audit report
OFFICE OF INSPECTOR GENERAL

Issue Date
October 3, 1996
Audit Case Number
97-CH-202-1001

TO: Richard B. Kruschke, Director, Office of Public Housing, Illinois State Office

FROM: Dale L. Chouteau, District Inspector General for Audit, Midwest

SUBJECT: Franklin County Housing Authority
Comprehensive Review
West Frankfort, Illinois

We completed an audit of the Franklin County Housing Authority. We conducted the audit at the request of HUD's Illinois State Office. Our audit objectives were to determine whether the Authority administered its housing activities in an efficient, effective, and economical manner and in compliance with the terms and conditions of the Annual Contributions Contract, applicable laws, HUD regulations, and other applicable directives. The audit did not include the Section 8 Program.

The Franklin County Housing Authority needs to improve its procedures. The Authority needs to do more to improve the administration of its programs and ensure compliance with the Annual Contributions Contract and other HUD requirements. This report addresses issues related to: (1) poor cash receipt controls; (2) improper administration of the Public Housing Drug Elimination grant; (3) inadequate safeguards over its inventories of parts and supplies; and (4) inadequate controls over tenant accounts receivables.

Within 60 days, please give us, for each recommendation made in the report, a status report on: (1) the corrective action taken; (2) proposed corrective action and the date to be completed; or (3) why action is considered unnecessary. Also, please furnish us copies of any correspondence or directives issued because of the audit.

Should your staff have any questions, please have them contact me at (312) 353-7832.

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Executive Summary

We completed an audit of the Franklin County Housing Authority. Our audit objectives were to determine whether the Authority administered its housing activities in an efficient, effective, and economical manner and in compliance with the terms and conditions of the Annual Contributions Contract, applicable laws, HUD regulations, and other applicable directives. The audit did not include the Section 8 Program.

The Authority's internal controls are weak, and offered opportunity for its employees to misuse or divert funds. We found no evidence that the employees misappropriated assets.

The Authority lacked adequate controls over its cash receipts

The Franklin County Housing Authority lacked adequate controls over its cash receipts. Specifically, the Authority: (1) allowed employees and others to cash personal checks, totalling $40,575, against cash rent collections; (2) reimbursed the petty cash fund $14,659 from cash rent receipts; (3) did not make bank deposits timely; (4) did not follow-up on cash shortages and overages in the rent deposits; (5) did not properly reconcile the cash receipt drawers; (6) did not properly use rent receipt forms; (7) did not immediately endorse third party checks for deposit only; and (8) did not adequately segregate cash receipt duties. The Executive Director said the problems were due to administrative oversight. Also, the Authority lacked established policies or procedures to control the cash receipt function. Consequently, the Authority cannot assure HUD that its cash receipts were adequately controlled or safeguarded.

The Authority did not properly administer the Drug Elimination Program

The Franklin County Housing Authority did not properly administer its Public Housing Drug Elimination Program grant. Grant costs of $46,469 were not adequately supported or did not relate to the administration of the Program. Also, the contracts executed lacked specificity as to the work to be performed. The Authority's former Executive Director did not ensure that contractors used for the Program properly supported their costs or that administrative funds drawn down were used for the Program grant. As a result, HUD cannot be assured that all costs associated with the grant were necessary or that the overall administration of the Program was adequate.

The Authority did not properly safeguard its parts and supplies inventory

The Franklin County Housing Authority did not adequately safeguard its inventory of parts and supplies. Specifically, the Authority did not maintain adequate inventory records and it lacked written policies and procedures to control its inventory. As a result, HUD has no assurance the inventory was properly accounted for and safeguarded against loss, misuse, or waste.

The Authority lacked adequate controls over its tenant accounts receivables

The Franklin County Housing Authority lacked adequate controls over its tenant accounts receivable balances. The Authority did not: (1) enforce collection efforts on a consistent basis; and (2) obtain the Board of Commissioners' approval to write off delinquent accounts. We attribute these deficiencies to a lack of written policies and procedures governing the tenant accounts receivable process. As a result, the Authority cannot assure HUD that its tenants were receiving fair and equitable treatment and that collection efforts were adequate.

We recommend that the Director of Public Housing, Illinois State Office, assures that the Authority takes action to correct the weaknesses cited in this report.

We provided our draft findings to the Executive Director and HUD's Illinois State Office during the audit. We held an exit conference with the Executive Director on September 18, 1996. The Executive Director provided written comments to our findings and recommendations. Excerpts from the comments are included in each finding and Appendix B contains the complete comments.

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Introduction

The Franklin County Housing Authority was established by Franklin County pursuant to the laws of the State of Illinois. The Authority is governed by a Board of Commissioners consisting of five unpaid members who formulate and direct the Housing Authority's policies. The Chairman of the Board is William Crocker. The Executive Director, Monica Stewart, is responsible for the day-to-day operations.

The Authority operates four programs: (1) a Low-Income Housing Program comprised of 686 units, of which 397 are designated as elderly units; (2) a Section 8 Voucher Program consisting of 49 vouchers; (3) a Comprehensive Grant Program; and (4) a Family Investment Center Program.

The Authority's books and records are located at its central office at 312 East Elm Street, West Frankfort, Illinois.

Audit objectives

The audit objectives were to determine whether the Authority administered its housing activities in an efficient, effective, and economical manner and in compliance with the terms and conditions of the Annual Contributions Contract, applicable laws, HUD regulations, and other applicable directives.

Audit scope and methodology

To achieve the objectives, we interviewed HUD and Authority staff to obtain information relating to the Authority's operations and internal controls. We reviewed the Authority's policies and procedures and Board meeting minutes to evaluate the policies and procedures. We reviewed the Comprehensive Grant Program files and contracts for proper execution and support of payments. We analyzed the Low-Rent, Drug Elimination Grant, and Family Investment Centers' general ledgers, cash receipts, cash disbursements, billing statements, and payment vouchers to verify the accuracy of receipts and disbursements. We reviewed bank statements and cancelled checks to assure that all sources of cash were accounted for. We also analyzed tenant accounts receivables, inventories, bank statements, and investment records to insure that its assets were safeguarded and properly recorded in the Authority's records.

The audit covered the period March 1, 1994 to February 29, 1996. We expanded the coverage as necessary. We performed the on site audit work between April 1996 and August 1996.

We conducted our audit in accordance with generally accepted government auditing standards.

We provided a copy of our report to the Authority's Executive Director.

The Authority Lacked Controls Over Its Cash Receipts

The Franklin County Housing Authority lacked adequate controls over its cash receipts. Specifically, the Authority: (1) allowed employees and others to cash personal checks, totalling $40,575, against cash rent collections; (2) reimbursed the petty cash fund $14,659 from cash rent receipts; (3) did not make bank deposits timely; (4) did not follow-up on cash shortages and overages in the rent deposits; (5) did not properly reconcile the cash receipt drawers; (6) did not properly use rent receipt forms; (7) did not immediately endorse third party checks for deposit only; and (8) did not adequately segregate cash receipt duties. The Executive Director said the problems were due to administrative oversight. Also, the Authority lacked established policies or procedures to control the cash receipt function. Consequently, the Authority cannot assure HUD that its cash receipts were adequately controlled or safeguarded.

HUD Requirements

HUD Handbook 7511.1, Chapter 3, Section 1, Part 4b(3) states that the cash drawer assigned to an employee for receiving collections from tenants should not be used by another employee for any purpose. No other person should have access to the cash drawer except for a periodic cash count in the presence of the employee to whom the drawer is assigned. Part 4b(4)(a) states that all cash receipts should be prenumbered and should be used in numerical sequence and all copies of voided receipts should be maintained for accountability purposes. Part 4b(4)(b) states that cash receipts are to be signed by the employee receiving the collection. Part 4b(4)(c) states that employees authorized to accept rent collections from tenants should be assigned a set of receipts for his or her sole use.

HUD Handbook 7511.1, Chapter 3, Section 1, Part 5(a) states that cash receipts should be deposited in the bank intact, as frequently as possible, preferably daily. If daily deposits are not possible, due to weekends or holidays, the cash should be stored in a locked fireproof safe or vault. Disbursements should never be made from cash receipts. Part 5(c) states that bank deposit tickets should show complete details as to coin, currency, and checks deposited.

HUD Handbook 7511.1, Chapter 3, Section 1, Part 6 states that cash collections should be reconciled daily with the total of receipts issued and any cash overage or shortage be accounted for.

HUD Handbook 7511.1, Chapter 3, Section 1, Part 7(b) states that the Board of Commissioners should establish a policy governing cash shortages. The policy should identify procedures to follow when cash shortages occur. The procedures should include the type of investigation that should take place, the reports to be prepared, and the factors to consider in determining whether the accountable employee should or should not be relieved of responsibility.

Internal control comprises the plan of organization, methods, and procedures adopted by management to ensure safeguarding of resources against waste, loss, and misuse. The important features of an adequate system of internal controls are:

- Control should be established early in a transaction and carried through to its completion.

- No person should have complete control over all phases of any significant transaction.

- Work should flow from one employee to another without ever returning to an employee.

- Record keeping should be separate from operations or the handling and custody of assets. For example, the bookkeeping function should be separate from the receipt function including the collection and issuance of receipts. An employee who collects and issues receipts for rental payments should not be responsible for recording payments and adjustments to tenant accounts.

Employees cashed their personal checks from Authority funds

We judgmentally selected and reviewed, in detail, four months of rent collections and bank deposits. The months reviewed were January 1996, December 1995, August 1995, and April 1995. These four months were selected for detailed review in order to evaluate cash receipt activity at various intervals. We performed a limited review of all other rent collections and deposits for the period of January 1994 to July 1996.

Authority employees cashed personal checks for themselves and others against the cash collected from tenant rent payments. The Authority accepts rent payments in cash as a convenience to the residents, as many residents do not have a personal checking account. Authority employees said the practice of cashing personal checks had always occurred and was allowed for their convenience. The Executive Director was unaware that the practice of cashing personal checks was not allowed.

During the period January 1994 to July 1996, Authority employees and other persons cashed 676 personal checks totalling $40,575 against cash rent collections. This activity is summarized as follows:

Payor	Amount Cashed
Executive Director	$19,274
Section 8 Coordinator	7,272
Section 8 Coordinator's Boyfriend	2,402
Leasing & Occupancy Specialist	2,620
Accounts Receivable Clerk	949
Modernization Coordinator	1,069
Social Advisor	740
Former Executive Director	283
Miscellaneous	4,497
Unknown	1,469
Total	$40,575

The miscellaneous amount consisted of: (1) five Authority employees who cashed between $20 and $200 in personal checks; (2) two checks from a local car dealership; and (3) 12 nonemployees who cashed between $5 and $274 each. The unknown amount represents checks listed on the deposit tickets that were not identified by a name. The dollar amount was shown on the deposit tickets; however, the payee line was left blank. The Executive Director said the Authority did not cash personal checks for nonemployees and could not explain the miscellaneous or unknown check amounts.

The three employees who maintained a rent drawer wrote personal checks against their rent collections, totaling $7,272; $2,620; and $949; respectively. While the three employees cashed checks for other employees, no one watched as they cashed their own personal checks against the rent collections. The Executive Director said the cashing of personal checks had always been a normal practice at the Authority.

Since the Authority is not maintaining the rent receipts intact as received by the residents, full accountability and proper safeguarding of the cash assets cannot be assured.

We informed the Executive Director that the practice of cashing personal checks was against HUD regulations. She informed us that the practice had stopped during May 1996, after we had spoken to her. During our review, we did not identify any employee personal checks cashed in the June or July 1996 bank deposits. However, the Authority had not implemented a formal policy to prohibit future occurrences.

Cash rent collections were used to reimburse the petty cash fund

Additionally, the Authority reimbursed its petty cash fund from the cash rent collections. From January 1994 to June 1996, the Authority wrote 96 checks totalling $14,659 to petty cash using rent collections to reimburse its petty cash fund. The Executive Director said in the past, the account was reimbursed when it was low and cash was immediately needed, but it was a very infrequent occurrence.

Bank deposits were not made timely

The Authority failed to deposit the rent received from its tenants in a timely manner. The Authority makes bank deposits on an as needed basis. There are no prescribed time frames or amount of cash on hand at which a deposit is required. The Executive Director acknowledged that the Authority was lax and some deposits were made late.

During the four months reviewed, the Authority failed to deposit 971 receipts totaling $127,460 in a timely manner.

The deposits were made from three to 20 days after the rent was received by the Authority as follows:

Number of Days	Deposits	Dollar Amount
3	313	$ 38,578
4	234	34,182
5	101	13,107
6	59	8,906
7	85	10,727
8	41	4,640
9	10	1,237
10	47	7,173
11	15	2,072
12	13	1,171
13	17	1,796
14	3	495
15	15	1,423
16	5	429
17	4	331
18	1	188
19	2	377
20	6	628
Totals	971	$127,460

As outlined in the above table, there were many instances in which a significant amount of cash such as $10,000 or more was not deposited timely and was not properly safeguarded. Also, since the Authority earns interest on funds deposited, the lack of timely deposits results in lost revenue to the Authority.

The Authority currently maintains two rent drawers, each located inside the cubicle of two employees. One drawer is maintained by the Authority's Accounts Receivable Clerk and the other drawer is maintained by the Leasing and Occupancy Specialist. Each drawer maintains a $250 daily cash balance. The drawers are not locked during the day and they are not fireproof.

The Accounts Receivable Clerk places her rent drawer in a fireproof vault at night and on the weekends. The Leasing and Occupancy Specialist leaves the rent drawer in her locked desk at night and on the weekends. She felt that her locked desk was more secure than the vault because several employees had access to the vault.

The Authority did not follow up on cash overages and shortages

The Authority did not require the two employees who were assigned a rent drawer to reconcile cash activity in the rent drawers daily. Rather, the two employees said they reconciled the rent drawers about once a week. Also, the Authority did not follow-up on cash shortages and overages in its deposits.

The amount of cash in the two rent drawers is not reconciled by the Authority when it prepares a bank deposit. If an error was made in determining the amount to be deposited, the bank deposit would be short or over and the error would not be detected until the rent drawers were reconciled.

On numerous occasions, bank deposit tickets we reviewed showed minor cash shortages and cash overages. For example, one deposit ticket dated August 2, 1995 was over by $10 and another deposit ticket, dated August 4, 1995, was short by $10. On two deposit tickets, dated May 3, 1995 and May 12, 1995, an employee wrote on the deposit ticket that the amount was purposely $3 short and $3 over, respectively.

On January 9, 1996, the Authority's bank deposit was $100 less than the amount that should have been deposited. The Section 8 Coordinator, who maintained one of the

Authority's cash drawers at the time, said the recorded total rent receipts were $100 less than the amount actually collected and the deposit total was obtained from the recorded receipt total. Also, the Section 8 Coordinator said because the amount deposited was $100 less than the amount that should have been deposited, the rent drawer balance was probably $100 over when the deposit was made. On January 17, 1996, the bank deposit was $100 more than the recorded receipt total. The Section 8 Coordinator said the $100 overage was probably discovered when the rent receipts and the cash in the drawer were reconciled. The amount of the January 17, 1996 deposit was increased to correct the previous $100 cash shortage.

The Authority did not have procedures to investigate cash shortages or cash overages. The Executive Director acknowledged that these shortages and overages did occur, but said it was an infrequent occurrence. Also, the Executive Director said a new cash management policy was being prepared and it would include a section to handle cash shortages and overages. The cash management policy is expected to be finalized after completion of our audit work.

Cash drawer reconciliations were not properly performed

The Authority does not reconcile its cash drawers daily, as prudent business practice dictates. According to the Executive Director, the cash drawers are reconciled approximately each week during the first part of the month. However, the reconciliations are not documented and the dates they are performed are not recorded by the Authority. She acknowledged that they had become lax in this area.

By not properly performing cash drawer reconciliations, the Authority is not adequately safeguarding its cash assets and cannot assure HUD that it properly controlled its cash receipts.

Rent receipt forms were not properly used

The Authority did not use prenumbered rent receipt forms for regular tenant rents collected. Prenumbered receipts were only used for rent adjustments and to record payments made for other than regular monthly rent. The Authority did not maintain the voided pre-numbered rent receipt forms.

For regular tenant rents, the Authority manually stamped a set of rent cards with the date paid and a receipt number when the rent was paid by the tenant each month. A receipt properly recording the transaction was not made outlining the method of payment such as cash, check, or money order. Also, the rent card was not signed by the Authority employee conducting the transaction. This does not allow for proper accountability of the cash transaction should there be a discrepancy in the cash receipt or deposit process. Additionally, the rent checks were not always immediately endorsed "For Deposit Only" to the Authority's account.

During the four months reviewed, we identified the following discrepancies: (1) the same receipt number was issued to two different tenants in seven cases; and (2) the rent card was stamped with two different receipt numbers in eight cases. The first number was voided on the rent card and in one case, the number was not sequential. The Executive Director said it was probably human error that caused the rent cards to have duplicate and voided receipt numbers on them. The Executive Director said the Authority was working with a consultant to obtain a new computer system. The new system would be used for tenant rents and would be able to print prenumbered rent receipts.

The Authority did not maintain the prenumbered rent receipts that were voided. The Accounts Receivable clerk said the receipts that were voided were discarded. Without maintaining these receipts, proper accountability cannot be assured.

Third party checks were not immediately endorsed for deposit only

The Authority accepts third party checks such as government aid checks and social security checks for rent payments. These checks are not immediately endorsed "For Deposit Only" in the Authority's account. Once they are signed by the payee, the check becomes a bearer instrument and can be cashed by anyone. Endorsing the check immediately protects both the Authority and the tenant from loss or theft, as the check cannot be cashed and can only be deposited in the Authority's account.

Cash receipt duties were not adequately segregated

The Authority did not adequately segregate the duties relating to the cash receipt function. The Authority's Accounts Receivable Clerk and its Leasing and Occupancy Specialist were the only two employees specifically authorized to accept rent payments. The Accounts Receivable Clerk was also responsible for updating payment records and thus effectively had control over tenant account balances. Although there was no indication that the Accounts Receivable Clerk took advantage of the opportunity to divert rent collections, she could have diverted funds without detection by controlling accounting entries to the cash receipts subsidiary ledger. Proper accounting procedures require adequate segregation of duties in order to provide control and assign accountability over the cash receipt function.

The Executive Director said the Accounts Receivable Clerk was assigned to collect rent because of the limited staff. She agreed that this was not a proper segregation of duties.

Several employees accepted tenant rent payments

Rent payments were accepted by all staff assigned to the Authority's administrative office. There were no policies or procedures that outlined who was specifically authorized to accept rent payments. Two individuals were specifically authorized to accept cash receipts. However, all administrative staff were allowed to accept rent payments when the assigned individuals were unavailable. Since all administrative staff were allowed to accept rent payments and rent receipt forms were not properly issued, the overall control and proper accountability of the cash receipt function was compromised.

The Authority's Executive Director acknowledged that they had not yet adopted policies or procedures to control the cash receipts or any aspect of the financial management process of the Authority. Although the Authority has developed a draft version of a cash management policy, finalization of the policy will not be done until completion of our audit work.

Cash is an asset which is easily converted to improper use in the absence of program controls. Therefore, cash must be properly accounted for and adequately safeguarded. The responsibility for safeguarding and accounting for cash rests primarily with the Executive Director and Chief Accountant or Financial Manager of the Housing Authority and the individuals receiving, recording, depositing, and disbursing cash. During our review, we found no indication that the Authority's employees took advantage of the opportunity to divert funds.

Auditee Comments

Excerpts from the Executive Director's comments on our draft finding follow. Appendix B contains the complete text of her comments.

The Executive Director issued a written memo to all employees on May 9, 1996 explaining that personal checks would no longer be cashed. The issue of cashing personal checks is being addressed in the Financial Management Policy.

The checks issued to reimburse petty cash were cashed from Authority funds. This practice is similar to the cashing of personal checks. This practice is no longer being used and will also be addressed in the Financial Management Policy.

Presently deposits are being made more timely. The Authority is in the process of instituting a daily written reconciliation and daily deposits. The Authority will continue to maintain two cash drawers and is in the process of obtaining new cash drawers that will be more secure and fireproof. The Financial Management Policy will also address the placing of the cash drawers in the vault and keeping the drawers locked.

When a deposit was made the drawers were reconciled. In the Financial Management Policy the Authority will address the procedure for daily reconciliations and the criteria for making a deposit.

Although the Authority does not have a written procedure to investigate cash shortages and cash overages, when either have occurred the Authority has attempted to find the error. In most cases the errors have been found.

The written procedures for investigating cash shortages or cash overages will be addressed in the Financial Management Policy.

The Authority acknowledges that it has been lax in reconciling cash drawers, as previously noted. Again this will be addressed in the Financial Management Policy.

Both the Accounts Receivable Specialist and the Leasing and Occupancy Specialist said that after making their deposits they each count their cash drawers to assure that the drawers are balanced to $250.00.

The Financial Management Policy will also address the use of daily written reconciliations.

After the OIG expressed his concern that the statements were not prenumbered, the Authority began numbering the rent statements before they were mailed. The Authority found that this created some problems. Some of the statements were not returned when payments were made (due to them being lost, torn, etc.) therefore the Authority has rent receipt numbers that cannot be accounted for.

All rent statements are numbered with a duplicate number stamper when the statement is returned from the bank or when a resident pays their rent. Therefore, all rent statements are numbered at some point. The Authority does use prenumbered receipts for payments and adjustments. The voided prenumbered receipts are retained by the Authority and placed in the batches.

The Authority has plans to obtain software that will generate cash receipts, which will give all the information that is needed.

Since approximately July 1, 1996 we have been stamping checks upon receipt. This procedure will also be addressed in the Financial management Policy.

The Executive Director does agree that duties should be more segregated, but finds this difficult because of the size of the Authority staff.

Although the Accounts Receivable Specialist collects rent and posts to the computer, the receipts with the deposit slip goes to the Section 8 Coordinator to be posted manually and to be batched. When batching the receipts the Section 8 Coordinator verifies that the receipts balance with the deposit slip. After batched, the receipts go back to the Accounts Receivable Specialist to be posted on the computer.

The Authority feels that once computer generated receipts are used it will allow less chance for any account to be manipulated.

Approximately June 1, 1996 the Executive Director informed all staff that the Leasing and Occupancy Specialist and the Accounts Receivable Specialist would be accepting rent payments.

Although the Board of Commissioners has not formally adopted a Financial Management Policy, many procedures have been implemented by the Executive Director and carried out by the staff.

Some of the procedural changes the Authority has implemented since the Inspector General audit began includes: no longer cashing personal checks, only two staff members collect rent and have access to their assigned cash drawers, all deposits are verified by a second party, all deposits are placed in a locked bank bag by a third party and taken to the bank by a fourth party, and all checks are stamped "For Deposit Only" upon receipt.

OIG Evaluation of Auditee Comments

The Authority's current development of a financial management policy shows positive action to address the finding and recommendations.

The Section 8 Coordinator's matching of rent receipts with bank deposit slips would not necessarily prevent the Accounts Receivable Specialist from diverting rent collections. The collection of rent and posting of payments to tenant accounts still gives the Accounts Receivable Specialist control over tenant account balances.

Recommendations

We recommend that the Director of Public Housing, Illinois State Office, assure that the Franklin County Housing Authority:

1A. Prohibits the cashing of personal checks and reimbursing of the petty cash fund using cash rent collections.

1B. Ensures that all cash receipts are deposited intact and in a timely manner. A fireproof safe should be used for the storage of all monies kept overnight and on weekends.

1C. Reconciles cash balances on a daily basis and investigates cash shortages and overages. The Authority should follow-up on all cash shortages and overages to determine the reason for the discrepancies and take any necessary corrective action(s).

1D. Uses prenumbered receipt forms for recording all monies received by the Authority. The receipts should always be signed and dated by the employee receiving the money. Any voided receipts should be maintained for proper accountability.

1E. Immediately endorses all third party checks received "For Deposit Only."

1F. Segregates the duties of its employees to the extent practical. No employee should have complete control over all phases of the cash receipt function.

1G. Restricts rent collection responsibilities only to specific authorized employees.

1H. Establishes formal policies and procedures to control cash receipts. The policies and procedures should be approved by the Authority's Board of Commissioners.

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The Authority Did Not Properly Administer Its Public Housing Drug Elimination Grant

The Franklin County Housing Authority did not properly administer its Public Housing Drug Elimination Program grant. Grant costs of $46,469 were not adequately supported or did not relate to the administration of the Program. Also, the contracts executed lacked specificity as to the work to be performed. The Authority's former Executive Director did not ensure that contractors used for the Program properly supported their costs or that administrative funds drawn down were used for the Program grant. As a result, HUD cannot be assured that all costs associated with the grant were necessary or that the overall administration of the Program was adequate.

HUD Requirements

The Drug Elimination Program grant agreement signed by the Authority on November 4, 1992 states that all costs associated with the grant must be reasonable and necessary.

The contracts that the Authority executed with the Franklin-Williamson Human Services Agency and the West Frankfort Police Department state that the contractors shall provide documentation as to the activities initiated.

A contractor did not perform required services

The Authority contracted with Franklin-Williamson Human Services Agency (the Agency), a non-profit organization, to administer the portion of the Drug Elimination Program that dealt with education and direct resident contact. The contract was for $96,024 and covered a 24 month period from January 20, 1993 to January 20, 1995. During this period, the Agency was required to provide programs and services designed to educate Authority residents in areas of substance abuse.

The contract specified that a full time substance abuse coordinator shall be furnished by the Agency to administer the Drug Elimination Program. According to Agency officials, a full time coordinator is required to work 37.50 hours per week, or 450 hours per quarter. The Agency's contract amount was largely based upon the cost of a full time coordinator. The Agency billed the Authority on a quarterly basis for services rendered.

The Authority was billed for services not provided

The Authority was billed by the Franklin Williamson Services Agency for services the Agency did not provide. The Agency billed the Authority $12,003 per quarter for six quarters, as specified by their contract and it billed the Authority for lesser amounts for three other quarters. However, the Agency routinely worked less than the required hours to support their billings.

During the contract period of January 20, 1993 to January 20, 1995, the Agency was required to provide 3600 hours of service (150 hours per month for 24 months). During that period the Agency could provide documentation to support 2,320 hours, or 64 percent, of the required contract hours. The Agency used the number of hours worked as a percentage of hours required as a basis for billing during the April to June 1994 period.

Agency officials acknowledged that they were not able to provide the required time to the Drug Elimination Program during much of 1994, and that this negatively impacted the overall effectiveness of the Program. However, they did not perform any type of analysis at the end of the program to determine if the intended program results were achieved. The Agency officials also said they tried as best they could to properly administer the Program grant and were proud of their efforts.

The Agency extended their services beyond the contract expiration date of January 20, 1995. According to Agency officials, services were provided until March 31, 1995, because the Agency provided less time than planned during much of 1994. Personnel problems within the Agency, specifically employee turnover which could not be controlled, were incurred during the administration of the Program. Although the Agency did not have a contract extension with the Authority, the Agency felt they owed the Authority these additional services to wrap up the Program as well as to properly administer the contract. During the extended period, the Agency performed an additional 300.5 hours of work for a total of 2,620.5 hours, or 73 percent, of the required total hours. Additionally, HUD granted the Authority a six month extension for completion of the Drug Elimination Program through May 1995. The Agency thought this extended their time to administer the grant as well.

The maximum contractual amount the Agency could have earned, had they performed all required hours, was $96,024. However, having only completed 73 percent of the required hours, the Agency is only entitled to collect a maximum of $70,097 (73 percent of $96,024). The Agency was actually paid $93,439 for their services, or $23,342 over the amount actually earned.

The following table outlines the hours worked by Franklin-Williamson in relation to the hours required and the amounts billed:

Time Period	Amount Billed	Hours Worked	Ratio of Hours Worked to Hours Required
1/93-3/93	$12,003	Unknown	N/A
3/93-5/93	$12,003	150.0	33%
6/93-9/93	$12,003	644.75	107%
10/93-12/93	$12,003	408.0	91%
1/94-3/94	$12,003	194.25	43%
4/94-6/94	$ 4,761	178.5	40%
7/94-9/94	$ 6,387	219.5	49%
10/94-12/94	$12,002	367.0	82%
1/95-3/95	$10,274	458.5	102%
Totals	$93,439	2,620.5	73%

Payments to West Frankfort police were unsupported

The Authority paid the West Frankfort Police Department $64,689, under two separate contracts for the Drug Elimination Program grant. The contracts were to cover additional police services that were beyond the normal services already provided to the Authority's developments. These additional services included foot patrols at all Authority developments and providing personnel to the Southern Illinois Task Force.

During our review of amounts the Authority paid to the Police Department, we found that the Authority improperly paid three invoices totalling $14,856. These invoices did not include information as to the services provided and there were no time records to support the hours billed on the invoices. During our review of the invoices, it could not be determined what housing developments the services were provided to, which officers provided the services, the times the services were provided, and what was accomplished by these additional services.

In addition to the lack of adequate supporting documentation, two of the three invoices in question included services performed prior to the execution of the contracts between the Authority and the Police Department. The contracts became effective on December 11, 1992. The Police Department submitted a $5,000 invoice for housing patrol services for the period of December 1 to December 23, 1992 and a $5,056 invoice for an undercover agent assigned to the Task Force for the period of December 1, 1992 to March 31, 1993. Therefore, both invoices billed for services that were provided prior to the execution of the contracts. Authority officials could not explain why the Police Department billed for services prior to the contract execution date.

The Authority drew down excess funds for administrative costs

The Authority drew down excess administrative funds of $8,271 under the Drug Elimination Program grant. This amount included $4,886 in unsupported salary costs, $2,000 in audit costs that were not incurred, and $1,385 for a security camera that the Authority had not purchased.

The Authority drew down $5,584 to pay for salaries of the former Executive Director and the current Executive Director for their time associated with the Program grant. The Executive Director and the former Executive Director were the only individuals at the Authority who pro-rated their time to the Drug Elimination Program.

There was no support for the former Executive Director's time spent on the Program grant. The current Executive Director provided support for time she spent administering the Program from 1992 to 1995. The total cost of her time, according to her records, was $698. The remaining balance of $4,886 received by the Authority for Executive Director salary costs was unsupported.

The Authority budgeted and drew down $2,000 for an audit of the Drug Elimination Program grant funds. However, the Program expenses were audited as part of the Authority's annual audit at no additional cost to the Authority.

Additionally, the Authority drew down funds for two security cameras. One of the cameras, budgeted at $1,385, was not purchased as anticipated due to complications with the contractor. The Executive Director said the camera may be purchased and installed in the high-rise development at a later date when the lock system is changed. However, there are no immediate plans to purchase the camera. The funds received from HUD for the security camera were deposited in the Authority's operating account and used for normal operating expenses.

Contracts did not specifically state the work to be performed

The Authority entered into a total of eight contracts under the Drug Elimination Program. None of the contracts adequately specified the services to be provided by the contractors. The contracts primarily addressed the dollar amount and frequency of payments to the contractors.

For example, contracts with the police departments did not specify how often the foot patrols would take place, which housing developments would be patrolled, the time periods that the patrols would take place, or how many officers would patrol at a time. The contracts simply outlined how much the police departments would be paid over the life of the contracts and the frequency of payments by the Authority.

The lack of specificity in the contracts as to the work to be performed makes it difficult for the Authority to evaluate whether the contractors actually provided the services as intended in the contractual arrangements.

Auditee Comments

Excerpts from the Executive Director's comments on our draft finding follow. Appendix B contains the complete text of her comments.

The Authority will contact the Agency and seek supporting documents for the amount paid. If supporting documents are not provided the Authority will take necessary steps to re-pay the amount owed to HUD.

The Authority will ask the West Frankfort Police Department for supporting documents for the amounts paid. If supporting documents cannot be provided the Authority will take necessary steps to re-pay the amount owed to HUD.

The Authority will seek supporting documents from the former Executive Director for his time spent on the program.

The Authority did not incur any additional costs for the audit and will return the $2,000 as requested.

The Authority does anticipate eventually installing the security camera that the funds were requisitioned for. The Authority is requesting to keep the funds and the camera will be installed in the very near future.

The Authority assures the OIG and Department of HUD that all future contracts will be properly executed and funds will not be expended until the contracts are properly executed. The Authority assures the OIG and the Department of HUD that all future contracts will be much more specific as to what is to be provided by the contractors.

Recommendations

We recommend that the Director of Public Housing, Illinois State Office, assure that the Franklin County Housing Authority:

2A. Provides justification for $23,342 in costs applicable to the Franklin-Williamson contract for hours of service not provided as specified in the contractual arrangement. If adequate justification cannot be provided, the Authority should repay HUD for any unsupported amount.

2B. Provides documentation to support $14,856 of Drug Elimination Program services provided by the West Frankfort Police Department between December 1992 and March 1993. If supporting documentation cannot be provided, the Authority should repay HUD for any unsupported amount.

2C. Provides documentation to support the use of $8,271 of Drug Elimination Program administrative funds. If supporting documentation cannot be provided to show that the funds were used for the Drug Elimination Program, the Authority should repay HUD for any unsupported amount.

2D. Ensures that all future contracts specifically address the work to be performed to provide a basis for analysis of contractor results.

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The Authority Did Not Adequately Safeguard Its Inventory of Parts and Supplies

The Franklin County Housing Authority did not adequately safeguard its inventory of parts and supplies. Specifically, the Authority did not maintain adequate inventory records and it lacked written policies and procedures to control its inventory. As a result, HUD has no assurance that the inventory was properly accounted for and safeguarded against loss, misuse, or waste.

HUD requirements

Section 309 of the Annual Contributions Contract requires housing authorities to maintain complete and accurate books of accounts and records.

HUD Handbook 7510.1, The Low-Rent Accounting Handbook, Chapter 7, paragraph 5(g) requires local authorities to inventory equipment and supplies annually and compare the inventory results with inventory records. housing authority records must be adjusted for any differences.

Inventory records were not properly maintained

The Authority did not maintain adequate inventory records of the parts and supplies stored at its warehouse. The Authority records and controls its inventory through an Inventory by Part Number With Costs Report (inventory report). This record, however, does not accurately reflect the actual inventory usage or inventory balance maintained by the Authority.

The Authority's inventory record was inaccurate

The Authority's "Inventory by Part Number With Costs Report" records materials purchased and used during the year, and the current cost of each part. It is used by the Maintenance Department to keep track of the inventory in stock. This report is adjusted at year end for any difference resulting from the annual inventory count. However, the overall accuracy or usefulness of the report is questionable because of poor inventory controls.

We conducted an inventory count on June 10 and 11, 1996, using the Authority's latest inventory records. We compared the inventory records to actual items on hand.

Eighty five commonly used parts and supplies were selected for our review. The Authority maintains an inventory of approximately 826 different parts. The Authority's records indicated that the aggregate value of the parts and supplies was approximately $23,000. The Authority purchased approximately $50,000 worth of supplies during the year.

During our inventory count, 29 of 85 items (34 percent) had greater quantities on hand than the Authority's inventory records indicated; 27 of 85 items (32 percent) had fewer quantities on hand, and 29 of 85 items (34 percent) had quantities that agreed with amounts shown on the Authority's inventory records. Overall, 66 percent of the items examined had incorrect quantities listed. Some examples of the discrepancies follow:

Part Description	Part Number	Quantity Per Authority Records	Quantity Per OIG Count	Difference
Faucet Stem	1410	18	24	6
Drain Stopper	2306	18	5	(13)
Supply Line	3340	14	24	10
Heater Element	4215	10	8	(2)
Faucet	5221	5	7	2
Burner	9350	3	0	(3)
Element	9570	4	5	1
Element	9575	2	4	2
Bulb	21330	24	45	21
Exterior Paint	27368	10	12	2
Exterior Paint	27369	2	10	8
Interior Paint	27385	44	40	(4)
Interior Paint	27390	18	23	5

The Authority established re-order points for each part or supply listed on the inventory sheets. However, the usefulness of the re-order points is diminished because the inventory report is not accurate. The Authority's Maintenance Superintendent would like to use the inventory listing to determine when to re-order parts. However, he normally has to physically inspect the parts bins to determine the quantities on hand. He also said he has run out of some parts and supplies because the inventory report showed there were sufficient quantities on hand when that was not actually the case. This is an inefficient and ineffective way to control inventory. If a computer system is to be effectively used, the information should be accurate or it is of little use.

The Maintenance Superintendent said there were several possible causes for the inaccuracies in the inventory report. Access to the warehouse is virtually unchecked. Authority personnel are allowed in the warehouse at any time during normal business hours. Maintenance employees pick up their parts and supplies as needed and are required to fill out a requisition sheet listing the quantity and type of supply taken. However, he said this was not always properly done because maintenance personnel in many cases could be in a hurry and inadvertently write down the wrong part number or the incorrect quantity taken, or forget to prepare the requisition sheet in their haste to get back to the job site.

Additionally, the Authority replaced its inventory computer software early in 1996 and the new software had some problems. The system was not accurately reporting the information entered. Requisitioned parts were not being subtracted from the total as they were entered into the inventory records. This impacted the accuracy of the inventory report because the quantity of parts were overstated.

Because the warehouse is left unlocked and in many instances unmanned during normal business hours, it is difficult to determine the exact causes of the inaccurate inventory report. Theft may be occurring and it may go unchecked simply because the shortages are not followed up on. The fact that there is not a parts person or someone at the warehouse at all times leaves the parts and supplies at risk. Access to the warehouse is not restricted nor is there any type of sign-in-sheet for people entering and leaving the warehouse.

The Authority's Executive Director acknowledged that the warehouse lacked controls, but she believed there had never been any theft of any consequence. Also, the overall value of the inventory is relatively low. The Maintenance Superintendent also said some theft of parts may have occurred, but felt it was very minor, and not a real concern to the Authority.

The Authority did not properly record inventory

The Authority did not properly record inventory to its general ledger. The parts and supplies purchased are not recorded as an asset in the general ledger but rather are recorded as an operating expense in the general ledger. The general ledger does not show the actual balance of inventory on hand, except at year end. At year end, the general ledger is adjusted to reflect the value of the year end inventory count.

Differences between the inventory count and Authority records were

The Authority did not reconcile differences between its "Inventory By Part Number With Costs Report" and the actual year end physical inventory count. Discrepancies between the actual physical count and the inventory records were not analyzed. According to the Executive Director, there has never been any type of reconciliation made to reflect the difference between the year end physical inventory count and the books and records. The Authority has recorded inventory this way for many years and this was the way the Executive Director said she had been instructed to record the inventory.

Without a reconciliation being performed, the loss of inventory due to theft, waste, or misuse cannot be determined, nor can the overall management of the warehouse be effectively evaluated.

The Authority lacked written policies and

The Authority's Executive Director said there were no written procedures for controlling the warehouse inventory. The Authority did not have policies and procedures for properly conducting a year end physical count, accounting for inventory as it is received, reconciling the physical inventory count with the book records, following up on differences between the books and actual count, or properly maintaining records of inventory on hand.

Auditee Comments

Excerpts from the Executive Director's comments on our draft finding follow. Appendix B contains the complete text of her comments.

The Authority agrees that the computerized report does not agree with the physical count of the inventory. The Authority will ensure more accurate recording of requisitions and purchases. The more accurate recording of requisitions and purchases shall be addressed in our policies and procedures.

The Authority's inventory records have been somewhat inaccurate which is contributed to by the lack of warehouse controls. By controlling the access to the inventory with locked doors, requiring accurate part/supply descriptions along with part/supply numbers and educating the staff of their role in obtaining a more controlled inventory, the Authority anticipates a more accurate inventory.

The Authority has recorded the inventory as an expense and adjusted the general ledger at year end to reflect the inventory amount. The Authority acknowledges that this is not the correct procedure and will at the start of the new fiscal year begin recording the purchases as inventory and record the parts and supplies as expenses as used. The Authority will be using the perpetual inventory method.

Beginning with this year end, the Authority will reconcile the differences in the inventory report and the physical count and will properly record the difference. This proper reconciliation will also allow the Authority to analyze the differences and evaluate why the differences occurred.

The Authority does not have written policies and procedures for controlling the inventory. The Authority is in the process of writing policies to control the inventory and will soon have the procedures into effect.

Recommendations

We recommend that the Director of Public Housing, Illinois State Office, assure that the Franklin County Housing Authority:

3A. Properly uses the current computerized inventory system to control inventory and ensure that any required adjustments are made.

3B. Controls the inventory through physical safeguards or barriers such as a locked door and employee sign in sheets.

3C. Updates the general ledger inventory accounts at least monthly.

3D. Annually reconciles and explains differences between the annual physical inventory count, the "Inventory by Part Number With Costs Report", and the general ledger.

3E. Establishes policies and procedures which outline the proper steps required to control the inventory.

The Authority Lacked Adequate Controls Over Its Tenant Accounts Receivables

The Franklin County Housing Authority lacked adequate controls over its tenant accounts receivable balances. The Authority did not: (1) enforce collection of former tenant accounts on a consistent basis; and (2) obtain approval from the Board of Commissioners to write off delinquent accounts. We attribute these deficiencies to a lack of written policies and procedures governing the tenant accounts receivable process. As a result, the Authority cannot assure HUD that its tenants were receiving fair and equitable treatment and that collection efforts were adequate.

HUD Requirements

HUD Handbook 7511.1 Chapter 11, Section 1, Part 12(a) states that the accounts of tenants which are considered uncollectible after all means of collection have failed may be written off as collection losses. The write offs of tenant accounts receivables must be approved by the Board of Commissioners.

Section 309 of the Annual Contributions Contract requires the Authority to maintain complete and accurate books and records.

The Authority did not actively pursue tenants' accounts

The Authority did not establish a formal rent collection policy for delinquent former tenant accounts. The Authority's unwritten policy was to notify the former tenant in writing of amounts due. After three notifications are sent at 14-day intervals, the Authority was to refer the delinquent accounts to its attorney for collection. However, the Authority did not follow its own unwritten policy.

The Authority's Accounts Receivable Specialist is responsible for the collection of delinquent accounts. The Authority's Social Advisor is responsible for tracking the accounts that are forwarded to its attorney for collection.

The Authority failed to actively pursue collection from former tenants. We reviewed files of 53 former tenants with delinquent balances. The Accounts Receivable Specialist said the Authority sends the tenants a letter after they move informing them of the balance owed. However, the Authority did not have a policy specifying when the letters should be sent. We considered timely notification to be within 30 days of vacating the Authority. The Authority failed to promptly send letters to nine of the 53 former tenants informing them of the balance owed to the Authority. The number of days ranged from 33 days to 63 days.

The Accounts Receivable Specialist said she sends three letters to the tenants. If the Authority has not received a response after she sends the three letters, she forwards the account to the Social Advisor who will send the account to the Authority's attorney for collection. However, the Authority did not consistently follow this policy. The following table shows the number of letters requesting payment that were sent to delinquent former tenants prior to collection or referral to the attorney:

Number of Letters Sent	Number of Tenants
0	32
1	2
2	1
3	6
4	6
6	1
7	3
8	1
15	1

The Authority did not make referrals of delinquent accounts to its attorney in a timely manner. We considered 60 days as a reasonable time period from the date the tenant moves to the date that the account should be forwarded to the attorney. Our basis is that the Authority should know within 60 days the likelihood of collection. Of the 53 files reviewed, only eight were referred to the attorney in a timely manner. The attorney could not find one file that the Authority referred to him. For the remaining 44 tenant files, it took the Authority from 64 days to 327 days to refer the files to its attorney as follows:

Number of Days	Number of Accounts
64 days to 100 days	11
101 days to 199 days	29
200 days to 327 days	4

The Social Advisor does not keep a listing of accounts that are sent to the attorney. The only documentation kept is in the respective tenant files. The Authority did not maintain documentation for 12 delinquent tenant accounts which showed that the accounts were sent to the attorney for collection. However, the Authority's attorney provided us with documentation showing he received 11 of the delinquent accounts. He was unable to provide documentation for the remaining one delinquent account.

Without formal policies in place, guidelines do not exist to determine when a delinquent account should be written off or when the delinquent account should be forwarded to the attorney's office for collection. Consequently, the tenants cannot be assured that they are receiving fair and equitable treatment.

Tenant accounts were written off without approval of the Board of Commissioners

The Authority did not obtain the Board of Commissioners approval to write off uncollectible tenant accounts receivables. The Executive Director said the Authority did not obtain the Board of Commissioners' approval to write off the tenant accounts receivables because she thought it was not necessary.

From 1993 to 1995, the Authority wrote off the following amounts:

Year	Amount Written Off
1995	$27,723
1994	$12,101
1993	$23,217

The Executive Director said the large write off of tenant accounts in 1995 resulted primarily from tenants who did not report their true income. As a result, the Authority charged retroactive rent. The Executive Director said most of the tenants moved rather than pay the Authority the full amount.

The Authority wrote off tenant accounts without documenting the collection efforts made on the accounts. In 32 out of the 53 tenant files we reviewed, there was no documentation to support the type of collection efforts made by the Authority prior to writing off the account. For example, two tenants moved from the Authority in December 1995 owing a total of $1,361 and another tenant moved from the Authority in November 1995 owing a total of $382. The Authority wrote off all three accounts in December 1995; however, the Authority's tenant files had no documentation to support any type of collection efforts made by the Authority prior to the writeoffs.

Auditee Comments

Excerpts from the Executive Director's comments on our draft finding follow. Appendix B contains the complete text of her comments.

Although the Authority does not have written policies to pursue vacated tenant accounts the Authority does pursue them.

The Executive Director randomly selected and reviewed 28 of the 53 files reviewed by the OIG. While reviewing the files it was apparent that there are circumstances that causes the Authority not to follow their verbal policy. For example:

(1) If the Authority does not have a forwarding address the file is not sent to the attorney for collection until all resources to obtain the forwarding address has been exhausted.

(2) If the tenants file had already been forwarded to the attorney for non-payment of rent - three letters are not sent since it seems obvious that if they didn't pay while living there, they will not pay once they move out.

(3) If the Authority sends the three letters and then a payment is made then the Authority sends three letters again before forwarding it to the attorney.

When taking all these circumstances into consideration it is obvious why the number of letters mailed prior to being sent to the attorney and the referral time would vary.

The Authority does not see the significance of the master list of accounts other than for convenience.

The Authority did fail to present the written off accounts to the Board of Commissioners for their approval. The Authority will do so in the future.

OIG Evaluation of Auditee Comments

We recognize that there may be extenuating circumstances involved in pursuing collections from former tenants. However, development and implementation of written procedures addressing such circumstances would help ensure that employees consistently follow the Authority's procedures.

A master listing of tenants who are referred to the Authority's attorney is more than a convenience tool. Such a listing would facilitate the tracking of tenant cases. A master listing would also provide the Authority with readily available information regarding the effectiveness of attorney referrals as a collection tool.

Recommendations

We recommend that the Director of Public Housing, Illinois State Office, assure that the Franklin County Housing Authority:

4A. Develops and implements written policies and procedures for the collection and write off of delinquent tenant accounts.

4B. Obtains the Board of Commissioners approval on future write offs of tenant accounts receivable balances.

4C. Maintains a master listing of accounts sent to the Authority's attorney's for collection. The listing should include: (1) the date sent to the attorney; (2) the amount of the delinquent balance; and (3) the amount recovered, if applicable.

Internal Controls

In planning and performing our audit, we considered the internal controls of the Franklin County Housing Authority to determine our auditing procedures and not to provide assurance on internal controls. Internal controls consist of the plan of organization, methods, and procedures adopted by management to ensure that resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data are obtained, maintained, and fairly disclosed in reports.

Relevant internal controls

We determined the following internal controls were relevant to our audit objectives:

- Management philosophy and operating style.
- Oversight body.
- Methods of assigning authority.
- Management monitoring methods.
- Completeness of accounting systems.
- Segregation of duties.
- Safeguards over access to and use of assets and records.
- Independent verifications and reconciliations.
- Policies and procedures.

We assessed all the relevant controls identified above.

Significant weaknesses

It is a significant weakness if internal controls do not give reasonable assurance that resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data are obtained, maintained, and fairly disclosed in reports.

Based on our review, the following items are significant weaknesses:

- Management monitoring methods. The Authority did not properly administer the Public Housing Drug Elimination Program (see Finding 2).

- Completeness of accounting systems. The Authority did not properly record inventory to its general ledger (see Finding 3).

- Segregation of duties. The Authority lacked adequate controls over its cash receipts (see Finding 1).

- Safeguards over access to and use of assets and records. The Authority lacked adequate controls over its cash receipts (see Finding 1).

- Independent verifications and reconciliations. The Authority did not adequately reconcile its cash collections (see Finding 1) and its inventory differences (see Finding 3).

- Authority policies and procedures. The Authority lacked adequate controls over its cash receipts (see Finding 1), its inventory (see Finding 3), and its tenant accounts receivables (see Finding 4).

Follow Up On Prior Audits

This is the first OIG audit of the Franklin County Housing Authority.

The Authority's last Single Audit Report was for the Fiscal Year ended December 31, 1994. The report contained no findings.

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Schedule of Unsupported Costs

Recommendation Number	Unsupported Costs
2A	$23,342
2B	14,856
2C	8,271
TOTAL	$46,469

Unsupported costs are costs charged to a HUD-financed or insured program or activity and eligibility cannot be determined at the time of the audit. The costs are not supported by adequate documentation or there is a need for a legal or administrative determination on the eligibility of the costs. Unsupported costs require a future decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.

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Auditee Comments

August 28, 1996

Mr. Richard Urbanowski
Senior Auditor
Department of Housing and Urban Development
Office of Inspector General
77 W. Jackson Blvd., Suite 2646
Chicago, Illinois 60604-3507

RE: Finding resulting from the review of the Cash Receipts

Mr. Urbanowski:

Please find enclosed the Franklin County Housing Authority's response to the above mentioned finding.

I will at this time extend my apologies for taking over the ten days to respond. Due to the length of this finding and the information contained I wanted to assure that we were thorough with our response. I will try to be more prompt on our future replies.

If any further information is needed or you have any questions, please feel free to call me at (618) 932-2124.

Sincerely,

Monica Stewart
Executive Director

Employees cashed their personal checks from Authority funds.

The Authority acknowledges that personal checks have been cashed in the past. On or about the week of May 6, 1996 the OIG discussed this practice with the Executive Director. The Executive Director explained that this had been practiced the last 15 years.

Since the Authority acknowledged the fact that personal checks were being cashed and took measures to stop, the Authority questions the significance of summarizing the activity. But since the activity was summarized the Authority will attempt to further explain the "Miscellaneous" and "Unknown" amounts. The "Miscellaneous" amount contains $1034.78 in checks cashed by the Former Accounts Receivable employee. After reviewing the deposit tickets it appears that the majority of the "Unknown" amount is also employee checks that were cashed.

The Executive Director issued a written memo to all employees on May 9, 1996 explaining that personal checks would no longer be cashed. The issue of cashing personal checks is being addressed in the Financial Management Policy.

Cash rent collections were used to reimburse the petty cash fund.

The checks issued to reimburse petty cash were cashed from Authority funds. This practice is similar to the cashing of personal checks. This practice is no longer being used and will also be addressed in the Financial Management Policy.

Bank deposits were not made timely.

The Authority acknowledges that some deposits were made late. Presently deposits are being made more timely. The Authority is in the process of instituting a daily written reconciliation and daily deposits. The Authority will continue to maintain two cash drawers and is in the process of obtaining new cash drawers that will be more secure and fireproof. The Financial Management Policy will also address the placing of the cash drawers in the vault and keeping the drawers locked.

The Authority did not follow up on cash overage and shortages.

The Authority did not require daily reconciliations of the cash drawers. At the beginning of the month when the rent collections are the highest deposits are generally made daily. After around the tenth of the month when cash collections decrease deposits may be made weekly.

The Authority did follow-up on overages and shortages of the deposits. During the period of January 1994 to July 1996 there were 986 deposits made at First Bank West Frankfort, which is the Authority's main financial institution. Of the 986 deposits that were made there were approximately 12 errors made. Although we attempt to have no errors, the fact that there were 12 out of 986 we do not feel that this is excessive. When an error occurred the error was corrected on the next deposit.

When a deposit was made the drawers were reconciled. The Executive Director expressed her concern to the OIG that the terms being used by the Authority staff and the OIG staff regarding the reconciliation and deposits was not necessarily the same. Our process has been: when a deposit is made the Accounts Receivable Specialist and the Leasing and Occupancy Specialist count the remaining cash to verify the $250.00 balance and therefore the drawer is reconciled. The Authority has not made a deposit without reconciling the drawer. The Authority has not made a reconciliation of the cash drawer without making a deposit. In the Financial Management Policy the Authority will address the procedure for daily reconciliations and the criteria for making a deposit.

Cash drawer reconciliations were not properly performed.

The Authority acknowledges that it has been lax in reconciling cash drawers, as previously noted. Again this will be addressed in the Financial Management Policy.

The cash shortage identified during the OIG cash count had to occur the day the cash was collected or after the deposit was made on the previous day. A deposit was made on the previous day. Both the Accounts Receivable Specialist and the Leasing and Occupancy Specialist said that after making their deposits they each count their cash drawers to assure that the drawers are balanced to $250.00.

The Financial Management Policy will also address the use of daily written reconciliations,

Rent receipt forms were not properly used.

The Authority mails all elderly residents a monthly rent statement, which are not prenumbered. After the OIG expressed his concern that the statements were not prenumbered, the Authority began numbering the rent statements before they were mailed. The Authority found that this created some problems. Some of the statements were not returned when payments were made (due to them being lost, torn, etc.) therefore the Authority has rent receipt numbers that cannot be accounted for.

All rent statements are numbered with a duplicate number stamper when the statement is returned from the bank or when a resident pays their rent. Therefore, all rent statements are numbered at some point. The Authority does use prenumbered receipts for payments and adjustments. The voided prenumbered receipts are retained by the Authority and placed in the batches.

Although the Authority has stamped rent statements with receipt numbers and date paid we did not record what method of payment and who conducted the transaction. The Authority has plans to obtain software that will generate cash receipts, which will give all the information that is needed.

In the past checks have not been immediately stamped "For Deposit Only". Since approximately July 1, 1996 we have been stamping checks upon receipt. This procedure will also be addressed in the Financial management Policy.

Third party checks were not immediately stamped "For Deposit Only. "

The Authority had failed to stamp third party checks upon receipt. Since approximately July 1, 1996 the Authority has been stamping the checks upon receipt. Again, this procedure will be addressed in the Financial Management Policy.

Cash receipts duties were not adequately segregated.

The Executive Director does agree that duties should be more segregated, but finds this difficult because of the size of the Authority staff.

Although the Accounts Receivable Specialist collects rent and posts to the computer, the receipts with the deposit slip goes to the Section 8 Coordinator to be posted manually and to be batched. When batching the receipts the Section 8 Coordinator verifies that the receipts balance with the deposit slip. After batched, the receipts go back to the Accounts Receivable Specialist to be posted on the computer.

The Authority feels that once computer generated receipts are used it will allow less chance for any account to be manipulated.

Several employees accepted tenant rent payments.

At the time the Inspector General audit began all administrative staff could accept rent, although primarily three staff members were accepting rent. The Authority acknowledged that this did not allow for accountability. Approximately June 1, 1996 the Executive Director informed all staff that the Leasing & Occupancy Specialist and the Accounts Receivable Specialist would be accepting rent payments.

Although the Board of Commissioners has not formally adopted a Financial Management Policy, many procedures have been implemented by the Executive Director and carried out by the staff. The Executive Director and staff have spent many hours planning how all the procedures can be properly implemented. Some procedures have been successful. Some procedures have proven to be unsuccessful, so we are trying something different.

Some of the procedural changes the Authority has implemented since the Inspector General Audit began includes: no longer cashing personal checks, only two staff members collect rent and have access to their assigned cash drawers, all deposits are verified by a second party, all deposits are placed in a locked bank bag by a third party and taken to the bank by a fourth party, and all checks are stamped "For Deposit Only" upon receipt.

September 12, 1996

Mr. Richard Urbanowski
Senior Auditor
Department of Housing and Urban Development
Office of Inspector General
77 W. Jackson Blvd., Suite 2646
Chicago, Illinois 60604-3507

RE: Finding resulting from the review of the Drug Elimination Program

Mr. Urbanowski:

Please find enclosed the Franklin County Housing Authority's response to the above mentioned finding.

I will at this time extend my apologies for taking over the ten days to respond. I wanted to assure that we were thorough with our response. I will try to be more prompt on our future replies.

If any further information is needed or you have any questions, please feel free to call me at (618) 932-2124.

Sincerely,

Monica Stewart
Executive Director

The Authority was billed for services not provided.

The Authority was billed for services in which there is no supporting documents. The Authority will contact the Agency and seek supporting documents for the amount paid. If supporting documents are not provided the Authority will take necessary steps to re-pay the amount owed to HUD.

The Authority assures the OIG and Department of HUD that in future grants all contracts and extensions will be properly executed.

Payments to West Frankfort Police Department were unsupported.

The Authority will ask the West Frankfort Police Department for supporting documents for the amounts paid. If supporting documents cannot be provided the Authority will take necessary steps to re-pay the amount owed to HUD.

Again, the Authority assures the OIG and Department of HUD that all future contracts will be properly executed and funds will not be expended until the contracts are properly executed.

The Authority drew down excess funds for administration costs.

The Authority will seek supporting documents from the former Executive Director for his time spent on the program.

The Authority did not incur any additional costs for the audit and will return the $2,000 as requested .

The Authority does anticipate eventually installing the security camera that the funds were requisitioned for. The Authority is requesting to keep the funds and the camera will be installed in the very near future.

Contracts did not specifically state the work to be performed.

The Authority assures the OIG and the Department of HUD that all future contracts will be much more specific as to what is to be provided by the contractors.

August 9, 1996

Mr. Richard Urbanowski
Senior Auditor
Department of Housing and Urban Development
Office of Inspector General
77 W. Jackson Blvd., Suite 2646
Chicago, Illinois 60604-3507

RE: Finding resulting from the review of the Inventory of Parts and Supplies

Dear Mr. Urbanowski:

Please find enclosed the Franklin County Housing Authority's response to the above mentioned finding.

I believe that each issue has been addressed and is to your satisfaction.

If any further information is needed or you have any questions, please feel free to call me at (618) 932-2124.

Sincerely,

Monica Stewart
Executive Director

Inventory records were not properly maintained.

The Authority agrees that the computerized report does not agree with the physical count of the inventory. The Authority has a computerized inventory system that is adequate. The Authority will ensure more accurate recording of requisitions and purchases. The more accurate recording of requisitions and purchases shall be addressed in our policies and procedures.

The Authority's inventory record was inaccurate.

The Authority's inventory records have been somewhat inaccurate which is contributed to by the lack of warehouse controls. The Authority realizes that the ideal situation would be to have an inventory clerk. Because of our staff size and the low dollar amount of inventory, we do not feel it is economically feasible to hire an inventory clerk. The Authority does intend to "tighten" the controls and access to the inventory. By controlling the access to the inventory with locked doors, requiring accurate part/supply descriptions along with part/supply numbers and educating the staff of their role in obtaining a more controlled inventory, the Authority anticipates a more accurate inventory.

The Authority did not properly record inventory to its general ledger.

The Authority has recorded the inventory as an expense and adjusted the general ledger at year end to reflect the inventory amount. The Authority acknowledges that this is not the correct procedure and will at the start of the new fiscal year begin recording the purchases as inventory and record the parts and supplies as expenses as used. The Authority will be using the perpetual inventory method. These new procedures will allow the general ledger to more closely reflect the actual amount of inventory on hand and aid in the reconciliation at year end.

Differences between the inventory count and Authority records were not reconciled.

The Authority has not reconciled the inventory report generated by the computer to the actual physical count. Beginning with this year end, the Authority will reconcile the differences in the inventory report and the physical count and will properly record the difference. This proper reconciliation will also allow the Authority to analyze the differences and evaluate why the differences occurred.

The Authority lacked written policies and procedures.

The Authority does not have written policies and procedures for controlling the inventory. The Authority is in the process of writing policies to control the inventory and will soon have the procedures into effect.

September 18, 1996

Mr. Richard Urbanowski
Senior Auditor
Department of Housing and Urban Development
Office of Inspector General
77 W. Jackson Blvd., Suite 2646
Chicago, Illinois 60604-3507

RE: Response to the Finding that The Housing Authority Lacked Adequate Controls Over Its Tenant Accounts Receivables.

Mr. Urbanowski:

Please find enclosed the Franklin County Housing Authority's response to the above mentioned finding.

If any further information is needed or you have any questions, please feel free to call me at (618) 932-2124.

Sincerely,

Monica Stewart
Executive Director

The Authority did not actively pursue tenants' accounts.

Although the Authority does not have written policies to pursue vacated tenant accounts the Authority does pursue them.

The Executive Director randomly selected and reviewed 28 of the 53 files reviewed by the OIG. While reviewing the files it was apparent that there are circumstances that causes the Authority not to follow their verbal policy. For example:

1) If the Authority does not have a forwarding address the file is not sent to the attorney for collection until all resources to obtain the forwarding address has been exhausted.

2) If the tenants file had already been forwarded to the attorney for non-payment of rent - three letters are not sent since it seems obvious that if they didn't pay while living there, they will not pay once they move out.

3) If the Authority sends the three letters and then a payment is made then the Authority sends three letters again before forwarding it to the attorney.

When taking all these circumstances into consideration it is obvious why the number of letters mailed prior to being sent to the attorney and the referral time would vary.

The Authority does not see the significance of the master list of accounts other than for convenience.

Tenant accounts were written off without approval of the Board of Commissioners.

The Authority did fail to present the written off accounts to the Board of Commissioners for their approval. The Authority will do so in the future.

Distribution

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Director Accounting Division, Midwest
Field Controller, Midwest
Assistant General Counsel, Midwest
Public Affairs Officer, Midwest
Assistant to the Deputy Secretary for Field Management, SC (Room 7106)
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Director, General Management Division, PMG (Room 4216)
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Associate General Counsel, Office of Assisted Housing and Community Development, GC (Room 8162)
Assistant Director in Charge, U.S. GAO, 820 1st St. NE, Union Plaza, Building 2, Suite 150, Washington DC, 20002 (2)