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OFFICE OF INSPECTOR GENERAL FOR AUDIT

Audit Memorandum  
No. 99-DE-202-1801

April 16, 1999

MEMORANDUM FOR: John D. Dibella, Director, Office of Public Housing, 8APH

FROM: Robert C. Gwin, District Inspector General for Audit, 8AGA

SUBJECT: Review of Housing Activities and Related Controls  
Whitefish Housing Authority  
Whitefish, Montana

## **OBJECTIVES AND SCOPE**

We completed a review of the Whitefish Housing Authority's administration of its housing programs, based upon your staff's concerns and related audit request. The objectives of the audit were to evaluate the:

- Management controls established for the functions of the Housing Authority and identify any deficiencies or potential problem areas in the controls.
- Appropriateness of and support for the expenditures, receipts, and other cash transactions and determine if there are questionable, unsupported, or inappropriate disbursements.

We originally selected an audit period of July 1, 1994, through June 30, 1998. This period had to be adjusted due to the lack of documentation. The Authority had very limited documentation available prior to July 1, 1995. Supporting documentation for the other fiscal years included in our audit period was not complete. Therefore, our review was restricted to the available data.

During the review, we examined accounting records and other documents of the Whitefish Housing Authority and HUD's Office of Public Housing. We also conducted interviews with employees of these organizations. We conducted our review from June through December, 1998. We conducted the review in accordance with generally accepted government auditing standards.

## **BACKGROUND**

The Whitefish Housing Authority was established on September 1, 1967, for the purpose of providing low-rent housing for the elderly. The Authority entered into an Annual Contributions Contract with the Department of Housing and Urban Development on April 18, 1969. A revised Contract was entered into on November 20, 1995. The Authority has one project, Mountain View Manor, with 50 units. A seven-member Board of Commissioners governed the Authority and appointed an Executive Director to administer the Authority's programs.

The Authority's fee accountant was McCabe and Company of Helena, Montana. McCabe and Company prepared the official books of account using documentation provided by the Authority. The Authority maintained accounting and administrative records at its office in Whitefish, Montana.

## **PROGRAM REQUIREMENTS**

The Annual Contributions Contract required the Authority to maintain records that identify the source and application of funds, to maintain complete and accurate books of account, and to prepare statements and reports in accordance with HUD requirements. The Contract also made the Authority responsible for employing the organization and management techniques necessary to assure proper and efficient administration of Federal funds.

Title 24 of the Code of Federal Regulations, Part 85, required the Authority to maintain effective control and accountability over cash; assure that funds were used solely for authorized purposes; and ensure effective budget controls. Title 24 of the Code of Federal Regulations, Part 968, Subpart B, required the Authority to adhere to the Comprehensive Improvement Assistance Program grant budget and to obtain HUD approval for any deviations from the originally approved work items.

The Authority prepared written policies to establish control procedures over some aspects of the operational functions. The policies were not well developed and complete; therefore, effective, comprehensive controls were not established. The policies that were established were usually not followed.

## **REVIEW RESULTS**

We evaluated the Authority's management controls over operations and the Comprehensive Improvement Assistance Program grants. Significant management control weaknesses occurred during the term of one Executive Director, which was from November, 1994 through November, 1997. The Authority and the Office of Public Housing have taken and are continuing to take actions to improve the operations of the Authority. A summary of some of the most significant management control weaknesses are provided in this section and the positive actions are discussed in the next two report sections.

We identified significant management control weaknesses in the operational functions of receipts, disbursements, and the administration of the Comprehensive Improvement Assistance Program grants. The deficiencies occurred because the prior Executive Director had full control over the operations of the Authority. The prior Executive Director set up written policies and procedures that were insufficient and incomplete. The Board of Commissioners did not provide effective oversight. Due to the weak controls and inadequate administration, the Authority had limited assurance that program monies were properly received and used for appropriate Authority activities.

## **CASH RECEIPTS**

The Authority had not established or followed effective management control policies or procedures for cash receipts. The prior Executive Director had full control over the cash receipts functions. The procedures for processing tenant receipts, controlling laundry machine income, and accounting for other income were inadequate. Consequently, the Authority lacked assurance that all income was properly controlled and recorded in the books of account.

### Tenant receipts

Tenant receipts were not properly handled. Collections were not deposited timely and intact. Receipts were not always written at the time the resident paid the rent. The Authority usually held funds for several days, but occasionally for several months, before depositing the funds in the Authority's bank account. Receipts for early rent payments were postdated for the month the rent was due. As a result, the Authority's control over its cash receipts was greatly diminished. Accordingly, the Authority had very limited assurance that its cash collections were properly received and deposited into the Authority's bank account.

Checks received from residents throughout the day were kept in an unlocked drawer behind the office counter; however, cash was immediately put in the safe. Funds were kept in the safe until the bank deposit was made. The safe was often left unlocked during the day and the combination had never been changed.

The Authority prepared a rental register each month, which was sent to the Fee Accountant, instead of sending the second copies of the hand-written tenant rent receipts. Without original documentation, the Fee Accountant lacked assurance that the data provided for preparation of the books of account were complete and accurate.

### Laundry machine income

The income from the Authority owned laundry machines was not properly controlled. From 1995 through 1997, the majority of the laundry income was not deposited in the bank or recorded in the books of account. Instead, the laundry income was used as a second petty cash fund, which was not reflected in the Authority's books of account.

## Other Income

Each month the Authority provided the Fee Accountant a hand-written summary of what revenues should be included in the Other Income and Laundry Machine Income accounts in the Authority's books of account. The summary was not supported by receipts or other evidence of income. Therefore, the Authority had no assurance that income, such as proceeds from selling old appliances, was deposited in the Authority's bank account or recorded in the books of account. Also, both accounts included rent related entries. Based on the entry descriptions, these accounts were used to balance discrepancies in the rental records.

## **DISBURSEMENTS**

The Prior Executive Director approved all purchases, prepared the disbursements checks, and was a signature on the checks. The check vouchers and supporting documentation were not well organized and supporting documentation was not always available. The established procedures did not adequately ensure that Authority monies were used for only eligible program costs within the prescribed budget limits. The Board of Commissioners provided little or no oversight of the disbursements activities. As a result, questionable and/or unallowable costs occurred; however, the records were not sufficient for definite determinations of the total questionable and unallowable costs. Without proper controls and oversight of disbursements, the Authority incurred budget deficits of \$19,228.19 for fiscal year 1996 and \$24,731.85 for fiscal year 1997. The main areas of management control weaknesses were salaries, travel, and petty cash.

## Salaries

The budget established the Executive Director position as a salaried position with no provision for overtime compensation. However, during the three year employment period, the prior Executive Director claimed and received compensation for at least 2,400 hours in addition to the regular monthly compensation. The prior Executive Director's actual payroll compensation exceeded the budget each year. For example, the fiscal year ending June 30, 1997, budgeted salary for the Executive Director was \$28,080.00. The actual payroll compensation for this fiscal year was \$42,362.76, which exceeded the budget by \$14,282.76.

Regular payroll checks, plus additional compensation checks, included hours claimed for non-Authority activities. For example, for 9 months of 1995, the prior Executive Director maintained Authority and non-Authority time sheets and claimed a total of 2,636 hours, which included 473 overtime and 604 non-Authority activity hours. The combined hours claimed for this period averaged 13.4 hours a day. Another example occurred during August and September, 1997. The prior Executive Director received compensation for only regular hours on the payroll checks. However, she received two additional compensation checks, one for \$3,100.00 and the other for \$4,800.00, for a total of \$7,900. The description on the two additional checks was "Housing Preservation Grant," which was not HUD-related. The time sheets for August and September showed a total of 71 hours overtime. Using the total overtime of 71 hours, the average compensation for the two additional checks was \$111.27 an hour. Only 15 hours of the total

overtime was designated as work on the "Grant." Using the 15 hours, the average compensation was \$526.67 an hour.

Procedures for preparing time sheets were not established. The employees were using different time sheet forms and methods of recording time worked. The time records did not contain evidence of supervisory review or approval.

The Authority policies stated that employees would be paid on a monthly basis and employees were allowed one draw a month. The prior Executive Director did not comply with this policy, because she took 2 draws during six different months. In November, 1995, the prior Executive Director took a draw, but did not deduct the draw from her payroll check. For the next two years, the prior Executive Director usually owed the Authority for outstanding draws. The highest outstanding draw balance was \$4,768.64. Because of the weak controls over draws, \$100 of the outstanding draw balance were never repaid by the prior Executive Director.

### Travel

The Authority travel policy set per diem within Montana at \$85 and outside Montana at \$150. The policy stated, "All fees for seminars, air fare, and other known expenses will be paid for in advance and will not be taken from the per diem." The prior Executive Director included hotel costs in this list; therefore, the per diem amount was treated strictly as a meal allowance. The Authority meal allowance of \$150 was very high compared to the City of Whitefish allowance of \$20 and the Federal allowance of \$34.

The policy did not require the submission of travel vouchers or a reconciliation of travel costs. Checks designated as travel expenses rarely contained sufficient documentation to show that the travel actually occurred or that the expenses were incurred for valid Authority activities. The inadequate controls over travel allowed for excessive compensation to be paid. For example, two checks, totaling \$3,652.25, were issued to the prior Executive Director for travel expenses for a 3-day HUD training conference. If the travel was considered a valid Authority activity and 2 travel days were allowed, the average daily compensation was \$730.45. However, the entire amount was questionable, since there was no supporting documentation.

### Petty Cash

The petty cash fund was not properly controlled. The prior Executive Director increased the fund balance from \$50 to \$150 in July, 1995; however, the Fee Accountant never adjusted the books of account to reflect the increase. The reimbursement checks were written to "Cash," "Petty Cash" or "Whitefish Housing Authority." The reimbursement checks were often for amounts substantially in excess of the fund balance. The expenses were usually not sufficiently documented and the fund was not properly reconciled. The fund was often used for unallowable expenses such as entertainment. Other costs were questionable because of inadequate or missing supporting documentation.

## **COMPREHENSIVE IMPROVEMENT ASSISTANCE PROGRAM GRANT ADMINISTRATION**

The Authority was awarded Comprehensive Improvement Assistance Program grants, totaling \$861,938, for fiscal years 1995 and 1996. The Authority did not properly administer the programs or control the funds. The Authority records contained no evidence that proper procurement procedures were followed in selecting the contractors. The Office of Public Housing approved budget changes to allow \$33,273 of the fiscal year 1996 grant to be used to cover the operating budget deficit and other operating costs. However, the prior Executive Director still used grant funds, in excess of the approved amount, for general operating costs. The supporting documentation for the grant payment request vouchers was often not sufficient to clearly show applicability to the specified grant budget line items. The Office of Public Housing reviewed the status of both grants and determined that over \$94,000 of the grant funds were not properly documented.

Significant deficiencies were identified with the actual construction work funded by the grants. For example, a substandard elevator was installed. The elevator was very small and the design was inappropriate. The interior door had to be manually closed for the elevator to be operable. The catch on the door was difficult for the residents to maneuver. If the occupant, when exiting, did not fully close the interior door before the exterior door closed, the elevator was inoperable until Authority staff reset the elevator. Staff were often called to the Authority at night or on weekends to reset the elevator. Work done inside the resident units was also inadequately completed and reflected poor workmanship. An example was the replacement of closet doors. The old doors extended to the ceiling and the new doors were standard height; therefore, wall board patching was required. The patch work was poorly done and the paint used on the patched areas did not match the existing paint.

## **POSITIVE ACTIONS BY THE HOUSING AUTHORITY**

The prior Executive Director resigned in November, 1997. Shortly thereafter, the Mayor of Whitefish appointed a new Board of Commissioners. The new Board has been actively involved in the Authority operations. The budgeted amount for the Executive Director salary was completely used by December, 1997, so funds were not available to hire a new Executive Director. Board members and temporary office help staffed the office on a part-time basis through the fiscal year end of June 30, 1998. The fiscal year 1999 funding was made available and the Board hired a new Executive Director in July, 1998. The Executive Director and Board are working together to organize and update the Authority records. All the tenant files were reviewed and recertifications completed. The Executive Director is controlling expenditures and adhering to the budget. The Executive Director has coordinated with HUD to obtain the needed technical assistance. In addition, the Board worked with the Mayor and City Council to obtain forgiveness of the Payment in Lieu of Taxes for three years, as well as other expenses due the City. The Executive Director established a good rapport with the residents and is actively working to improve living conditions. The Authority Maintenance Specialist was completing

work orders in a timely manner and addressing deferred and preventive maintenance, as time and funds allowed.

During the time we were on site, the Executive Director began improving the procedures for cash receipts and disbursements. The petty cash fund balance had been reduced to \$50, to agree with the books of account. The fund activity was limited and for allowable expenses. The fund was being properly reconciled and controlled.

We provided the draft audit memorandum to the Authority. The Authority verbally concurred with the recommendations. They also provided a written response, which details additional positive actions the Authority has taken. We are including the entire response in this audit memorandum as the Auditee Response section.

## **POSITIVE ACTIONS BY THE OFFICE OF PUBLIC HOUSING**

HUD's Office of Public Housing officials completed site visits to review the Comprehensive Improvement Assistance Program grants. Their review results showed that the two grants' total of \$861,938 had been paid to the Authority, but \$94,304.80 were unvouched costs. Currently, the Office of Public Housing is working with the Authority to resolve this issue. Two officials spent a week at the Authority providing instruction to the new Executive Director and the Board of Commissioners. In addition, HUD officials have provided additional technical assistance through telephone contacts and letters. HUD officials are determining the funds the Authority will receive under the fiscal year 1999 Comprehensive Improvement Assistance Program. The Office of Public Housing will encourage the Authority to use the funds to replace the elevator.

## **RECOMMENDATIONS**

We recommend that the Office of Public Housing:

- 1A. Provide the Executive Director and Board of Commissioners with any additional technical assistance necessary in developing and setting up comprehensive and effective management control policies and procedures, especially for, but not limited to, the cash receipts, disbursements, and grant administration functions.
- 1B. Determine that the Authority has properly established and is complying with the new policies and procedures, once they have been developed.

These recommendations will be controlled under the Departmental Automated Audit Management System. Within 60 days please give us, for each recommendation in this report, a status report on: (1) the corrective action taken; (2) the 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.

We thank the Office of Public Housing and the Whitefish Housing Authority for their courtesy and cooperation during our audit. Should you have any questions, please contact Ernest Kite, Assistant District Inspector General for Audit, at (303) 672-5452.



**AUDITEE RESPONSE**







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