

Issue Date  
February 9, 1996  
Audit Case Number  
96-DE-207-1002

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

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

SUBJECT: Management of Cash Assets  
Yankton Sioux Tribal Housing Authority  
Wagner, South Dakota

We have completed a limited review of the Yankton Sioux Tribal Housing Authority, located in Wagner, South Dakota. The review was conducted as part of Operation Safe Home and at the request of the Northern Plains Office of Native American Programs. 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. Comprehensive Grant and Comprehensive Improvement Assistance Programs funds, totaling \$26,490.34, were misappropriated in an apparent check forgery scheme and thus expended on ineligible costs. This scheme was discovered by a Northern Plains Office of Native American Programs Finance and Budget Specialist during a Finance Review site visit. Other deficiencies are: no separation of duties for the Programs cash functions were implemented; direct deposit receipts are not being recorded in a timely manner; inappropriate methods of providing change to tenants are being used; and the travel documentation policies and procedures are not being followed, which has allowed for the overpayment of travel expenses.

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 Yankton Sioux 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 January 1, 1995, through September 30, 1995.

We found the Housing Authority's controls over cash receipts need to be strengthened. Comprehensive Grant and Comprehensive Improvement Assistance Programs funds, totaling \$26,490.34, were misappropriated in an apparent check forgery scheme and thus expended on ineligible costs. This scheme was discovered by a Northern Plains Office of Native American Programs Finance and Budget Specialist during a Finance Review site visit. Other deficiencies are: no separation of duties for the Programs cash functions were implemented; direct deposit receipts are not being recorded in a timely manner; inappropriate methods of providing change to tenants are being used; and the travel documentation procedures are not being followed, which has allowed for the overpayment of travel expenses.

### Proper Control Over Cash Are required

The Housing Authority's controls over its cash and related accounts need to be strengthened. This need is illustrated by the fact that \$26,490.34 of Comprehensive Grant and Comprehensive Improvement Assistance Programs funds were misappropriated in an apparent check forgery scheme and thus expended on ineligible costs. Other deficiencies are: no separation of duties for the Programs cash functions were implemented; direct deposit receipts are not being recorded in a timely manner; inappropriate methods of providing change to tenants are being used; and the travel documentation procedures are not being followed, which has allowed for the overpayment of travel expenses.

Proper management of the Authority's assets is required by the Terms and Conditions of the Annual Contributions Contracts and Section 85.20 of Title 24 of the Code of Federal Regulations. Without proper controls over its cash, the Authority is hampered in ensuring that all its funds are being properly handled, deposited and recorded.

### The Authority Has Started Corrective Action

At the time of our review, Authority officials had initiated some corrective actions to implement better internal controls over its cash assets and to recover the misappropriated funds.

### We Recommend

We are recommending the Northern Plains Office of Native American Programs provide technical assistance and guidance to the Authority in: revising its policies and procedures for the receipt and disbursements functions; properly accounting for the insurance claim payment

## Executive Summary

for the misappropriated funds; revising the procedures for providing change to tenants; and fully implementing the travel policies, including collecting the excess travel advances. Specific recommendations are provided with the finding.

## Auditee Comments

The audit results were discussed with the Authority officials and employees during the course of the review. The draft finding was discussed at an exit conference with Authority officials on January 26, 1996. A written response was prepared by Authority officials and included in this report as Appendix B. Overall, Authority officials agreed with the finding and related recommendations. The Authority will work with the Northern Plains Office of Native American Programs to successfully implement the recommendations detailed in the finding.

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## Introduction

The Yankton Sioux Tribal Housing Authority was established October 10, 1966, for the purposes of: Remediating on the Reservation unsafe and insanitary housing conditions, that are injurious to the public health, safety and morals; Alleviating the acute shortage of decent, safe, and sanitary dwellings for families of low income; and Providing employment opportunities on the Reservation through the construction, reconstruction, improvement, extension, alteration or repair and operation of low-rent dwellings. The Tribal Council appoints a Housing Board to manage the Housing Authority.

Currently, the Housing Authority has 255 Low Rent units, 10 Old Mutual Help units, and 126 New Mutual Help units. An additional 48 units are under construction.

At the time of our review, the Authority's fee accountant was the Cherokee Nation Housing Authority of Tahlequah, Oklahoma. The Cherokee Nation Housing Authority processed most of the monthly accounting information and maintained some documents received from the Housing Authority at their office in Tahlequah, Oklahoma. The Housing Authority also did data entry into the interactive computer system and maintained accounting books and records at its office in Wagner, South Dakota.

### Proper Controls Over Cash are Required

The objective of the review was to evaluate the internal controls over the cash assets and procedures. To accomplish the audit objective, we reviewed the Authority's procedures for the collection and deposit of cash receipts, for the disbursement of funds, and related accounting records.

Our review covered the period from January 1, 1995, through September 30, 1995.

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

Because of its specific and limited scope, our review was not conducted in full compliance with Generally Accepted Government Auditing Standards. Our field work began on September 25, 1995, and was completed on September 29, 1995.

### 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 \$26,490.34 of Comprehensive Grant and Comprehensive Improvement Assistance Programs (Programs) funds were misappropriated in an apparent check forgery scheme and thus were expended on ineligible costs. This scheme was discovered by a Northern Plains Office of Native American Programs Finance and Budget Specialist during a Finance Review site visit. Other deficiencies are: no separation of duties for the Programs cash functions were implemented; direct deposit receipts are not being recorded in a timely manner; inappropriate methods of providing change to tenants are being used; and the travel documentation procedures are not being followed, which has allowed for the overpayment of travel expenses.

Proper management of the Authority's assets is required by the Terms and Conditions of the Annual Contributions Contracts and Section 85.20, Title 24 of the Code of Federal Regulations. Without properly implemented written policies and controls over cash, the Authority is hampered in ensuring that all funds are properly handled, deposited and recorded. The Authority initiated corrective actions to improve its internal controls over cash.

#### Proper Controls Over Cash Are Required

Under the Terms and Conditions of the Consolidated Annual Contributions Contracts, the Housing Authority is to operate its housing programs in an economic and efficient manner. Specifically, program monies are to be used only for approved expenditures. The Authority also is to maintain complete and accurate books of account and records.

Section 85.20, Title 24 of the Code of Federal Regulations, requires 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, which 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.

#### Program Funds Were Misappropriated

One employee in the Comprehensive Grant Office assumed full authority over all aspects of the cash functions and the recording of transactions for the Authority's seven Programs projects. This employee apparently circumvented the primary internal control through a forgery scheme

which resulted in the misappropriation of \$26,490.34. This person was indicted on October 19,

1995, for willfully and knowingly stealing, misapplying, embezzling, and converting to personal use monies, funds, and assets belonging to the Authority.

#### Inadequate Cash Controls Were Established

The Authority has set up informal controls over the collection and recording of rental income and other funds and the disbursements of Authority funds, but these controls contain some deficiencies:

- No separation of duties was established over the receipts and disbursements functions of the Programs accounts and maintaining the records.
- Direct deposit receipts are often not recorded in a timely manner.
- Change is not always available if the tenant does not bring in the exact rental payment amount.
- Travel funds are not properly accounted for and documented.

These deficiencies are clearly illustrated in the following sections.

No Separation of Duties No separation of duties was established over the Comprehensive Grant Office's cash functions and the recording of transactions. One employee had the authority to obtain funds through the Line of Credit Control System (LOCCS), write checks on the seven Programs bank accounts, and maintain the books of account and subsidiary records and files. The one main internal control over the functions of this Office was that the Executive Director and/or Board members were to review and sign the disbursements checks. This control was apparently circumvented through a forgery scheme which resulted in \$26,490.34 of ineligible Programs expenditures (see Appendix A for the Schedule of Ineligible Costs).

The Authority has filed an insurance claim for the misappropriated funds and the employee was terminated. When the insurance claim payment is received, the Authority needs to ensure that the correct amounts are applied to the seven Programs' bank accounts and that the necessary adjustments are made to the books of account to properly reflect the actual status of each project budget.

The records and books of accounts for the Programs were not properly maintained. At the time of our review, the Finance Office staff was temporarily performing the Programs receipts and disbursements functions. They plan to transfer most of the responsibilities back to the Comprehensive Grant Office when new employees are hired, but they plan to establish policies



and procedures that properly separate duties.

Direct Deposits Are Not Timely Received At the time of our review, the Authority had not receipted and recorded direct deposit transactions for three tenants totaling \$444.00. The bank does not send the Authority notification of receipt of the direct deposits, so the Authority often has to wait until the bank reconciliation is prepared to identify the direct deposits. The Finance Office staff was concentrating on correcting the problems in the Comprehensive Grant Office, so the direct deposit information had not been given to the Occupancy Office to be receipted.

Another problem with the direct deposit system is that it is not being used as an effective method of decreasing the tenants' accounts receivables balances. For example, one tenant has established bi-weekly direct deposits of \$54. The tenant's monthly rental charge is \$246, so the accounts receivable balance is increasing by \$138 a month. When this direct deposit was started in May, 1995, the account balance was \$15,935.72. As of August, 1995, the balance had increased to \$16,403.72.

Another tenant has established bi-weekly direct deposits of \$38. The monthly rental charge is \$77, so the accounts receivables balance is increasing by \$1 a month. The direct deposits are not helping reduce the account balance, which was \$5,017.19 as of August, 1995.

The current direct deposit procedures provide little assurance that all funds are properly accounted for and that the Authority's accounting records correctly reflect all transactions. The procedures also deprive the Authority of operating funds by allowing tenants to accrue progressively larger tenant accounts receivables balances.

Change Is Not Always Available The Authority does not maintain a change fund; therefore, change is not always available if a tenant brings in other than the exact rental charge amount. When change cannot be made from the existing daily receipts, the Occupancy employees either make change out of their own personal funds or denote in some manner that the tenant is owed money. When they use their own funds, they later reimburse themselves from the subsequent receipts. One Deposit Record sheet showed that a tenant was owed \$3, but there was no documentation to show that the change was later given to the tenant. This practice allows employees to access Authority funds for personal reasons and effects the accuracy of the receipts records. The Bookkeeper has valid reasons for not establishing a change fund. Alternate procedures should be considered, such as: accepting only exact amount checks or money orders; the Occupancy employee going to the bank with the tenant to obtain the needed change; or maintaining a small amount of change in the Finance Office.

Travel Funds Are Not Properly Accounted For and Documented The Authority travel policy allows for a travel advance of the full estimated cost of the travel. The travel advance form contains the statement, "I agree to submit a travel voucher immediately following this trip to document actual expenses. Differences between estimated and actual approvable expenses will

be reconciled immediately following the trip." Some employees and Board of Commissioners

members are not submitting travel vouchers and/or reconciling the differences between the advance estimate and the actual expenses. A Board member received several advances, but did not submit the required travel vouchers and/or supporting receipts. An agreement to repay \$131.32 of excess advances was signed on May 5, 1995, but as of the end of September, 1995, this agreement had not been satisfied.

An employee owed the Authority at least \$350.50 for a trip that was cancelled after the advance was received. The Bookkeeper thought this employee also received a large advance from the Comprehensive Grant Office for another trip that was cancelled; however, the travel advance form had not been located. The Bookkeeper said that all the employee and Board travel accounts need to be reconciled, but due to higher priority work she has not had time to complete the reconciliations. The need for the Bookkeeper to reconcile the travel accounts could be significantly decreased if the employees and Board members were held liable for the accuracy of their own accounts.

#### No Written Policies for Cash Functions

The Authority does not have formal written policies over the cash receipts and cash disbursements functions. The Authority staff has developed informal procedures through trying different approaches until they find processes that yield acceptable results. Without formal written policies, the Authority employees do not have clear guidelines for their responsibilities and management has limited ability to control the employees' activities.

#### Corrective Action Has Been Initiated

During our review, Authority officials agreed that written policies were necessary to implement better controls over the receipts and disbursements functions. Additionally, action was being taken to organize and update the Comprehensive Grant Office records. HUD will need to provide guidance and any necessary assistance to the Authority in establishing the needed internal controls.

#### Recommendations

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

- 1A Require the Authority to establish procedures to ensure adequate separation of duties for the Comprehensive Grant Office responsibilities and funds.
- 1B Ensure that payment received for the insurance claim is properly applied to the Comprehensive Grant or Comprehensive Improvement Assistance Programs accounts and records.



## Finding

- 1C Require the Authority to implement the necessary changes to its operating procedures to ensure that the Authority has proper internal controls over its direct deposit receipts.
- 1D Require the Authority to establish appropriate procedures for providing change for any tenant rental payment that exceeds the actual amount due.
- 1E Require the Authority to have the employees and Board members reconcile their travel accounts, submit the required vouchers and documentation, and repay any excess travel advance amounts.
- 1F Provide the necessary guidance and assistance to the Authority in establishing the necessary formal policies and controls over its cash receipts and disbursements functions.

## Internal Controls

Our review of the internal controls of the Housing Authority was limited to the 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 Asses

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 cash receipts and disbursements; and
- Review of the accounting records maintained by the Housing Authority relating to the collection and deposit of cash receipts and to the disbursements of funds.

### Significant Weaknesses

Our review identified the following internal control weaknesses:

- Disbursements for the Comprehensive Grant and Comprehensive Improvement Assistance Programs were not controlled;





## Internal Controls

- Direct deposit receipts were not promptly recorded;
- Improper procedures of providing change to tenants were being used; and
- The Authority travel documentation policies and procedures were not being followed.

## Follow Up On Prior Audits

This is the first Office of Inspector General audit of the Yankton Sioux Tribal Housing Authority located in Wagner, South Dakota.

## Schedule of Ineligible Costs

CHECK NUMBER	ACCOUNT NUMBER	DATE	AMOUNT	DESCRIPTION
1243	131 032	8/25/95	259.99	TV/VCR
1241	131 032	4/23/95	75.00	Travel
1145	131 040	8/25/95	374.29	Not available
1145	131 105	5/18/95	75.00	Mileage
1146	131 105	7/27/95	447.40	Not available
1078	131 180	5/4/95	644.00	Not available
1102	131 180	5/23/95	488.00	Not available
1200	131 180	7/8/95	75.00	Not available
1243	131 180	9/5/95	900.00	Not available
1001	131 210	6/13/95	340.20	Acct. #1460
1007	131 210	8/11/95	268.80	Mileage
1008	131 210	8/25/95	643.25	Salary for Disaster
1009	131 210	9/6/95	332.00	Mileage
1011	131 229	7/3/95	522.60	Mileage
1024	131 229	7/17/95	447.40	UNAHA/HUD Workshop
1030	131 229	7/25/95	350.00	None
1038	131 229	8/14/95	589.68	TV/VCR
1041	131 229	8/21/95	644.25	Denver for Comp. Grant, Mileage, Lodging, and Meals
1134	131 180	6/13/95	153.64	None
1135	131 180	6/13/95	79.95	None
1035	131 229	8/10/95	1,404.00	Furniture for Warehouse
1043	131 229	8/25/95	241.41	None
1044	131 229	8/25/95	80.00	None
1045	131 229	8/29/95	1,036.30	Air conditioning unit for employee, pay back through payroll deduction
1128	131 105	4/20/95	150.00	Relocation reimbursement for tenant
1135	131 105	5/2/95	110.00	Clean up crew for Elderly units
1136	131 105	5/11/95	110.00	Clean up crew for Elderly units
1144	131 105	5/19/95	165.00	Clean Up Acct. 1460
1025	131 164	9/12/95	360.00	Not available
1023	131 229	7/17/95	360.00	Clean Up 60 hours
1134	131 105	4/28/95	110.00	Contract labor - Clean Up Crew for Elderly units in Wagner and Lake Andes
1138	131 105	5/11/95	110.00	Clean up crew for Elderly Units
1143	131 105	5/19/95	165.00	Clean Up Acct. 1460
1247	131 180	9/5/95	240.00	Not available

CHECK NUMBER	ACCOUNT NUMBER	DATE	AMOUNT	DESCRIPTION
1017	131 229	7/13/95	360.00	Clean Up 60 hours
1143	131 040	7/7/95	483.88	Acct. #1460
1146	131 040	8/29/95	750.00	Not available
1185	131 180	7/15/95	684.96	Purchase tools and equipment
1007	131 229	6/9/95	842.88	Purchase Maintenance Tools
1034	131 229	8/2/95	1,250.00	½ year's wages from Comp. Grant
1141	131 105	5/18/95	137.50	Clean Up Elderly Units
1199	131 180	7/8/95	390.00	Extra Helper for Force Account
1230	131 180	8/10/95	260.00	Not available
1244	131 180	8/31/95	280.00	Extra Helper
1242	131 032	6/22/95	341.60	Training in Aberdeen
1008	131 229	6/16/95	180.00	Extra help in Comp. Grant
1005	131 229	6/7/95	240.00	Contract labor
1012	131 229	7/5/95	240.00	Extra Help in Office
1144	131 040	8/18/95	421.20	Not available
1140	131 105	5/17/95	301.80	Mileage for Elderly renovations
1015	131 229	7/6/95	201.60	Mileage for renovation
1202	131 180	8/10/95	393.57	Not available
1133	131 105	4/29/95	110.00	Contract labor - Clean up crew for elderly complexes in Wagner and Lake Andes
1137	131 105	5/11/95	110.00	Clean Up crew for Elderly units
1142	131 105	5/19/95	165.00	Clean Up 30 hrs.
1246	131 180	9/5/95	360.00	Laborer for clean up 60 hours
1018	131 229	7/13/95	360.00	Clean Up 60 hours
1139	131 105	5/11/95	180.00	Mileage to Denver with Housing Vehicle
1142	131 040	5/31/95	140.00	Not available
1042	131 229	8/22/95	750.00	Repair Cube Crew Van
1132	131 105	4/27/95	150.00	Relocation payment for tenant
1198	131 180	6/30/95	1,452.69	Not available
1010	131 229	6/28/95	523.00	Not available
1025	131 229	7/20/95	360.00	Extra Helper 60 hours
1033	131 229	7/31/95	346.50	Project set up
1197	131 180	7/8/95	250.00	Not available
1129	131 105	4/20/95	150.00	Relocation reimbursement for tenant
1201	131 180	8/10/95	156.00	Not available

CHECK NUMBER	ACCOUNT NUMBER	DATE	AMOUNT	DESCRIPTION
1022	131 164	5/24/95	165.00	Not available
1023	131 164	5/30/94	165.00	Not available
1130	131 105	4/21/95	150.00	Reimbursement for renovation on unit
1058	131 180	4/14/95	<u>336.00</u>	Not available
	TOTAL		<u><u>26,490.34</u></u>	

Ineligible costs are those that are questioned because of an alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of funds.

All the checks listed above are for costs involved in the apparent check forgery scheme. The Indictment stated that the former employee was in violation of 18 U. S. C. § 1163 by willfully and knowingly stealing, misapplying, embezzling, and converting to personal use monies, funds and assets belonging to the Yankton Sioux Tribe Housing Authority. One check listed above was not included in the Indictment because the Authority is in possession of the equipment purchased with that check and plans to sell it and recover the majority, if not all, of that portion of the loss. It was included as an ineligible cost in this report because it was not an approved budget item and the former employee indicated that it was for personal use to be paid back to the Authority through payroll deduction, which is not an approved Authority policy or procedure.

Auditee Comments

Letter from Yankton Sioux H/A

## Distribution

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