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96-DE-207-1001

TO: Vernon Haragara, Administrator, Northern Plains Office of Native American Programs, 8API

FROM: W. D. Anderson, District Inspector General for Audit, 8AGA

SUBJECT: Omaha Tribal Housing Authority
Management of Cash Assets
Macy, Nebraska

We have completed a limited review of the Omaha Tribal Housing Authority, located in Macy, Nebraska. The review was conducted as part of Operation Safe Home. The objective of our review was to determine whether the Authority had adequate controls over its cash assets.

We found the Housing Authority's controls over cash receipts need to be strengthened. Between September 1, 1994 and August 22, 1995, bank deposits of \$7,568.93 were made into the Authority's bank account without numbered receipts being issued. Further, \$976.29 was receipted with non-numbered receipts which could not be traced into the Authority's bank account. Some Authority employees are conducting non-housing authority business by collecting funds for a private loan business at the office of the Authority during regular business hours. Additionally, the Authority did not adhere to its disposition policies and the Annual Contributions Contract by allowing a purchaser to take possession of two trucks prior to receipt of payment.

Within 60 days, please furnish this office, for each recommendation cited in the report, a status report on: (a) the corrective action taken; (b) the proposed corrective action and the date to be completed; or (c) why action is not considered necessary. Also, please furnish us copies of any correspondence or directive issued because of this review.

We appreciate the courtesies extended to us during our review by the Northern Plains Office of Native American Programs and Housing Authority officials and staff. Should you have any questions, please contact Ernest Kite, Assistant District Inspector General for Audit, at (303) 672-5452.

Executive Summary

We have completed a limited review of the Omaha Tribal Housing Authority to determine whether the Authority had adequate controls over its cash assets. We reviewed the Authority's records for the period from April 1, 1994 through August 21, 1995.

The Housing Authority's controls over cash receipts and disbursements were inadequate. Between September 1, 1994 and August 22, 1995, bank deposits of \$7,568.93 were made into the Authority's bank account without numbered receipts being issued. Further, \$976.29 was received with non-numbered receipts which could not be traced into the Authority's bank account. Also, the Authority collects cash on behalf of the Omaha Tribal Credit Program and a private loan service business and does not issue receipts or deposit the funds into the Authority's bank accounts. The use of Authority staff and facilities to collect and administer collections for the private loan service business owned by the Authority's Executive Director should be discontinued.

Our review also found that the Authority did not adhere to its disposition policies and the Annual Contributions Contract by allowing a purchaser to take possession of two trucks prior to receipt of payment.

Inadequate Cash Control and Procedures Followed

The Housing Authority's controls over its cash and related accounts need to be strengthened. This need is illustrated by the fact that between September 1, 1994 and August 22, 1995, bank deposits of \$7,568.93 were made into the Authority's bank account without numbered receipts being issued. Further, \$976.29 was received with non-numbered receipts which could not be traced into the Authority's bank account. Also, the Authority collects cash on behalf of the Omaha Tribal Credit Program and a private loan service business and does not issue receipts or deposit the funds into the Authority's bank accounts. In addition, we found that deposits were not deposited timely.

Proper management of the Authority's assets is required by the Terms and Conditions of the Annual Contributions Contract; Section 85.20, Title 24 of the Code of Federal Regulations; and HUD Handbook 7510.1, Low-Rent Housing Accounting Handbook. Without proper controls over its cash, the Authority is hampered in ensuring that all its funds are being properly handled, deposited and recorded. The use of Authority staff and facilities to collect and administer collections for the

private loan business owned by the Authority's Executive Director is contrary to the provisions of the Annual Contributions Contract and should be discontinued.

Because of the problems that have occurred, the Authority has initiated corrective action to improve its internal control over cash.

Disposition Policy Needs to be Followed

The Authority failed to adhere to its disposition policies and the Annual Contributions Contract governing the disposal of two trucks. During 1995, the Authority purchased new trucks for its use and elected to dispose of the two older trucks. At the time of our review, the purchaser had taken possession of the used trucks but payment had not been received. Further, the trucks were not removed from the Authority's insurance coverage and title had not transferred.

Corrective Action Has Been Initiated by Authority officials

At the time of our review, Authority officials had initiated some corrective actions to implement better internal controls over its cash receipts. The Authority also notified the insurance carrier of the disposition of the trucks and collection of the payment was initiated.

We Recommend

We are recommending the HUD Office of Native American Programs provide technical assistance and guidance to the Authority in revising its procedures for the receipt and deposit of cash collections, the discontinuance of collecting and administering collections for the private loan business and its adherence to its disposition policies. Specific recommendations are provided with each finding.

Auditee Comments

The audit results were discussed with the Authority officials and employees during the course of the review. The draft findings were discussed at an exit conference with Authority officials on December 7, 1995. Overall, Authority officials agreed with the findings and related recommendations. Based upon discussions with Authority officials, the audit findings were modified where necessary. The Authority's written response is included in Appendix A of this report. The Authority will work with the Office of Native American Programs to successfully

implement the recommendations detailed with the findings.

Introduction

The Omaha Tribal Housing Authority was established December 3, 1962 for the purpose of providing decent, safe and sanitary housing for families of low income. The Tribal Council appoints the Housing Board to manage the Housing Authority.

Currently, the Housing Authority has 205 low rent units and 114 new mutual help units.

At the time of our review, the Authority's fee accountant was Kopsa, Sylvester and Associates of York, Nebraska. Kopsa, Sylvester and Associates processed the monthly accounting information and maintained documents received from the Housing Authority at their office in York, Nebraska. The Housing Authority also maintained accounting books and records at its office in Macy, Nebraska.

Objective and Scope

The objective of the review was to determine whether the Authority had adequate controls over its cash assets. To accomplish the audit objective, we reviewed the Authority's procedures for the collection and deposit of cash receipts, and related accounting records.

Our review covered the period from April 1, 1994 through August 21, 1995.

During the review, we examined accounting records and other documents at the Housing Authority and HUD's Office of Native American Programs. We also conducted interviews with employees of these organizations.

Because of the specific and limited scope of our review, full compliance with Generally Accepted Government Auditing Standards was not made. Our field work began on August 21, 1995, and was completed on September 15, 1995.

Finding 1

Cash Controls and Procedures Need to be Strengthened

The Housing Authority's controls over its cash and related accounts need to be strengthened. This need is illustrated by the fact that the Authority does not receipt all cash and checks received and randomly

uses non-numbered receipts for non-rent cash transactions. Between September 1, 1994 and August 22, 1995, bank deposits of \$7,568.93 were made into the Authority's bank account without numbered receipts being issued. Further, \$976.29 was received with non-numbered receipts which could not be traced into the Authority's bank account. The Authority, also, collects payments on behalf of the Omaha Tribal Credit Program and a private loan service business and does not issue receipts or deposit the funds into the Authority's bank accounts. Instead, the collected cash is hand carried to the Omaha Tribal Credit Program or the private loan business for payment. As a result, accountability over such cash collections for these two entities is seriously diminished. In addition, we found that Authority deposits were not deposited timely.

Proper management of the Authority's assets is required by the Terms and Conditions of the Annual Contributions Contract; Section 85.20, Title 24 of the Code of Federal Regulations; and HUD Handbook 7510.1, Low-Rent Housing Accounting Handbook. Without proper controls over cash, the Authority is hampered in ensuring that all funds are properly handled, deposited and recorded. The use of Authority staff and facilities to collect and administer collections for the private loan business owned by the Authority's Executive Director is contrary to the provisions of the Annual Contributions Contract and should be discontinued.

During the time of our review, the Authority has initiated corrective action to improve its internal controls over its cash collections.

Proper Controls Over Cash are Required

Under the Terms and Conditions of the Consolidated Annual Contributions Contract, the Housing Authority is to operate its housing programs in an economic and efficient manner. Specifically, all monies received by the Authority are to be deposited promptly into an account that is insured by the Federal Deposit Insurance Corporation.

Section 85.20, Title 24 of the Code of Federal Regulations details that financial administration standards for program assets are to be put into place by the Authority. Accordingly, the Authority is to maintain accurate, current and complete disclosure of its financial activities. Accounting records that clearly identify the source and use of program monies are to be kept. In addition, effective controls and accountability must be established and maintained to adequately safeguard program assets and assure that they are used solely for authorized purposes. A basic component of any internal control system is the separation of responsibility for handling and recording assets.

Specific accounting requirements and procedures the Authority is to follow are contained in various HUD Handbooks including Handbook 7510.1, Low-Rent Housing Accounting handbook.

Inadequate Cash Controls Were Followed

The Authority has established controls between collection and recording of receipt of rental income, but it lacks controls over the collection and recording of receipt of other non-rental income.

Our review showed serious deficiencies in the Authority's handling of its other non-rental cash receipts. These include:

- All cash receipts are not receipted,
- Non-numbered receipts are used,
- Collections of loan payments for non-housing authority entities are not receipted or deposited, and
- Deposits were not deposited timely for both rental and other non-rental income.

These deficiencies can be clearly illustrated in the following sections.

All Cash is Not Receipted

The Authority did not receipt all non-rent cash transactions such as reimbursements for personal telephone calls, travel advances and other miscellaneous items. During the period from September 1, 1994 to August 22, 1995, bank deposits of \$7,568.93 were made into the Authority's bank account without numbered receipts issued.

All cash or checks received by the Authority, regardless of the source or purpose, should be recorded on a cash receipt ticket. This will ensure that all cash receipts are properly deposited in the Authority's bank accounts. Although we did not find any diversion of funds, the lack of receipts leave the monies susceptible to theft. Furthermore, the Authority has no assurance that all funds are properly accounted for and deposited.

Non-numbered Receipts are Used

Periodically, miscellaneous receipts are issued for non-rent cash

transactions. The receipts are non-numbered generic forms similar to the type available from any office supply store. The issuance of the receipt is based on the discretion of the Authority's employees. During the period September 1, 1994 through August 30, 1995, seventeen non-numbered receipts were issued for \$976.29. All of the receipts could not be traced into the Authority's bank accounts.

Without numbered receipts, the Authority cannot identify whether or not there are missing receipts. Accountability for the funds is weakened and the Authority's accounting records do not correctly reflect all transactions.

Collecting Funds On Behalf of Non-Housing Entities

The Authority collects payments for the Omaha Tribal Credit Program, a program of the Omaha Tribe of Nebraska. The collections are done as a favor for the Omaha Tribe. In return, the Omaha Tribe will collect Authority rent payments. The Authority benefits by receiving rent payments that it might not otherwise receive.

According to Authority personnel, monies that are collected for the Omaha Tribal Credit Program are not receipted but placed in an envelope and then hand carried to the Tribal Office for payment. Under this procedure, the Authority has no record of the monies actually collected and/or delivered to the Tribe. Controls and accountability of such collections are seriously lacking.

Procedures are needed whereby all collections for the Tribal Credit Program are receipted with pre-numbered receipts and the monies deposited timely and intact into the Authority's general depositary. Then the Authority should issue a check to the Tribal Credit Program for the monies the Authority has collected. Accordingly, the appropriate accounting records should be established and maintained for the Tribal Credit Program collections. This will provide the Authority with the needed proper control and accountability.

Also, some Authority personnel are conducting non-housing business transactions during regular business hours at the Authority's office. Authority personnel collect funds from Housing Authority tenants that have borrowed funds from the loan service business owned by the Executive Director. The use of Authority staff and facilities to carryout activities for a private enterprise is contrary to the provisions of the Annual Contributions Contract.

The Executive Director stated that he provides loans to various individuals on a personal basis. These individuals, as a matter of convenience, make loan payments at the Authority office. Authority tenants make their private loan payments at the same time they pay their Authority rent. The related loan collections are kept separate from the official Authority receipts and related records. In cases where private loans have been made to Authority staff, payroll deductions had been instituted to make the loan payments.

Authority staff stated that receipts are not issued for the collections that are received for the private loan business of the Executive Director. The weaknesses of internal controls and accountability of these funds are the same as for the collections made for the Tribal Credit Program.

The Authority should limit its activities to only Authority business and business that benefits the Authority to avoid any suggestion of an impropriety. Although the employees indicated that the collections of private business loan payments are secondary to collection of rents, the implication that the loan collections may take priority exists. One cannot determine the thought process of the payee in determining the priority of rent over loan payments. Both tenants and outside parties may view the loan collections as a conflict of interest.

The appearance of a conflict of interest is as detrimental as the actual occurrence of a conflict. Therefore, only Authority related business should be allowed to occur at the Authority by its employees. The collections for the private business enterprise, in our opinion, should be discontinued.

Delayed Deposits of Funds

The Authority has failed to deposit their money on a timely basis. For thirty-six low rent deposits made during the audit period, the funds were held for five to twenty-three days before a deposit was made. Such practice exposes the monies to increased risk of misuse and theft.

Cash and checks are not kept overnight at the Authority's office because of the lack of a safe. Instead, Authority monies are taken and stored overnight at the bank for safekeeping and then picked up by an Authority employee the following day. With this process in place, the Authority could easily deposit its daily cash collections when the Authority staff take its funds to the bank each day for safe keeping.

Corrective Action Has Been Initiated

During the time of our review, Authority officials agreed that corrective action was necessary to implement better controls over receipts. However, more action is necessary. HUD will need to provide guidance and any necessary assistance to the Authority in establishing the needed internal controls.

Auditee Comments

Authority officials generally concurred with our findings and recommendations. Their written response which is Appendix A states that numbered receipts are being used for rent and non-rent transactions. All receipts are currently being controlled and accounted for and deposited on a timely basis. The Authority also provided additional information as a Response to Audit Findings regarding the un-numbered receipts and lawn mower receipts. The Authority has elected to discontinue collections for both the private business enterprise and the Tribal Credit Program.

OIG Evaluation of Auditee Comments

The actions initiated by the Authority are responsive to the findings and recommendations. The information provided by the Authority with the Response to Audit Findings regarding the \$976.29 which was received and receipted with non-numbered receipts was not verified by the Office of Inspectors General. The information was forwarded to the Office of Native American Programs for its perusal and closing of Recommendation 1C.

Recommendations

We recommend that the Northern Plains Office of Native American Programs:

- 1A Provide the necessary guidance and assistance to the Authority in establishing the necessary controls over its cash receipts.
- 1B Require the Authority to implement the necessary changes to its operating procedures to ensure that the Authority has proper internal controls over its cash receipts. These changes would ensure that:
 - Numbered receipts are issued for all rent and non-rent transactions, including collections for Omaha Tribal Credit Program.
 - All receipts are deposited timely and intact.

- All receipt tickets are controlled and accounted for on a timely basis.
- 1C Require the Authority to provide evidence that the \$976.29 which was received and receipted with non-numbered receipts were properly recorded on the Authority's official books of account.
- 1D Require the Authority to discontinue any participation in collection of funds for the private business owned by the Executive Director.
- 1E Provide assistance and guidance to the Authority in identifying and avoiding conflicts of interest.
- 1F Review and ascertain that, after recommendation 1B has been implemented by the Authority, proper controls are being followed by the Authority over its cash receipts.

Finding 2

Improper Disposition of Authority Vehicles

The Authority did not follow the provisions of the Annual Contributions Contract, the Authority's adopted Disposition Policy, and the terms of the sales notice in the 1995 sale of two Authority maintenance vehicles. While the sale was to be a cash sale, the Authority transferred possession of the two trucks to the successful bidder without receiving the \$500 cash bid.

This sale which was made to the son of an Authority employee directly involved in the disposition process was not properly documented. This included the failure to document when the bids were received, provide a tabulation of the bids or the issuance of a bill of sale. While possession of the two trucks had been transferred to the successful bidder, the Authority was still continuing to insure them under the Authority's insurance policies. At the completion of our site visit, Authority officials stated they had initiated collection of the monies from the successful bidder and cancelled the Authority's insurance coverage of the two vehicles.

Disposition Policy Needs to Be Followed

Under the Terms and Conditions of the Annual Contributions Contract,

all personal property shall become a part of a project and is subject to the Annual Contributions Contract.

The Authority's Disposition Policy, adopted by Resolution 72-4, requires the Executive Director, for sales from \$100 to \$1,000, to solicit informal bids from all known prospective purchasers, and to prepare a tabulation of all such bids received which is to be retained as part of the Authority's permanent record. The sale is to be documented by an appropriate bill of sale. Additionally, the funds shall be used to offset the cost of the equipment replacing the sold property.

Payment of Trucks Was Not Received

During the summer, 1995, the Authority disposed of two of its maintenance vehicles. The Authority posted a request for sealed bids for two Ford trucks requiring the bids be submitted to the Omaha Tribal Housing Office by June 21, 1995. The posted request stated that all bids were cash only.

The Authority received three bids. These were from two employees not involved in the disposition process and from the son of an employee directly involved in the disposition process. The highest bid of \$250 per truck came from the son of the employee involved in the bidding process. The high bidder took possession of the trucks without making the required cash payment. At the time of our site review, the Authority had not received payment for the two trucks.

The Executive Director stated that he was under the impression that the payment for the trucks would be deducted from funds owed to the bidder for construction work done by the bidder for the Authority. However, this arrangement, which was contrary to the provisions of the sale notice that the sale was for cash only, was not made.

Truck Sale Lacked Sufficient Documentation

Contrary to the Authority's adopted Disposition Policy, the bids were not tabulated or maintained in a permanent record. In addition, the Authority failed to comply with the terms of its published disposal notice by not receiving the \$500 cash payment before possession of the trucks was given to the successful bidder.

The Authority files did not contain any evidence that the appropriate

bill of sale was executed for the sale of the two trucks. Furthermore, the Authority, at the time of our review, still retained the title to both vehicles. Obviously, the Authority should not issue a bill of sale or transfer the title to the successful bidder until full payment has been received by the Authority.

Sold Trucks Still Insured by The Authority

At the time of review, the Authority was still continuing to insure the trucks under the Authority's insurance policies even though the bidder had taken possession of the two trucks. Assets not owned by the Authority should not be insured by the Authority. This is an inappropriate use of Authority funds.

Authority Has Started Corrective Action

During our review, the Authority notified the insurance carrier that the trucks were sold and collection of the \$500 was initiated.

Auditee Comments

Authority officials stated during the exit conference that the payment for the trucks had been received and the insurance was cancelled.

Recommendations

We recommend that the Northern Plains Office of Native American Programs:

2A Require the Authority to submit documentation to show that the Authority has

- collected and deposited the \$500 from the successful bidder;
- Removed the two trucks from the Authority's insurance policies; and
- issued the necessary bill of sale and transferred the titles to the vehicles.

2B Review the appropriate documentation from the Authority to show the corrective actions taken by the Authority in implementing recommendation 2A above.

2C Provide the Authority with the necessary training and technical

assistance in implementing adequate procedures to insure the proper disposition of its assets in the future in conformity with HUD requirements and the policy established by the Housing Authority Board.

Internal Controls

Our review of the internal controls of the Housing Authority was limited to controls over the Authority's cash assets.

Internal controls are management's adopted plan, methods and procedures to assure resources are used consistent with the laws, regulations and policies; that the resources are safeguarded against waste, loss and misuse; and that reliable data are obtained, maintained and fairly disclosed in the reports.

Internal Controls Assessed

Controls to safeguard and assure reliable accounting of the Authority's cash assets were relevant to our objective and were assessed during our review. Based upon our assessment of the controls, we determined that there were significant weaknesses that needed to be addressed.

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

Assessment Procedures

The following audit procedures were used to evaluate internal controls:

- Interviews with Housing Authority officials and employees, and review of files maintained at the Housing Authority;
- Tests and evaluation of the Authority's procedures in place for collecting and depositing cash receipts and handling general fund investments; and
- Review of the accounting records maintained by the Housing Authority relating to the collection and deposit of cash receipts and managing general fund investments.

Significant Weaknesses

Our review identified the following internal control weaknesses:

- Receipts were not issued for all cash and checks received by the Authority;
- Un-numbered receipts were used;
- The cash receipts were not deposited timely;
- Authority employees involved in non-authority business transactions; and
- Disposition of assets were contrary to established procedures.

Follow Up On Prior Audits

This is the first Office of Inspector General audit of the Omaha Tribal Housing Authority located in Macy, Nebraska.

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