW, ROOM 330
ATLANTA GA 30303-3388

DEAR MS. COOPER:

THIS LETTER IS WRITTEN IN RESPONSE TO THE DRAFT REVIEW OF THE WAVERLY, TENNESSEE HOUSING AUTHORITY COMPLETED BY YOUR OFFICE. THE DICKSON HOUSING AUTHORITY, AT HUD'S REQUEST, IS NOW MANAGING THE WAVERLY HOUSING AUTHORITY. SINCE MY INVOLVEMENT WITH WAVERLY, I HAVE GAINED CERTAIN INSIGHTS AND OPINIONS THAT I WOULD LIKE TO SHARE WITH YOUR OFFICE PRIOR TO THE ISSUANCE OF YOUR FINAL CONCLUSIONS.

THE BOARD OF COMMISSIONERS OF THE WAVERLY HOUSING AUTHORITY WERE REPEATEDLY STRUNG ALONG AND "HOOD WINKED" BY AUTHORITY STAFF. THEY WERE SHOWN CERTIFICATES OF HIGH PERFORMANCE AND CRITICAL INFORMATION WAS WITHHELD FROM THEM. THE BOARD HAS SUFFERED AS A RESULT OF THE STAFF ACTIONS, PARTICULARLY THE CHAIRMAN. MR. CLAYTON HAS PUT FORTH TREMENDOUS EFFORT TO TRY TO RECTIFY THE PROBLEMS THAT HAVE OCCURRED.

AS MANAGING AGENT FOR THE WAVERLY HOUSING AUTHORITY, THE DICKSON HOUSING AUTHORITY IS IMPLEMENTING A NEW ACOP AND ATTENDANT POLICIES AND PROCEDURES THAT WILL BRING WAVERLY HOUSING AUTHORITY IN COMPLIANCE WITH HUD REGULATIONS AND STATE LAW. I DO NOT SEE THE BENEFIT IN INVOLVING TARC UNLESS THEY CAN BRING FINANCIAL ASSISTANCE TO ENABLE US TO UPGRADE THE PHYSICAL CONDITION OF THE UNITS.

IT IS NOT FEASIBLE TO ASK THE CITY OF WAVERLY TO REPAY FUNDS THAT ARE NOT COVERED BY THE FIDELITY BOND. FROM A POLITICAL AND MANAGEMENT PERSPECTIVE, SUCH A REQUEST WOULD BE DETRIMENTAL TO THE CONTINUED OPERATION OF THE WAVERLY HOUSING AUTHORITY. AGAIN, THE DICKSON HOUSING AUTHORITY, AS MANAGING AGENT, INTENDS TO TURN WAVERLY INTO A HIGH PERFORMING HOUSING AUTHORITY, GIVEN THE TIME AND RESOURCES TO DO SO. WE WANT TO CONTINUE TO WORK WITH HUD AND

TARC TO ACHIEVE THIS GOAL. I AM ALSO WORKING WITH OTHER AGENCIES AND GRANT POSSIBILITIES TO ASSIST IN THE UPGRADE OF THE UNITS.

IN REGARD TO STAFFING ISSUES AT WAVERLY, THE OCCUPANCY CLERK HAS RESIGNED. AFTER OUR EXIT CONFERENCE, I WANT TO TERMINATE THE MAINTENANCE MECHANIC. WE INTEND TO START FRESH, TRAINING NEW EMPLOYEES IN THE PROPER AND LAWFUL OPERATION OF A PUBLIC HOUSING AUTHORITY. THE ONGOING TRAINING AND IMPLEMENTATION OF HUD APPROVED POLICIES AND PROCEDURES WILL BE MODELED AFTER THE DICKSON HOUSING AUTHORITY'S OPERATIONS. WE INTEND TO BEGIN A REVIEW OF ALL TENANT FILES AND BRING THEM INTO COMPLIANCE. WE HAVE ALREADY BEGUN TO GET THE TENANT ACCOUNTS RECEIVABLE IN ORDER AND COLLECT OLD BALANCES THAT SHOULD NOT HAVE BEEN CARRIED. PROBLEMS HAVE BEEN ENCOUNTERED BECAUSE OF THE LACK OF PAPERWORK AND DOCUMENTATION BUT, THESE PROBLEMS ARE NOT INSURMOUNTABLE AND WILL BE ADDRESSED OVER TIME. IN YOUR REVIEW, NO MENTION IS MADE OR RECOMMENDED TO REQUIRE THE EMPLOYEES, PAST AND PRESENT, TO REPAY THE "BONUSES" THAT WERE ILLEGALLY MADE. CAN THE DICKSON HOUSING AUTHORITY, AS MANAGING AGENT, REQUIRE REPAYMENT FROM THESE INDIVIDUALS AND PRESS CRIMINAL CHARGES IF APPROPRIATE?

I WOULD LIKE TO CLOSE MY COMMENTS BY SAYING THAT THE WAVERLY HOUSING AUTHORITY IS IN BAD SHAPE. HOWEVER, IMPROVEMENTS ARE ALREADY UNDERWAY IN ALL AREAS OF MANAGEMENT AND MAINTENANCE. I WOULD RESPECTFULLY REQUEST THAT I BE MADE AWARE OF ANY FUNDING OR GRANT MONIES THAT WOULD BE AVAILABLE TO HELP US REMEDY THE IMMEDIATE PHYSICAL HEALTH AND SAFETY MAINTENANCE ISSUES.

THANK YOU FOR THE ATTENTION AND TIME THAT YOU HAVE PUT FORTH IN THIS MATTER.

SINCERELY,



BUFORD REED, JR.
EXECUTIVE DIRECTOR

HUD COMMENTS

U. S. Department of Housing and Urban Development
 Kentucky State Office
 Office of Public Housing
 601 West Broadway Room 110
 Louisville, KY 40202
 502-582-6161 FAX 502-582-6558
 KY TDD Relay Service 800-648-6056
www.hud.gov/local/lou/

November 13, 2001,

Memorandum For: Nancy H. Cooper, District Inspector General for Audit- Southeast/Caribbean, 4AGA

From: Art Wasson, Director, Office of Public Housing, 4IPH

Subject: Waverly Housing Authority, Waverly, Tennessee

Thank you for sending us a draft copy of the audit for the Waverly Housing Authority. We appreciate your office's timely completion of the audit and issuance of the report. We generally agree with the Recommendations included in the report, however, we must comment on the practicality of implementation of several of the recommendations.

1A. Require the Authority to recover the diverted funds of \$165,630 through its fidelity insurance policy. Require the City of Waverly to repay any amounts not collected from the fidelity insurance policy.

Comment: The Waverly Housing Authority was previously instructed by HUD to notify the bonding company of the possible loss. A formal claim will be made using the final OIG report as the basis for the claim after the report is issued in final form. In regard to the City of Waverly, we have neither the authority to require nor the means to force the City to pay amounts not reimbursed by the bonding company.

When the final OIG report is issued, the Housing Authority will be instructed to advise each recipient of the amount of the ineligible payments and request that restitution be made to the housing authority. It is unlikely that anything will be repaid as a result, but the individuals involved will know of his/her liability. Since the OIG for Investigation is reviewing this matter from that office's perspective along with the Tennessee State Police, we expect criminal charges to be filed. Consequently, it is expected that some form of reimbursement will be required of the individuals who received the improper payments as part of a pre-trial agreement or sentencing agreement. Consequently, we suggest that this recommendation be modified to include references only to the bonding company and, perhaps, the individuals involved.

1B. Require the Authority to terminate all staff involved in the diversion of funds.

Comment: We agree with the recommendation.

1C. Ensure the Authority obtains and maintains responsible management and staff either by; (1) combining it with the Dickson Housing Authority, or (2) declaring the Authority in substantial default of the ACC and requiring it to deliver possession and control of the projects to HUD.

Comment: We agree that management has been deficient and concur with combining the two Authorities, or long-term management of the Waverly Housing Authority by the Dickson Housing Authority, or some other acceptable entity. We do not agree that it is practical for HUD to declare a Substantial Default and take over the Waverly Housing Authority, and suggest that the recommendation be modified.

1D. Transfer oversight of the Authority to the Memphis Troubled Agency Recovery Center for financial and technical assistance.

Comment: Under current Public Housing Assessment System rules the Waverly Housing Authority does not meet the criteria for an overall designation of "troubled" required for referral to the Troubled Agency Recovery Center. Further, protocols are being revised which require small housing authorities to remain with the servicing Field Office regardless of PHAS score. This recommendation should be eliminated or modified to require that discussions be held with the TARC to determine the proper course of action to be taken.

1E. Take appropriate administrative sanctions against the Authority's Board of Commissioners.

Comment: Although the Board of Commissioners failed in their responsibilities in this situation, we cannot concur with the recommendation to sanction the members. The Board consists of well-meaning citizens who were virtually ignorant of what was expected of them. This situation has changed since the discovery of the misappropriated funds. With the assistance of the Housing Authority of Dickson, the Board has taken positive actions to deal with the problems at the housing authority. Further, the Board has complied with the direction provided by the Nashville Office, and, that office will provide additional training in the duties and responsibilities of a commissioner in the near future. The report indicates the payments were not approved by the Board of Commissioners, nor did any of the members personally benefit from the payments. Consequently, we suggest the recommendation be modified to only require additional training for the members of the Board of Commissioners, and improved Board oversight of authority operations.

1F & 1G. Take appropriate administrative sanctions against the Occupancy Clerk and the Maintenance Mechanic.

Comment: We agree with this Recommendation. These actions were not taken earlier at the request of the OIG.

2A. Ensure the Authority establishes policies and procedures necessary for an effective management control system.

Comment: We agree with the recommendation. The authority has already adopted the policies of the Housing Authority of Dickson

2B. Require the Authority to review all tenant files to ensure records are complete and accurate, including reviewing tenant account balances.

Comment: We agree with this recommendation. It is my understanding that this process has already begun.

2C. Closely monitor the Authority's operations and provide appropriate technical assistance.

Comment: We agree with this recommendation.

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