



U.S. Department of Housing and Urban Development

District Office of the Inspector General
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June 19, 1996

Audit Related Memorandum
No. 96-AT-202-1808

MEMORANDUM FOR: Harold E. Saether, Director, Office of Public
Housing, 4APH

FROM: Kathryn Kuhl-Inclan
District Inspector General for Audit, Southeast/Caribbean,
4AGA

SUBJECT: Sylvester Housing Authority
Sylvester, Georgia

We have completed the limited review of cash collection activities at the Sylvester Housing Authority and submitted a referral to the Special Agent in Charge to begin an investigation. This memorandum will serve to summarize and apprise you of the final results of that review. I am most appreciative of your cooperation in this joint effort and of the assistance of Gloria Simmons, Diana Lewis, and Delores Register of your staff in completing this assignment.

As you know, Congressman Saxby Chambliss wrote to HUD on September 11, 1995, advising of a cash shortage at the Sylvester Housing Authority. The shortage was brought to his attention by the town's Mayor who had requested his help in getting an independent audit of the records. The Congressman's letter was forwarded to us on September 22, 1995. Meanwhile, your office had notified us of the alleged discrepancy. Together, we began work at the authority on October 30, 1995, to determine the extent of the alleged cash shortage.

SUMMARY

The housing authority's management compromised its controls over cash collections. Management allowed employees to issue handwritten receipts in lieu of posting collections directly to its

computerized control system and did not perform the supervision necessary to assure the subsequent posting of the handwritten receipts. Management did not provide for a separation of duties which is basic to a good internal control system. As a result, we confirmed that \$55,782 was misappropriated, and the housing authority could lose additional revenue because it cannot substantiate the accuracy of its tenant accounts receivable.

DETAILS

The authority's collection system is designed to have collections posted directly to a tenant's account. The key to the system is a computer generated, sequentially numbered receipt that shows the amount posted and the new balance. One copy of the receipt is given to the resident and one copy is retained by the PHA. The system provides for the daily summarization of the receipts (postings) for comparison to and validation of deposits. For the system to work, an independent comparison and verification must be performed by someone other than the person who collects the rent and posts the accounts. Our review of the authority's operations disclosed that the PHA did not follow prescribed procedures, properly segregate duties, or implement adequate compensating controls.

- The PHA did not properly segregate collection duties. It allowed one individual to have control over receipt, posting, and deposit of collected funds. The condition continued to exist at the time of our visit.
- The PHA allowed issuance of handwritten receipts in lieu of posting to the computer. The PHA did not ensure that the handwritten receipts were subsequently posted.
- The PHA did not adequately supervise the collection activities. There was no documented verifications and reconciliations by the Executive Director or other staff members.
- The PHA accepted cash in payment of rent and accumulated the cash for the week before making a deposit. The acceptance and accumulation of cash should be avoided whenever possible.
- The PHA did not aggressively pursue payment on overdue accounts. Although it was the PHA's policy to do so, the responsible employee had simply failed to perform this duty. The Executive Director relied on the same individual who performed the collection duties to send notices on overdue accounts. Because she did not closely supervise the receivable activities, she did not realize that the notices were not being sent out.

Tenant Accounts Receivable

Because rent payments were not properly posted to the residents' accounts for over a 4 year period, the accuracy of the individual balances could not be readily determined. Thus, the housing authority could not substantiate the amount of rent each resident owed. This has hampered the authority's ability to collect past due rent.

We attempted to verify the accuracy of the tenant account balances through confirmation letters and meetings with the residents, but we were unsuccessful. Of the 17 residents who responded to our confirmation requests, 16 said they did not owe the amount of rent stated on the confirmation letter. The residents, however, did not provide receipts to support their position. The PHA has begun analyzing each resident's payment history to determine the correct balances.

Excess Credits to Residents' Accounts

During our review of rent receipts, we noted in some cases the credit to the resident's account exceeded the amount of the receipt. These excess credits totaled \$10,211. We believe these excess credits represent a return of the misappropriated funds or, more likely, a misapplication of other residents' payments to cover the shortages (lapping of accounts).

RECOMMENDATIONS

We recommend that your office:

- 1A. Assist this housing authority in implementing control measures to ensure its control systems are not compromised in the future, by for example:
 - segregating, to the extent possible, the collection duties among its staff;
 - prohibiting the use of handwritten receipts;
 - formalizing supervisory procedures;
 - making daily deposits and discouraging rent payments in cash; and
 - aggressively pursuing payment on delinquent accounts.
- 1B. Consider the PHA a high risk when setting your priorities for management reviews because of management's failure to maintain adequate controls.
- 1C. Follow up to ensure the housing authority makes proper

claim and receives all funds due from its bonding company.

Please advise us within 60 days of the corrective action taken or the proposed corrective action and a target date for completion. We are providing a copy of this memorandum to the housing authority's board of directors.

If you or your staff have any questions, please contact Nancy H. Cooper, Assistant District Inspector General for Audit, or Dennis Durick, Senior Auditor, at (404) 331-3369.

Attachments:

- 1 - Schedule of Ineligible Costs
- 2 - Distribution

SCHEDULE OF INELIGIBLE COSTS

Recommendation	Ineligible ¹
1C	\$55,782

¹Ineligible amounts obviously violate law, contract, HUD, or local agency policies or regulations.

DISTRIBUTION

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