



Issue Date	March 27, 2000
Audit Case Number	00-AT-202-1005

TO: Ledford L. Austin, Director, Office of Public Housing, 4FPH

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

SUBJECT: Benson Housing Authority
Public Housing Programs
Benson, North Carolina

We completed an audit of the Benson Housing Authority, Benson, North Carolina, pertaining to its public housing programs. This report presents the results of our audit and includes three findings with recommendations for corrective action.

Within 60 days, please provide us, for each recommendation in this report, a status report on: (1) the corrective action taken; (2) the proposed corrective action and a planned completion date; or (3) why action is considered unnecessary. Also, please furnish us copies of any correspondence or directives issued as a result of the audit. 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 report to the auditee.

We appreciate your cooperation during the audit. Should you or your staff have any questions, please contact me at (404) 331-3369, or Gerald Kirkland, Assistant District Inspector General for Audit, at (865) 545-4368.

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Executive Summary

At your request, we conducted an audit of the Benson Housing Authority's (Authority) public housing programs. We audited activities generally for the period October 1, 1997, to October 31, 1999. Our objectives were to determine: (1) whether the Authority had adequate controls to ensure its assets were properly safeguarded, and (2) whether the Authority complied with applicable laws, regulations and Department of Housing and Urban Development (HUD) requirements.

We found the Authority did not manage its programs in accordance with requirements. This occurred because: (1) it violated conflict of interest requirements; (2) it did not have an adequate system of internal controls; (3) it did not maintain adequate books and records; and (4) the Board of Commissioners did not provide adequate oversight. Also, as shown in the findings, the Executive Director was apparently not sufficiently qualified to manage the Authority. As a result, the Authority is in substantial default of the Annual Contributions Contract (ACC) and HUD has no assurance that funds were used effectively to accomplish program objectives.

Specifically, the Authority did not:

- Obtain Board approval to hire relatives of Authority officials;
- Have adequate controls over cash disbursements or cash receipts;
- Properly administer its payroll functions;
- Have adequate books and records to support expenditures; or
- Have adequate Board oversight.

Also, the Authority made improper procurements totaling about \$1.6 million. This occurred because it did not comply with procurement requirements to ensure free and open competition. Specifically, the Authority did not solicit bids or proposals for repair work or the purchase of two vehicles. Thus, it did not have proper assurance the procurements were reasonable or the most advantageous to the Authority. For example, the Authority paid almost \$1 million to a company to perform rehabilitation work. The Authority did not solicit bids for the work and did not have a written contract with the company. The owner of the company was also the Authority's maintenance superintendent responsible for overseeing the rehabilitation work. This violated conflict of interest requirements.

Further, the Authority did not properly determine tenant rent amounts for any of the seven households we reviewed. As a result, it was deprived of about \$37,000 of rental income. All seven households included tenants who were either Authority officials or employees, including the former Board Chairperson. We found the former Chairperson did not report over \$73,000 of household income and the Authority improperly calculated the household's monthly rent. As a result, the former Chairperson underpaid rent by more than \$20,000. The former Chairperson was indicted for similar offenses in December 1996 by the Superior Court Division of the State of North Carolina. We found other cases where the Authority did not include income for employees when determining their monthly rent.

Prior to the issuance of this report: (1) the former Chairperson resigned from the Board and moved out of her unit; (2) the Executive Director resigned; and, (3) the North Carolina State Office (State Office) suspended the Authority's Comprehensive Improvement Assistance Program (CIAP).

In January 1997, the State Office determined the Authority did not have adequate internal controls and used incorrect employee income when determining rents. The Authority did not take appropriate corrective action to prevent future occurrences.

Given the historical mismanagement of the Authority, we recommend you declare the Authority in substantial default of the ACC and require it to deliver possession and control of the projects to HUD. Our recommendations address other concerns identified in the Findings.

Authority Response to the draft report

We provided the draft audit findings to the current Board Chairperson and Executive Director on March 2, 2000. The Chairperson provided written comments to the draft findings on March 10, 2000, which are summarized within each finding and included in their entirety as Appendix B. We also discussed the draft audit findings with the Chairperson and Executive Director at an exit conference on March 14, 2000. They generally agreed with our draft findings and stated the Authority has initiated corrective actions to resolve many deficiencies and will implement additional procedures. We considered the comments in preparing our final report.

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Abbreviations

ACC	Annual Contributions Contract
CFR	Code of Federal Regulations
CIAP	Comprehensive Improvement Assistance Program
HUD	Department of Housing and Urban Development
OIG	Office of Inspector General
VOE	Verification of Employment

Introduction

Background

The Authority was established in 1961. It currently administers 5 projects consisting of 173 public housing units under Annual Contributions Contract Number A-4308 .

The Authority is governed by a seven-member Board of Commissioners appointed by the Mayor. Each member is appointed to a 5-year term. Ms. Maxine Holley served as the Board Chairperson from October 1997 through September 1999. She previously served as the Chairperson from October 1993 through September 1994 and was a Board member for about 10 years. She resigned from the Board in November 1999. Mr. George R. Murphy is the current Chairperson. The majority of current Board members are newly appointed and were not members during most of our audit period. Ms. Juanita English served as the Executive Director from December 1992 until she resigned in January 2000. Mr. William Stewart is the current acting Executive Director.

In fiscal year ended September 30, 1998, the Authority managed operating revenue of about \$388,000. Additionally, from October 1, 1994, through May 31, 1998, the Authority received about \$2.3 million from HUD for CIAP work. Between October 1994 and September 1995, the Authority also received about \$1.2 million from HUD to convert former Section 23 leased units into public housing units.

The Authority maintains its books and records at its office at 413 Williams Drive, Benson, North Carolina.

Audit Objective, Scope, and Methodology

Our objectives were to determine: (1) whether the Authority had adequate controls to ensure its assets were properly safeguarded, and (2) whether the Authority complied with applicable laws, regulations and HUD requirements. We reviewed activities and management controls regarding cash receipts and disbursements, procurements, payroll, and tenant certifications.

To meet our objectives, we:

- Interviewed HUD North Carolina State Office and Authority staff.
- Reviewed books and records as considered necessary.
- Reviewed disbursements totaling about \$1.9 million to assess eligibility and support. This included about \$1.2 million of CIAP funds, \$.6 million of Section 23 funds, and \$.1 million of insurance casualty loss funds.
- Reviewed procurement files to assess procurement procedures.

Introduction

- Performed a cash count and evaluated a sample of bank deposits to determine whether funds were deposited timely.
- Reviewed the Authority's tenant certifications and rent calculations for seven households that included tenants who were Authority employees or officials.
- Reviewed the minutes from Board meetings from January 1, 1995, through October 31, 1999, to determine whether the Board provided adequate oversight.
- Inspected a judgmental sample of 17 units to determine whether renovation work appeared adequate.

The audit covered Authority activities from October 1, 1997, through October 31, 1999, but was expanded into prior and subsequent periods as deemed appropriate. Field work was performed from May through November 1999. We conducted our audit in accordance with generally accepted government auditing standards.

The Authority Mismanaged its Public Housing Programs

The Authority mismanaged its public housing programs. This occurred because it did not: (1) comply with conflict of interest requirements; (2) have an adequate system of internal controls; (3) maintain adequate books and records; or, (4) have adequate Board oversight. As a result, the Authority is in substantial default of the ACC and HUD has no assurance that funds were used effectively to accomplish program objectives.

Criteria

The Authority was required to operate its projects in compliance with the ACC and all applicable statutes, executive orders, and regulations. Section 19 of the ACC provides conflict of interest requirements. It states the Authority may not hire an employee in connection with a project under the ACC if the prospective employee is an immediate family member of any employee of the Authority who formulates policy or influences decisions with respect to the projects or any present or former member or officer of the governing body of the Authority. The Authority's personnel policy provides that the Authority will not employ any spouse or immediate relative of its staff who resides in the same household on a permanent basis without Board approval.

Title 24 of the Code of Federal Regulations (CFR), Part 85, requires the Authority to maintain effective control and accountability for all cash, property and other assets. The Authority's internal control policy requires the Executive Director to review and inspect each invoice prior to payment and deposit cash receipts as frequently as possible.

The ACC requires the Authority to maintain complete and accurate books of account that permit timely and effective audit.

The Authority's Bylaws require the Board to hold monthly meetings. The Secretary of the Board, the Executive Director, is to provide an accounting of transactions and financial conditions at each monthly meeting.

We found the Authority did not: (1) comply with conflict of interest requirements; (2) have an adequate system of internal controls; (3) maintain adequate books and records; or, (4) have adequate Board oversight. Specifically, the Authority did not:

- Obtain Board approval to hire relatives of Authority officials;
- Have adequate controls over cash disbursements or cash receipts;
- Properly administer its payroll functions;
- Have adequate books and records to support expenditures; or
- Have adequate Board oversight.

The Authority did not comply with conflict of interest requirements

The Executive Director violated the ACC and Authority conflict of interest policies by hiring her spouse and a Board member's son as Authority employees. The Executive Director also hired the Authority's CIAP general contractor as the maintenance superintendent. She hired them without Board approval.

The Executive Director's spouse worked periodically as an Authority employee and as a contractor from October 1994 through September 1997. The Authority paid him about \$30,200 during this period. The Executive Director prepared her spouse's time records, invoices, and pay checks. She also endorsed and cashed some of her spouse's pay checks.

The Board Chairperson's son was employed as a Drug Elimination Grant Coordinator from May 13, 1998, through December 17, 1998. The Authority initially advertised the position and hired someone at an hourly rate of \$8. The employee left after a brief time. The Authority did not advertise the position again prior to hiring the Board Chairperson's son. The Authority paid him \$15 per hour. Again, there was no evidence the Board approved the hiring of this family member.

The Authority hired Turnage Construction Company to perform construction work under the CIAP program. The Authority paid the company almost \$1 million from October 1994 to August 1997. Also, the Authority hired the owner of Turnage as its maintenance superintendent. The Authority paid him over \$79,000 in salary as the maintenance superintendent during this period. Further, the contractor hired the Executive Director's spouse as a subcontractor. The contractor paid the spouse about \$37,600 for his subcontract work.

One of the maintenance superintendent's duties was to oversee the CIAP rehabilitation. He was also in a position to influence decisions concerning the amount and types of repairs to be made. As the contractor, he submitted invoices for payment which were reviewed and paid by the Executive Director.

The CIAP rehabilitation work received minimal review by HUD staff and a consultant hired by the Authority. However, in August 1997 the State Office informed the Authority the maintenance superintendent could not also be a contractor. He subsequently resigned as maintenance superintendent.

The Executive Director stated that she was not aware of the conflict of interest requirements in the ACC when she hired her spouse and the Board Chairperson's son. She also stated that she hired her spouse because he would work at night and on weekends when others would not.

Inadequate controls
over cash
disbursements

The Authority did not have adequate controls over cash disbursements. Specifically, the Executive Director did not adequately review invoices prior to payment and in some instances she prepared invoices for contractors. As a result, some payments were not supported and contractors were paid for duplicate invoices.

For example, a contractor submitted two invoices dated January 6, 1997, for reimbursement of materials; one for \$5,715 and one for \$5,576, a total of \$11,291. The Authority paid the invoices on February 7, 1997. The contractor submitted the same packing slip as support for both charges. The packing slip did not include any cost

amounts. The supplier verified the correct amount of materials purchased was \$5,442. The Authority paid the contractor the full \$11,291. Thus, it overpaid the contractor \$5,849.

On another occasion, the same contractor submitted a receipt from a building materials supplier for \$7,461. The receipt was for payment on the contractor's account and did not document what materials were purchased or where they were to be used. Thus, we cannot be assured the materials were purchased for the Authority.

We also found the Authority paid contractors three times in 4 months to paint the same unit located at 400 Hall Street. The contractors, including the Executive Director's spouse, were paid a total of \$5,203. The Authority could not justify the reasons for painting the unit three times in 4 months.

The Executive Director also prepared invoices for a drywall contractor. The Executive Director maintained a file which contained blank invoices for the drywall contractor. The Executive Director prepared the invoices and made the payments to the contractor. She also prepared invoices for payment to her spouse, her cousin, and two Authority employees for painting units.

Inadequate controls
over cash receipts

The Authority did not have adequate segregation of duties over the receipt and deposit of cash. The Occupancy Clerk collected cash receipts, posted receipts to tenants' account receivable records, prepared and made bank deposits, and reconciled bank statements.

Also, the Authority did not deposit funds timely. On three occasions between March 1, 1999, and June 21, 1999, it maintained over \$10,000 cash at the Authority. At one point, it had over \$16,000 cash on hand. Each day, the Authority placed the funds in a night depository at a bank. However, rather than depositing the funds into its account, an Authority employee picked up the funds the next business day and returned them to the Authority. It did not deposit the funds until the Occupancy Clerk posted the receipts to the tenant accounts.

Following a January 1997 review, the State Office notified the Authority that its internal controls were not adequate. The State Office recommended the Executive Director verify the accuracy of receipts and deposit funds timely. The State Office cleared the finding based on the Authority's response that the Executive Director would balance receipts and make the deposits. However, we found the Authority did not implement the procedures.

Inadequate payroll procedures

The Executive Director was responsible for maintaining employee time and attendance records, preparing payroll, and signing payroll checks. She also maintained her own time and attendance records. We found the Executive Director did not adequately account for her accrued and used leave. For example, a 1995 memo in the file indicated she had a balance of 380 days of sick leave. According to the Authority's personnel policy, she could have only earned 246 days. Also, a Leave Record Form indicated that she used 88 hours of leave during the period October 21, 1997, through October 31, 1997. This period included weekend days for which leave was not required.

The Authority also failed to accrue funds to pay employees for unused leave upon their termination. The personnel policy provides that employees would be paid for accumulated vacation leave upon submission of a signed and dated resignation. However, the Authority has not accrued funds to pay for the leave. Thus, the Authority may not be able to pay employees upon resignation.

Inadequate books and records

The Authority did not maintain books and records that permitted timely or effective audit. For example, we found it did not have auditable time and attendance records to support payroll disbursements. The Executive Director said she keeps up with employee time by watching when their cars arrive and when they leave. She wrote down the number of hours either on a Daily Attendance Record, her desk calendar, or on Post-It notes. After payroll checks were distributed, she threw away the Post-It notes.

We also attempted to ensure CIAP funds were spent only for eligible activities. However, the Authority did not keep adequate records to readily identify and account for the funds. Rather, it commingled the CIAP funds with the operating funds, which prevented timely and effective audit.

Inadequate Board oversight

The Authority's Board did not provide adequate oversight of the Authority's activities or safeguard Authority assets.

The Board is responsible for overseeing Authority activities and for establishing policies and procedures that govern the Authority. In addition, the Board should ensure the Executive Director follows established policies and procedures.

The Board did not conduct monthly meetings as required by Authority Bylaws. From October 1997 to August 1999, the Board only held 12 of 26 required meetings. The other meetings were either canceled or postponed, generally because there was no business to discuss or because there was not a quorum present to vote on issues. However, during the period October 1994 through August 1998, Board members did meet with Authority employees, contractors, subcontractors, or the Town inspector for meals on 20 occasions. The Authority paid about \$4,000 for these meals.

Also, as Secretary of the Board, the Executive Director was to provide an account of the Secretary's financial transactions and the Authority's financial condition at each regular meeting. The minutes from the Board meetings did not show this was done. Thus, the Board was not aware of events occurring at the Authority and could not properly oversee Authority operations.

Authority comments

The current Board Chairperson agreed with our assessment that the Authority was mismanaged. He advised that the majority of the current Board Commissioners were not present or serving on the Board during most of the audit period. He stated the current Board is aware of conflict of interest requirements, will ensure that no future conflict of interest will occur, and will exercise adequate oversight of all Authority operations. The Authority began depositing cash receipts on a daily basis and improved time and attendance procedures. Also, the Board will hold monthly meetings and will require the Executive Director to advise the Board of the Authority's financial condition and present all bills and checks to the Board for review.

OIG response to
comments

We commend the efforts to improve Authority management. However, we remain concerned that current Authority management may not be able to timely resolve the deficiencies cited in the finding. Our concerns are based on the historical mismanagement of the Authority and the relative inexperience in public housing programs by the current Board members. Also, the current Executive Director has not worked in public housing programs in several years, during which time public housing rules have changed significantly. The Executive Director may not currently have sufficient expertise and is only serving temporarily pending the hiring of a permanent Executive Director.

Recommendations

We recommend you:

- 1A. Declare the Authority in substantial default of the ACC;
- 1B. Require the Authority to deliver possession and control of the projects to HUD;
- 1C. Take appropriate administrative actions against the former Board Chairperson; and,
- 1D. Take appropriate administrative actions against the former Executive Director.

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The Authority Made Improper Procurements Totaling About \$1.6 Million

The Authority made improper procurements totaling about \$1.6 million. This occurred because it did not comply with procurement requirements to ensure free and open competition. Specifically, the Authority did not solicit bids or proposals for repair work or the purchase of two vehicles. Thus, it did not have proper assurance the procurements were reasonable or the most advantageous to the Authority.

Criteria

Title 24 CFR, Part 85.36, provides procurement requirements for public housing authorities. It requires that all procurement transactions be conducted in a manner that provides full and open competition. The Authority's procurement policy, dated August 7, 1995, provides requirements for soliciting and documenting bids and quotes. It requires the Authority to seek full and open competition in all procurement transactions.

HUD Handbook 7460.8 REV-1, Procurement Handbook for Public Housing Agencies and Indian Housing Authorities, Chapter 2, provides that housing authorities should attempt to obtain full and open competition to ensure that goods and services are obtained at a reasonable price.

Authority used improper procurement procedures

We found the Authority did not properly procure repair services and materials for rehabilitation work. We reviewed payments the Authority made between October 1994 and May 1998 for rehabilitation work. The Authority obtained quotes for the installation of vinyl siding and the exterior renovation of one building. However, it paid about \$1.6 million for rehabilitation work under the CIAP and Section 23 conversion programs that it procured without bids or quotes. This included payments for general construction work, painting, electrical work, heating and air conditioning installation, cabinets, and other items. Contrary to the Authority's procurement procedures, the Executive Director personally selected all of the contractors and failed to execute contracts for the services provided. As such, the Authority was unable to properly monitor the progress of work performed or ensure funds were properly expended.

Of the \$1.6 million, the Authority paid Turnage Construction Company almost \$1 million to perform general construction work. The Authority did not solicit bids for the work and did not have a written contract with the company. The owner of the company was also the Authority's maintenance superintendent during this same period. This situation presented a conflict of interest which was discussed further in Finding 1.

We requested documentation from the company to support payments from the Authority. However, while the company paid the owner's wife \$20,000 over a 2-year period for bookkeeping services, it did not maintain business accounting records that identified receipts. In fact, the same bank accounts were used for company and personal purposes. Although we issued a subpoena, the owner did not provide complete records. For example, pages of some bank statements and checks were not provided. Thus, we could not conclude as to whether all payments were proper.

The Authority also did not request bids for other work totaling \$600,634. Of this amount, the Authority paid \$55,996 for painting services, including \$24,077 paid to Authority employees. These payments were in addition to the employees' salaries. It also paid \$29,856 to relatives of the Executive Director for painting services.

The Executive Director said she had a hard time getting contractors to bid on CIAP work because the Authority only repaired one or two units at a time. Generally contractors were not interested in small jobs. The Authority did not have any documentation to support that it contacted any other contractors regarding the rehabilitation work.

The State Office notified the Authority on July 27, 1999, that all on-going work related to the CIAP program was to stop and that all expenditures would be suspended effective July 29, 1999. The suspension was attributed to our ongoing audit.

Bids not obtained for
vehicle purchases

The Authority purchased two vehicles in February 1997 at a total cost of \$39,875. It purchased a 1997 truck for \$19,300 and a 1997 car for \$20,575. The Authority did not obtain bids or have an invoice to support the truck purchase. It did obtain a written quote of \$20,575 for the car. There was also a note in the file indicating it obtained a quote for \$20,115 from another dealer; however, there was no other support for the quote. The Authority did not accept the lower quote because the vehicle could not be delivered for about 4 to 6 weeks.

Authority
comments

The Authority generally agreed with the deficiencies cited in the finding. It also was unable to find documentation to support that bids were properly solicited. The Board Chairperson stated the Authority will follow its written procurement policy and will seek full and open competition in all procurement transactions.

OIG response to
comments

We agree the Authority must follow its procurement policy. However, it must also ensure the policy is in accordance with HUD requirements and ensure that proper contracts are executed. Further, it must ensure that proper contractor oversight is provided and that payments are made only for properly supported costs.

Recommendations

We recommend you:

- 2A. Require the Authority to implement procurement procedures that comply with regulations;
- 2B. Require the Authority to provide proper contractor oversight;
- 2C. Require the Authority to implement procedures to ensure payments are made only for properly supported contractor costs; and,
- 2D. Do not release any grant funds to the Authority until you ascertain it has implemented proper procurement procedures.

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The Authority was Deprived of \$37,000 in Rental Income

The Authority did not properly determine tenant rent amounts. As a result, it was deprived of about \$37,000 of rental income. Specifically, the Authority did not include appropriate household income when determining rent. This occurred because the Authority did not have adequate controls to verify tenant information and did not determine rent based on income and household information it had available.

Criteria

United States Code Title 42, Section 1437a, Rental Payments, provides procedures for determining tenants' monthly rent. All family members living in a unit must be included on the lease. Generally, rent is the higher of 30 percent of total family monthly adjusted income or 10 percent of unadjusted monthly income.

According to 24 CFR, Part 960, the Authority must have adequate procedures to obtain and verify tenant information. Also, the head of the household must certify that the information given to the Authority concerning household composition, income, net family assets, and allowances and deductions are accurate and complete to the best of their knowledge.

Rents improperly computed

We reviewed the Authority's tenant certifications and rent calculations for seven households during periods between August 1996 and August 1999. The seven households included tenants who were either Authority officials or employees. In fact, one of the tenants was a former Board Chairperson. We found the Authority did not properly determine the rent in any of the seven cases.

For two of the seven cases, employees lived in units but were not included on the leases. Thus, their incomes were not used in determining unit rents. The Authority's personnel and payroll records showed the employees lived in the units. Therefore, the Authority knew they were not included on the leases and knew their incomes were not used in determining the unit rents.

One of these cases involved the former Chairperson. Her son, an Authority employee, lived in her unit during the period April 1997 through August 1999 but was not included on the lease. Thus, his income of \$46,357 was not included in the rent calculation. Also, the former Chairperson did not report \$23,346 of her income nor did she report \$3,776 in income from her daughter who also lived in the unit. Further, the Authority improperly calculated the former Chairperson's rent. The Authority calculated the rent based on net income of \$874 from a questionable Verification of Employment (VOE) rather than gross income of \$1,617 from a certified VOE. As a result of these actions, the Authority was deprived of over \$20,000 of unpaid rent by the former Chairperson and her family members.

In four of the seven cases, the Authority either did not include the employees' income or did not include a portion of the income when determining rent. This occurred even though the employees were reported on the leases. In one of these cases, the Authority excluded the entire income of \$13,368 for one tenant and did not include \$4,725 of an Authority employee's income for the period August 1996 through March 1997. It calculated the rent based on \$10,000 income even though it knew the employee's income from the Authority was \$14,725. Once again, this employee was the former Chairperson's son. As a result of this case, the Authority was deprived of \$3,263 of rent income.

We found other examples of questionable activities regarding employee rent calculations. Appendix A of this report is a schedule of problems found with the seven cases.

The Executive Director hired Authority employees, maintained personnel records, and prepared payroll. The records showed the employees lived in Authority units. Thus, she knew the employees lived in the units. Further, the Executive Director was responsible for ensuring that tenants properly certified their income and family composition and that rents were properly determined and paid.

North Carolina State
Office previously
reported rent
discrepancies

The State Office identified similar problems during a January 1997 management review. In February 1997, the State Office reported the Authority used the incorrect employee income when determining their rents. The Authority determined the rents based on \$10,000 income for all employees regardless of their actual income. The report also stated the Authority improperly used net income rather than gross income when determining the former Board Chairperson's rent.

The State Office required the Authority to obtain certified income verifications for all tenants and recalculate the rents in accordance with 24 CFR, Part 913. The Authority was to provide tenants with a 30-day notice of any changes to their rent. The report also recommended the Authority recompute the rents of the Board Chairperson and another tenant based on their gross incomes.

In its March 24, 1997, response, the Authority stated it corrected the deficiencies for the cases identified by the State Office. However, the response did not indicate the Authority took actions to prevent future occurrences.

In summary, the Authority did not properly calculate tenant rents even though it had the necessary income and residency data available. As a result, the Authority was deprived of about \$37,600 in rental income.

Authority
comments

The Board Chairperson stated the Authority is committed to proper determination and collection of tenant rents. He stated that all tenant rents will be re-computed and verified on the anniversary date of the tenants' lease. The Authority requested that OIG pursue any and all actions against persons who violated HUD regulations. If OIG does not take action, the Board intends to provide a copy of the audit report to the local District Attorney for review.

Finding 3

OIG response to comments

We recognize the Board's positive actions to re-compute tenant rents and verify information. The Authority must also implement and enforce procedures to reasonably prevent future occurrences. This includes taking swift and forceful actions against persons who knowingly fail to report all required information to the Authority regarding household income and composition.

Recommendations

We recommend that you require the Authority to:

- 3A. Implement adequate procedures to ensure tenant information is complete, accurate, and timely reported to the Authority;
- 3B. Implement and enforce procedures to ensure swift and forceful actions are taken against persons who knowingly fail to report all required information to the Authority; and,
- 3C. Collect underpaid rent amounts shown in Appendix A.

Follow Up On Prior Audits

This is the first OIG audit of the Benson Housing Authority. The Authority's last independent audit report covered the period ended September 30, 1997. The report did not contain any findings. HUD's North Carolina State Office, Public Housing Division, conducted a review of Authority operations in January 1997. The report dated February 13, 1997, contained nine findings. Three of the findings related to internal controls and tenant issues. The other six findings did not impact our audit objectives. The State Office closed all the findings based on information submitted by the Authority. Our report shows the Authority did not take adequate actions to resolve internal controls or tenant issues.

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Schedule Of Underpaid Rent

<u>Household</u>	<u>Deficiencies Identified</u>	<u>Underpaid Rent</u>
A	An Authority employee lived in the unit, but was not reported on the lease. Thus, the Authority did not use income of \$46,357 to compute the rent. Another tenant in the household did not report \$27,122 of income. Also, the Authority incorrectly used a tenant's monthly net income of \$874 instead of gross income of \$1,617 to compute the rent.	\$20,152
B	An Authority employee lived in the unit but was not on the lease. Thus, the Authority did not use income of \$28,380 to compute the rent.	5,658
C	An Authority employee's income of \$15,372 was not used to compute rent. The tenant also did not report \$2,545 of other income to the Authority.	4,177
D	The Authority did not include \$4,725 of an employee's income when it calculated the rent. Also, Authority income of \$6,531 reported on Internal Revenue Service Form-1099 was not used. Further, the Authority did not use reported income of \$13,368 for another household member.	3,263
E	The Authority did not include \$6,684 of an employee's income when it calculated the rent.	1,992
F	The Authority did not use reported tenant income of \$3,689 when it calculated the rent.	1,195
G	The Authority did not include \$5,424 of an employee's income when it calculated the rent.	<u>597</u>
	Total Underpaid Rent	<u>\$37,034</u>

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Auditee Comments

NORTH CAROLINA
JOHNSTON COUNTY

THE BENSON HOUSING AUTHORITY'S
RESPONSE TO
DRAFT AUDIT FINDINGS

The Benson Housing Authority, by and through George R. Murphy, Chairperson of the Benson Housing Authority, files this written response to the Draft Audit findings by the Inspector General's Office and responds as follows:

FINDING #1

The Benson Housing Authority Board of Commissioners as of January 1, 2000 is composed of a majority of commissioners who were not present or serving on the Board of Commissioners during the period set forth in the audit. The prior Executive Director of the Benson Housing Authority has resigned and Mr. Charles Stewart is presently serving as temporary Executive Director of the Benson Housing Authority. The former Chairperson of the Benson Housing is no longer on the Board of Commissioners of the Benson Housing Authority and has vacated her rental unit at the Benson Housing Authority. The present Benson Housing Authority is committed to operating the Benson Housing Authority in compliance with all HUD, Federal and State Laws and Regulations. The present Board of Commissioners is aware of conflict of interest requirements and will adhere to and insure that no conflict of interest will again occur in the hiring of employees, the employment of contractors, and any other conflict of interest with any commissioner. The Board of Commissioners will exercise adequate oversight of all Benson Housing Authority operations. Specifically, the Board of Commissioners is in the process of contacting our accountant and auditor concerning issues raised in the Draft Report. Presently all cash receipts received by the Benson Housing Authority are deposited on a daily basis or more often as required. The time attendance cards for employees have been improved in accordance with the Labor Standard Handbook. Monthly meetings of the Board of Commissioners have been held as required since January 2000, and will continue to do so. The Executive Director is required to

advise the Board of Commissioners of the financial condition of the Benson Housing Authority and all bills and payment checks are presented to the Board for review. All checks are signed at the regular monthly meeting of the Board by the Chairperson and Executive Director except for payroll checks and tax deposit checks which are due on or about the 15th day of each month.

FINDING #2

Since January 21, 2000, The Benson Housing Authority, by and through its Executive Director has followed the Housing Authority Procurement Policy and will continue to do so. No records can be found that any bids were solicited in the CIAP Program other than those of the contractor who was employed. The present Authority shall seek full and open competition in all procurement transactions to insure that goods and services are obtained at a reasonable price. No records can be found in regard to the two Housing Authority vehicles. All future purchases of vehicles will require at least four bids before purchase can be authorized.

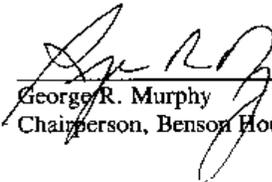
FINDING #3

The Benson Housing Authority is committed to the proper determination and collection of tenant rent amounts. At present all tenant rents will now be re-computed and verified on the anniversary date of the tenant's lease. This will allow sufficient time for compliance with tenant regulations involving the rental of Benson Housing Authority property. The former Chairperson of the Benson Housing Authority and the former Executive Director of the Benson Housing Authority were prosecuted for their actions at the Benson Housing Authority in the past. The Benson Board of Commissioners is not presently aware of all remedies available, whether criminal or civil, to the Board for prior actions of the Chairperson of the Benson Housing Authority or the Executive Director of the Benson Housing Authority. The Benson Housing Authority would request that the criminal division of the Inspector General's Office to pursue any and all actions for previous violations of HUD Regulations committed by anyone involved in the operation or supervision of the Benson Housing Authority. If no action is to be taken by the criminal division of the Inspector General's Office then the Board of Commissioners intends to turn over to the local District Attorney a copy of the Inspector General's Report for the District Attorney's review and further actions. The Benson Housing

Authority will instruct it's attorney to review the Final Draft Report in order that the Benson Housing Authority may pursue in Civil Court all actions for damages to the Benson Housing Authority by any Chairperson, Executive Director, or any other person. The Board of Commissioners is committed to working closely with the State Office of HUD and welcomes any future management reviews and or assistance that can be provided.

The Benson Housing Authority is presently seeking to employ a full time Executive Director to manage the Benson Housing Authority. The deficiencies, oversights, and direct disregard for regulations as set forth in the Inspector General's Report will be discussed at length with the new Executive Director when employed. The present Board of Commissioners will exercise oversight of all actions of the Benson Housing Authority in the future.

Respectfully submitted this the 10th day of March, 2000.


George R. Murphy
Chairperson, Benson Housing Authority

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