



U.S. Department of Housing and Urban Development

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May 16, 1996  
Audit Related Memorandum

No. 96-AT-202-1816

MEMORANDUM FOR: Harold Saether, Director, Public Housing Division, 4APH

FROM: James D. McKay  
Acting District Inspector General for Audit-Southeast/Caribbean, 4AGA

SUBJECT: Limited Review of the Statesboro Housing Authority  
Statesboro, Georgia

We have completed a limited review of selected operations at the Housing Authority of Statesboro, Georgia (SHA). The review focused on the controls over cash and other assets. We reviewed SHA's records and interviewed SHA staff. We performed the review during March through April 1996.

#### SUMMARY

The Statesboro Housing Authority (SHA) did not properly safeguard cash assets against fraud and abuse. The Executive Director (ED) made personal use of SHA assets, had poor control over cash collections, and engaged in questionable procurement and disposition transactions that included identity-of-interest entities.

The ED charged personal purchases to the authority accounts and had a maintenance employee work at his home on authority time. The ED knowingly concealed cash shortages in the rent collections by: representing unreceipted sources of revenue as rent collections; cashing an unclaimed security deposit refund to deposit as rent, and consistently moving rent collections to prior periods to cover cash shortages. Also, the ED procured services from his wife's business, and sold authority equipment to his father and a Board member. The ED continued these practices after being cautioned by the Board not to commingle his personal business with SHA business.

Considering the serious nature of the deficiencies and deviations of established control procedures, we recommend you issue appropriate administrative sanctions against the ED and recommend SHA's Board terminate the ED's employment.



You should require the ED to reimburse SHA for any remaining amounts owed and require SHA to implement better control procedures.

We discussed the finding with the ED and Board during the audit. At the request of the Office of Public Housing we did not solicit written comments from SHA's Board.

Details of our finding and recommendations are discussed in Attachment 1.

### **BACKGROUND**

Through an Annual Contributions Contract (ACC) with HUD, SHA administers 146 low rent housing units in 4 developments in Statesboro, Georgia. SHA received annual operating subsidies of about \$62,000 from HUD for fiscal year ending March 1995 to operate and maintain its housing developments.

SHA has a five member Board of Directors appointed by the Mayor of Statesboro. Mr. William Robert Smith is the Chairman. SHA employs three maintenance men, one secretary, and the ED. The ED is responsible for the daily operations of SHA and has oversight responsibility for SHA activities.

#### Attachments

- 1 - Finding and Recommendations
- 2 - Distribution

**FINDING - SHA ASSETS WERE NOT PROPERLY SAFEGUARDED**

The Statesboro Housing Authority (SHA) did not safeguard cash and other assets against fraud and abuse. We found that the ED made personal use of SHA assets, circumvented controls over cash collections, and engaged in questionable procurement and disposition transactions that included identity-of-interest entities. We attribute these conditions to the poor control environment and the lack of integrity of top management at the SHA. As a result, SHA assets were diverted for personal use.

Criteria

*The Annual Contributions Contract (ACC), Article IV, Section 401 (D)* requires the authority to use funds only for operating expenditures, investments, or development costs. No withdrawals can be made except in accordance with a voucher stating in proper detail the purpose for the withdrawal.

SHA's procurement policy requires the ED to establish procedures to monitor the procurement actions (including those under \$500) ensuring compliance with the procurement policy and to prevent fraud and abuse. The ED is required to make purchases over \$500 on the basis of at least three price quotes. The disposition policy requires goods to be sold at their fair value and for the authority to maintain complete records related to the disposition of all excess property.

The Code of Conduct contained in the procurement policy states no employee of SHA shall participate in the award of a contract if a conflict, real or apparent, would be involved. SHA officers shall not accept anything of monetary value from vendors and contractors.

**ISSUE I - Personal Uses of SHA Assets**

The ED made personal purchases using SHA funds and used SHA maintenance personnel to work at his home while on duty. Each instance is evident of a poor control environment at SHA and a deliberate attempt to circumvent established controls.

Personal Purchases - The ED used SHA's funds to purchase paint and to rent painting equipment and a ladder. The purchases and rentals were used to paint property owned by the ED's father. The details of the purchases are presented below.

<u>Date</u>	<u>Amount</u>	<u>Vendor</u>	<u>Purchase</u>
5/12/95	\$ 722.39	Sherwin Williams	Paint
5/22/95	122.85	Arrow Rental	Air Sprayer
5/10/95	18.90	Arrow Rental	Ladder
Total	<u>\$ 864.14</u>		

The ED repaid \$722.39 for the paint purchase in November 1995, only after it was reported to the Board and to HUD. The ED repaid \$122.85 in April 1996, only after it was discovered during our review. The \$18.90 was repaid in May 1995, when the ladder was rented.

Purchase orders are used as a control at SHA. However, the paint and air sprayer were initially charged to the SHA account without a purchase order. A purchase order was prepared for the air sprayer after the purchase was made. It falsely stated the air sprayer was used at Butler Homes, an authority development. It is evident that the ED had full knowledge of the purchases because he signed the SHA checks for payment. He easily circumvented the controls because he had the oversight responsibility for ensuring compliance and for preventing fraud and abuse.

Maintenance Employee used on SHA Time - The ED admitted he used a maintenance employee to build a playhouse for his children during work hours. The maintenance employee confirmed that he worked on the playhouse during work hours on one occasion. The authority does not maintain time records, so we could not determine the cost of the employee's time on this instance.

## **ISSUE II - Controls Over Cash**

SHA had poor controls over cash. The ED (a) knowingly concealed shortages in cash collections, (b) cashed checks for himself, his wife, employees, and tenants from cash collections, and (c) made deposits concerning questionable transactions.

- (a) Cash Shortage - We obtained evidence that showed the ED took SHA cash in late 1993 and early 1994, then put an uncashed personal check in the cash box for repayment. The ED admitted to borrowing funds in the past, but stated he had repaid the funds. He could not produce copies of any canceled checks. The ED stated he repaid the funds with cash and took the uncashed check out of the cash box. Also, we found evidence that the ED allowed a former secretary to borrow funds in February 1994 and to place a personal check in the cash box. The ED stated the SHA funds were recovered when the check was deposited into the SHA account.

We found evidence of cash shortages at SHA after the above occurrences. The ED knowingly concealed shortages by utilizing at least three techniques:

- (1) The ED deposited unrecouped funds (\$623) collected from: magistrate court collections of tenant accounts receivable (\$248.30), rent charged to a church for the community space (\$350), and refund of overpayment of employee taxes (\$25.08).

The funds collected through the magistrate court for tenant accounts receivable (TAR) had been written off the books. The cash shortage for rent collections was concealed by depositing the payments from the magistrate's court to represent current rent collections. The ED disclosed he did this on five occasions.

<u>Date</u>	<u>Amount</u>	<u>Tenant Name</u>
1/31/95	\$ 77.00	Jerry Humpheries/Claude Hardy
2/28/95	63.30	Jerry Humpheries/Claude Hardy
3/31/95	27.00	Jerry Humpheries
4/28/95	27.00	Jerry Humpheries
6/30/95	<u>54.00</u>	Jerry Humpheries
Total	<u>\$ 248.30</u>	

The ED repaid the \$248.30 in April 1996, when he disclosed the information to the auditor.

Subsequent to the completion of our field work, we obtained information from the Magistrate's Court that an additional \$955.50 was paid to SHA during the period May 1993 through December 1994. Because of the ED's admitted misuse of the 1995 receipts, we believe the ED may have misused the 1993 and 1994 receipts. We were unable to confirm with SHA's auditor if these funds were properly accounted for.

The \$350 from rental of the community space was not repaid. The ED claimed the checks do not represent rent paid to SHA, but were checks cashed for the church. The checks were marked as payment for rent.

- (2) On February 23, 1996, the ED deposited \$100 unclaimed security deposit check to cover a cash shortage. The check was dated February 8, 1996 and was payable to the daughter of a resident who had died. The check was endorsed for deposit to SHA. The ED stated he cashed the check and was holding the \$100 in cash in his desk drawer until the daughter came to collect the funds. After we questioned the ED about this check, he later showed us an envelope containing \$100 in cash. At our request, the ED deposited the \$100 on April 22, 1996.
- (3) The ED used a lapping technique to cover the cash shortage in rent collections. The ED did not make deposits intact, but moved rent collected in one period to prior periods to cover the cash shortage in the prior periods. For example, funds were needed at the end of January 1996 to make the deposits match the rent receipts issued to the tenants. The ED moved at least \$609 from February rent collections to January deposits. Except for the unreceipted totals mentioned above, we confirmed that no fund shortage existed at March 18, 1996, when we conducted a cash count.

- (b) Personal Checks Were Deposited - The ED deposited personal checks, insurance reimbursement checks, monthly travel allowance checks, Christmas bonus checks for himself and another employee, his wife's payroll check from a local restaurant, his wife's check from a telephone business, and rent checks collected from a personal rental property. The ED stated the checks were cashed from funds held at SHA for convenience. However, we could not determine whether the checks were cashed or represented payments to cover cash shortages.

The Board instructed the ED in October 1995 to stop cashing payroll checks issued from his office. The ED confirmed he was instructed by the Board to stop cashing personal checks. Despite the instructions, the ED cashed Christmas bonus checks and monthly travel allowance checks. The ED had no explanation for his actions.

- (c) Deposit Concerning Questionable Transactions - A summer maintenance employee worked from July through September 1995. The ED overpaid the employee on several occasions because the payroll checks were prepared before the work week ended and the employee did not work the full week as expected. The ED wrote payroll checks before the work week was complete in order to get them signed by a Board member before payday. To recover the overpayment, the ED cashed the employee's check, paid him what he was due and was to deposit the balance to the general fund. Since time records were not maintained by SHA, an accurate accounting of the amount due the employee and SHA could not be determined.

The ED did not deposit any of the differences until November 11, 1995, after the matter was reported to the Board. The deposit slip showed that the deposit of \$165 was for overpayment to part-time labor (July 19 through September 8). The ED stated he kept the cash in the authority safe until it was deposited. The funds should have been deposited when withheld in the summer.

### **ISSUE III - Questionable Procurement and Disposition**

The ED entered the authority into contracts or solicited services from contractors when a conflict of interest or the appearance of a conflict was evident. The ED (a) hired a landscape contractor with whom he was conducting personal business, (b) enrolled the Authority with his wife's business venture for long distance telephone services, and (c) sold authority equipment to his father and a Board member.

- (a) Landscape contractor - The ED contracted for landscape and sidewalk work for \$10,500. During the procurement, the ED contacted three contractors for bids, but only one of those contractors submitted a bid for the work. We found no other attempt by the ED to obtain two other bids as required in the procurement policy. In addition, the ED purchased a truck from the only contractor to bid on the work about the time he awarded the contract. By conducting personal business with the contractor and not following the procurement policy, the ED's actions give an appearance of possible favoritism in the contract award and show an apparent conflict of interest existed.





- (b) Excel telephone service - The ED procured long distance services without obtaining at least three oral or written bids as required. Instead, he enrolled SHA with Excel, his wife's network marketing business. By enrolling SHA with Excel, the ED received an indirect benefit through his wife's earnings. We did not verify whether Excel was the least expensive long distance carrier for SHA.
- (c) Disposed equipment - The ED sold a refrigerator to his father for \$45. Also, the ED sold a refrigerator to a Board member at the same time for \$50. The ED said the refrigerators were old and needed to be replaced. We could not determine the fair value of the refrigerators from the documentation in the files. The Board did not approve the sale of the equipment and the Chairman of the Board was unaware of the disposition.

The authority disposition policy requires complete records related to the disposition and that goods be disposed according to local County or City policy. The City policy required the Council to declare the equipment surplus before being disposed by sealed bid or public auction.

### INTERNAL CONTROLS

Internal control is the process by which an entity obtains reasonable assurance as to achievement of specified objectives. Internal controls consist of interrelated components, including integrity, ethical values, competence, and the control environment which includes establishing objectives, risk assessment, information systems, control procedures, communication, managing change, and monitoring.

*GAO, Office of Policy Publication OP-4.1.1, Assessing Internal Controls in Performance Audits* states internal controls are intended to provide reasonable assurance that resources are adequately safeguarded and efficiently utilized. In assessing risk exposure, the auditor should consider whether management recognizes the importance of, and has made a commitment to implement, internal controls. Managers and employees should have personal and professional integrity and should maintain a level of competence that allows them to accomplish their duties, as well as understand the importance of developing and implementing good internal controls.

The ED is an integral part of the internal control system given the responsibilities of his position and the relatively small size of the office personnel at SHA. We believe the internal control systems have been seriously compromised by the actions of the ED. We noted serious control weaknesses and, in some cases, circumvention of controls by the ED. The ED has failed to set the right "tone at the top." Therefore, the overall risk exposure would be considered high as long as the current ED remains in his position.

RECOMMENDATIONS:

We recommend that you:

- 1A. Issue an administrative sanction against the Executive Director and recommend to the Board that they terminate his employment.
- 1B. Pursue reimbursement for the \$375 related to the rental of the community space to the church and the tax refund.
- 1C. Assure controls over SHA assets are implemented on an authority wide basis.

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