

Issue Date
October 30, 1995
Audit Case Number
96-CH-202-1004

TO: Richard B. Kruschke, Director of Public Housing, Illinois State
Office

FROM: Dale L. Chouteau, District Inspector General for Audit, Midwest

SUBJECT: Henderson County Housing Authority
Section 8 Programs
Oquawka, Illinois

We completed an audit of the Henderson County Housing Authority's Section 8 Programs. We conducted the audit at the request of HUD's Illinois State Office. The audit was requested because the Authority's former Executive had admitted to misappropriating Authority funds. The audit objectives were to: (1) review for indicators of loss or misuse of cash and other monetary assets; and (2) establish the amount of detected misappropriations, their causes, and the individuals involved.

During our review, the Housing Authority attempted to address our concerns and improve its operations. However, the Authority can do more to improve the administration of its programs and ensure compliance with the Annual Contributions Contract and other HUD requirements. This report addresses issues relating to inadequate control of its disbursements.

Within 60 days, please give us, for each recommendation made 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 this audit.

Should you or your staff have any questions, please have them contact me at (312) 353-7832.

Executive Summary

We completed an audit of the Henderson County Housing Authority's Section 8 Programs. We conducted the audit at the request of HUD's Illinois State Office. Our audit objectives were to: (1) review for indicators of loss or misuse of cash and other monetary assets; and (2) establish the amount of detected misappropriations, their causes, and

the individuals involved.

During our review, the Henderson County Housing Authority attempted to address our concerns and improve its operations by: (1) establishing a general depository agreement with its depositories; (2) changing the authorized signers on its checking accounts as recommended by HUD's Illinois State Office; (3) no longer issuing checks to local banks and then exchanging them for cash without support; (4) no longer issuing travel advances to Authority employees; (5) issuing pre-numbered receipts for rent collections and maintaining a copy as a permanent record; (6) maintaining a record of shared expenses to be reimbursed to the operating account and reimbursing this account once a month; and (7) fully funding the Section 8 New Construction security deposit account.

We found that the Authority: (1) maintains its accounting records in a logical order; and (2) has obtained an independent public accounting firm to bring its audit requirements up to date. Still, the Authority needs to improve the administration of its Section 8 Programs and ensure compliance with the Annual Contributions Contract and other HUD requirements.

The Authority Did Not Adequately Control Its Cash Disbursements

The Henderson County Housing Authority did not have adequate controls over its disbursements between October 1, 1992 and September 7, 1995. The Authority's former Executive Director misappropriated or did not justify the use of \$12,243 of Section 8 Program funds. She has since repaid \$7,969 of the misappropriated amount to the Authority. The former Executive Director also used \$8,115 of Section 8 Program funds for ineligible expenses. The ineligible expenses included employee bonuses and Internal Revenue Service penalties and interest. The misuses of funds occurred because the former Executive Director had extensive control over the Authority's disbursements and the Board of Commissioners did not review and verify the supporting documentation for disbursements. As a result, HUD funds were misused and there was no assurance that disbursements were proper.

We recommend that the HUD Illinois State Office's Director of Public Housing assures the Henderson County Housing Authority takes appropriate actions to correct the weaknesses cited in this report.

We presented our draft findings to the Housing Authority's Executive Director and staff of the HUD Illinois State Office during the audit. We held an exit conference with Authority personnel on October 6, 1995. The

Housing Authority's legal counsel provided written comments to our finding and recommendations. We included excerpts from the comments with the finding.

Introduction

The Henderson County Housing Authority was organized on March 4, 1947 under the laws of the State of Illinois. The primary objective of the Housing Authority is to provide housing assistance to low income persons.

A five member Board of Commissioners governs the Housing Authority. Members of the Board are appointed by the County Board for 5 year staggered terms. The Housing Authority's Executive Director is Christina Carnes and the Chairman of the Board is Lee Carlson. The Housing Authority's books and records are kept at Third and Mercer Streets, Oquawka, Illinois. The Authority's fee accountant is Kopsa, Sylvester & Associates, Certified Public Accountants, 306 East Seventh Street, York, Nebraska 68467.

As of September 30, 1995, the Authority had 135 Section 8 units under lease. The units consisted of 82 Housing Certificate units, 25 Housing Voucher units, and 28 New Construction units.

Audit Objectives

Our audit objectives were to: (1) review for indicators of loss or misuse of cash and other monetary assets; and (2) establish the amount of detected misappropriations, their causes, and the individuals involved.

Audit scope and methodology

To determine whether the Authority deposited all rents collected, we tested Section 8 New Construction Program tenant records and receipts for the months of February 1994, December 1994, and January 1995. To determine whether rent receipts were deposited intact, we reviewed the tenant receipts which were issued for cash collections. We traced receipts issued to tenants to the Authority's tenant ledger cards to verify that the receipts were properly recorded to the Authority's records. We also traced the rent receipts to the deposit slips and subsequent bank statements to assure funds were deposited intact. We traced the rent subsidies received from HUD into the Authority's Section 8 Certificate, Section 8 Voucher, and Section 8 New Construction bank accounts.

To determine if the Authority accounted for and expended project funds

efficiently and effectively, we reviewed the Authority's Cash Disbursements Ledger; General Ledger; Housing Assistance Payments Register; Transaction Report; Check Register; cancelled checks; invoices; and payroll records. To determine if the Authority's disbursements for the Section 8 Programs were proper, we reviewed disbursements for the period October 1, 1992 through September 7, 1995. We also interviewed the Authority's Executive Director to obtain information regarding the Authority's cost allocation method.

The audit covered the period between October 1, 1992 and May 31, 1995. We extended the audit period as necessary. We conducted the audit at the Authority between August and September 1995.

We conducted the audit in accordance with generally accepted government auditing standards.

We provided a copy of this report to the Authority's Executive Director.

Finding

The Authority Did Not Adequately Control Its Cash Disbursements

The Henderson County Housing Authority did not have adequate controls over its disbursements between October 1, 1992 and September 7, 1995. The Authority's former Executive Director misappropriated or did not justify the use of \$12,243 of Section 8 Program funds. She has since repaid \$7,969 of the misappropriated amount to the Authority. The former Executive Director also used \$8,115 of Section 8 Program funds for ineligible expenses. The ineligible expenses included employee bonuses and Internal Revenue Service penalties and interest. The misuses of funds occurred because the former Executive Director had extensive control over the Authority's disbursements and the Board of Commissioners did not review and verify the supporting documentation for the disbursements. As a result, HUD funds were misused and there was no assurance that disbursements were proper.

HUD Requirements

The Annual Contributions Contract, Part I, Section 2.4 states in part that the public housing authority cannot make any program expenditures except in accordance with an operating budget approved by HUD, including any limitations as specified in the budget approved by HUD, for costs of administration or housing assistance payments.

HUD Handbook 7420.7, Chapter 8, paragraph 4(d) states in part: that

finances and penalties resulting from the violation of, or failure to comply with Federal, State, and local laws and regulations are unallowable costs except when incurred as a result of compliance with specific written instructions from HUD.

A HUD memorandum dated February 24, 1983 regarding a public housing authority's use of excess Section 8 administrative fees states in part: "Excess administrative fees may be used to pay bonuses to public housing authority employees. However, the use of excess administrative fees for this purpose is only justified when the employee receiving the bonus has demonstrated exceptional performance related to the public housing authority's housing programs. It is our position that public housing authority employees should not be given across the board unearned bonuses."

The former Executive Director misappropriated or did not justify the use of Section 8 Program funds

The former Executive Director misappropriated or did not justify the use of \$12,243 of Section 8 Program funds between January 1, 1993 and February 28, 1995. The amount misappropriated or not justified included \$9,443 from the Section 8 New Construction Program account; \$2,150 from the Section 8 Existing Program account; and \$650 from the Section 8 Voucher Program account.

The former Executive Director misappropriated the Section 8 funds through duplicate payroll checks and unreimbursed payroll advances. The duplicate payroll checks were neither recorded on the Authority's payroll ledgers, nor included on the former Executive Director's W-2 forms. All of the payroll costs were paid from the Section 8 New Construction Program account.

The former Executive Director also received Section 8 funds by cashing Authority checks made payable to local banks. There was no supporting documentation available to show that these funds were used to pay eligible Authority expenses. When the Authority's Board of Commissioners confronted the former Executive Director with some of these transactions, she repaid the entire amount of the transactions in question to the Authority.

The former Executive Director repaid \$2,150 taken from the Section 8 Existing Program and \$200 taken from the Section 8 Voucher Program. The balance owed to the Section 8 Voucher Program account is \$450.

Of the \$9,443 taken from the Section 8 New Construction Program, the

former Executive Director has repaid \$5,619. However, \$5,371 of the \$5,619 in repayments was deposited into the accounts of other programs. The full amount should have been deposited into the Section 8 New Construction Program account.

The following table shows the funds erroneously deposited into other accounts which need to be transferred to the Section 8 New Construction Program account:

Program Account	Amount of Funds To Be Transferred
Section 8 Existing Account deposits	(2,405)
Section 8 Voucher Account deposits	(882)
Farmers Home Administration deposits	(2,084)

The former Executive Director still needs to reimburse the New Construction account \$3,824.

The Authority had ineligible expenses

Between October 1, 1992 and September 7, 1995, the Authority's former Executive Director disbursed program funds totalling \$8,115 for ineligible expenses. These expenditures were not necessary for the daily operations of the Authority. A breakdown of the ineligible expenses paid from Section 8 Program funds follows:

- \$ 4,660 for interest and penalties paid to the Internal Revenue Service.
- \$ 3,455 for employee bonuses.

The Authority paid \$4,660 in penalties and interest charges from its Section 8 New Construction Program Account because it was delinquent in filing its quarterly tax returns for federal withholding taxes for calendar years 1992 through 1994. According to HUD Handbook 7420.7, Chapter 8, paragraph 4(d), fines and penalties are unallowable costs except when incurred as a result of compliance with specific written instructions from HUD.

The Authority paid employee bonuses totalling \$3,455 from Section 8 funds between October 1, 1992 and December 31, 1994. The bonuses included \$2,412 charged to the Section 8 New Construction Program, \$303 charged to the Section 8 Voucher Program, and \$740 charged to the Section 8 Existing Program. There was no evidence to show that these bonuses were based

upon exceptional employee performance. HUD believes that public housing employees should not be given across the board unearned bonuses.

The former Executive Director extensively controlled cash disbursements

The misappropriation of funds, unsupported disbursements, and ineligible expenses occurred because the former Executive Director had extensive control over the Authority's disbursements. She had the authority to sign checks with another employee of the Authority being the co-signer. No one from the Board of Commissioners co-signed the checks or reviewed the documents supporting the payments. Thus, the Board of Commissioners did not effectively carry out its responsibility to review and verify the supporting documentation for disbursements. As a result, HUD funds were misused and there was no assurance that disbursements were proper.

Auditee Comments

Excerpts from the Authority's comments on our draft finding follow.

The Commissioners are now exercising more hands on control of the expenses and deposits by how they review these items. All of the finances are being reviewed more diligently. As to the amount of misappropriation, the Commissioners have no knowledge at this time to dispute the amount. However, an audit is underway and the Commissioners reserve the right to reexamine these figures with you at the conclusion of the audit.

The Commissioners have asked that the IRS be contacted to see if any of the penalties paid can be abated.

The HUD regulations do allow the payment of bonuses. You are questioning these payments because the employees did not demonstrate "exceptional performance related to the public housing authorities housing programs." The Commissioners believe that the payments are justified.

OIG Evaluation of Auditee Comments

Generally, the Authority's comments show positive actions to address our finding and recommendations.

If the Authority does get the IRS to abate all or part of the tax penalties paid, the Section 8 New Construction Account should be credited to reduce the amounts due to this account by the Authority.

Regarding the employee bonuses, the issue in the audit finding is not

whether the Authority's employees demonstrated exceptional performance. Rather, the audit finding states that the bonuses paid to the employees were across the board holiday bonuses. The checks issued to the employees notated that the payments were holiday bonuses. There was no documentation to show that the bonuses were based on the employees' performance.

Recommendations

We recommend that the HUD Illinois State Office's Director of Public Housing assures that the Henderson County Housing Authority:

- 1A. Establishes controls to ensure the Board of Commissioners reviews and verifies supporting documentation before authorizing Authority disbursements.
- 1B. Transfers the following amounts repaid by the Authority's former Executive Director to the Section 8 New Construction Program account: \$2,405 from the Section 8 Existing Program account; \$882 from the Section 8 Voucher Program account; and \$2,084 from the Farmers Home Administration project accounts.
- 1C. Requires the former Executive Director to repay misappropriated or unsupported funds of \$3,824 to the Section 8 New Construction Program account and \$450 to the Section 8 Voucher Program account.
- 1D. Reimburses the following amounts from non-HUD funds: \$7,072 to the Section 8 New Construction Program account; \$303 to the Section 8 Voucher Program account; and \$740 to the Section 8 Existing Program account. These reimbursements are for ineligible employee bonuses and penalties and interest paid to the Internal Revenue Service.

Internal Controls

In planning and performing our audit, we considered the internal controls of the management of the Henderson County Housing Authority in order to determine our audit procedures and not to provide assurance on internal controls. Internal Controls consist of the plan of organization, methods, and procedures adopted by management to ensure that resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data are obtained, maintained, and disclosed in reports.

Relevant internal controls

We determined that the following internal controls were relevant to our audit objective:

- Oversight body
- Management monitoring methods
- Personnel policies and practices
- Completeness of accounting system
- Proper authorizations
- Segregation of duties
- Safeguard over access to and use and records
- Independent verifications and reconciliations

Significant weaknesses

It is a significant weakness if internal controls do not give reasonable assurance that resources use in consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data are obtained, maintained, and fairly disclosed in reports.

Based on our review, the following item is a significant weakness:

Management monitoring methods: Taken as a whole, the finding in this report show, that the Housing Authority Board of Commissioners needs to increase effective managerial oversight to assure HUD's requirements are met, and to improve supervisory controls. We found that the Authority's Board of Commissioners did not have adequate control of the Authority's cash disbursements (see Finding 1).

Follow Up on Prior Audits

This is the first OIG audit of the Henderson County Housing Authority.

The Housing Authority's last Single Audit Report was for the Fiscal Year ended September 30, 1990. The report did not contain any findings related to our audit.

The Authority has contracted with a Certified Public Accounting firm to

complete the Single Audit for the fiscal years ended September 30, 1991 through September 30, 1994. This audit was not completed at the conclusion of our audit.

Appendix A

Schedule of Ineligible Costs

Recommendation Number	Ineligible Costs
1C	\$4,274.00
1D	8,115.00
TOTAL	\$12,389.00

Ineligible costs are costs the Housing Authority charged to a HUD program or activity that are not allowed by law, contract, or Federal, State, or local policies, or regulations.

Appendix B

Auditee Comments

[Available in official printed copy ONLY.]

.