



U.S. Department of Housing and Urban Development

District Office of the Inspector General  
Richard B. Russell Federal Building  
75 Spring Street, SW, Room 700  
Atlanta, GA 30303-3388  
(404) 331-3369

November 6, 1996  
Audit-Related Memorandum No. 97-AT-214-1804

MEMORANDUM FOR: William S. McClister, Director, Multifamily  
Housing Division, 4JHM

FROM: Ted E. Drucker, Acting District Inspector General for  
Audit-Southeast/Caribbean, 4AGA

SUBJECT: Independent Auditor Report of Apparent Illegal Acts  
Cherokee Health Systems  
Talbott, TN

We have reviewed information from an Independent Auditor (IA) concerning apparent illegal acts by an employee of Cherokee Health Systems (CHS), a management agent for two HUD-assisted projects. The information pertained to possible diversions of project funds. Our limited review also included corrective actions.

We interviewed your staff and reviewed the project files, interviewed CHS staff and reviewed their financial and accounting controls, and performed a cursory review of the IA's working papers. We also reviewed the receipt and deposit of cash applicable to HUD-subsidized operations for selected test periods, including periods when the diversions occurred.

#### SUMMARY

CHS corrective actions were generally adequate, as was IA audit coverage, and we plan no additional audit work pertaining to either CHS or the IA.

#### BACKGROUND

CHS manages two projects owned by Five Rivers Service, Inc. (Owner) in accordance with a HUD-approved management agreement. The projects are HUD group home projects for mentally handicapped individuals, project #087-EH053-NP-CMI in Morristown, TN and project #087-EH075-NP-CMI in Tazewell, TN. Each project has nine units. In addition to HUD-subsidized rental operations for each project, Five Rivers provides food and attendant care services to the tenants for a separate fee, which is not HUD-subsidized. Five

Rivers maintains separate financial records and bank accounts for each project and between HUD-subsidized and non HUD-subsidized operations for each project.

The IA engaged to audit the Owner's financial statements for the year ended September 30, 1995, reported to the HUD Office of Inspector General that management discovered cash receipts of about \$4,500 could not be accounted for. The IA reported that for the period July 1, 1995, through September 30, 1995, receipts documented in receipt books were not deposited, approximately \$1,700 from HUD-subsidized operations and \$2,800 from food and attendant care services. The IA indicated a breakdown in internal controls caused the discrepancies not to be timely identified, and CHS had reimbursed the Owner for the missing funds.

#### RESULTS OF REVIEW

The IA's description of events and transactions was accurate. No conclusive determination of who was responsible for the missing funds was reached. CHS repaid the Owner for the missing funds because it concluded its internal controls over the receipt and deposit of cash did not adequately fix responsibility between two employees.

Our review disclosed no additional funds missing. CHS strengthened its internal control system so that employee responsibility for cash collections is now clearly defined. We concluded CHS corrective actions were adequate.

Based on the actions taken by CHS, and the IA's work, we plan no further audit work.

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Should you or your staff have questions, please contact Rudy E. McBee, Assistant District Inspector General for Audit, at Ext. 4368.

Attachment - Distribution

ATTACHMENT

DISTRIBUTION

Secretary's Representative, 4AS  
Director, Field Accounting Division, 4AFF  
Special Agent-in-Charge, Southeast/Caribbean, 4AGI  
Knoxville Area Coordinator, 4JS  
Director, Multifamily Division, 4JHM (2)  
Director, Office of Internal Control and Audit Resolution, FO I  
(Room 10176) (2)  
Audit Liaison Officer, Office of Housing, HF (Room 5132) (3)  
Executive Director, Cherokee Health Systems, 6350 W. Andrew Johnson  
Highway, Talbott, TN 37877  
[18] From: Marcia E. Larner at atlpost1 12/30/96 12:21PM (19326 1  
bytes: 2 ln, 1  
fl)  
To: Morris F. Grissom at OIGPOST2  
Receipt Requested  
bcc: Marcia E. Larner  
Subject: Cherokee Health System

----- Message Contents  
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Text item 1:

Attached is the audit-related memo on the Cherokee Health  
System.

File item 2: CHEROKE2.ARM 11/6/96 12:42PM

[20] From: Morris F. Grissom a t OIGPOST2 1/2/97 8:54AM (235 bytes:  
1 ln)

To: Marcia E. Larner at ATLPOST1

Subject: Receipt of 12/30/96 12:21PM message

----- Message Content s  
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Re: Cherokee Health System