

# INVESTIGATIVE AUDIT REPORT

HOHENWALD HOUSING AUTHORITY  
JULY 1, 2004, THROUGH DECEMBER 31, 2005



## State of Tennessee



**Comptroller of the Treasury  
Department of Audit  
Division of Municipal Audit**



STATE OF TENNESSEE

John G. Morgan

COMPTROLLER OF THE TREASURY

Comptroller

STATE CAPITOL

NASHVILLE, TENNESSEE 37243-0260

PHONE (615) 741-2501

July 25, 2008

Executive Director and Members of the  
Board of Commissioners  
Hohenwald Housing Authority  
107 Allison Avenue  
Hohenwald, TN 38462-1527

Ladies and Gentlemen:

Presented herewith is the report on our investigative audit of selected records of the Hohenwald Housing Authority. This investigative audit focused on the period July 1, 2004, through December 31, 2005. However, when warranted, this scope was expanded.

The Comptroller has prescribed a minimum system of recordkeeping for nonprofit agencies, which is detailed in the *Accounting and Financial Reporting for Not-For-Profit Recipients of Grant Funds in Tennessee*. The purpose of our audit was to determine the extent of the entity's compliance with certain laws and regulations, including those in the above-mentioned manual.

William Hurshell Clay, former executive director, apparently misappropriated at least \$6,700.20 from the Hohenwald Housing Authority. This matter was referred to the local district attorney general. As the result of a grand jury indictment, Mr. Clay is currently facing charges on two counts of Theft over \$1,000.

In addition, the findings and recommendations in this report relate to those conditions that we believe warrant your attention.

Executive Director and Members of the  
Board of Commissioners  
Hohenwald Housing Authority  
July 25, 2008

Copies of this report are being forwarded to Governor Phil Bredesen, the State Attorney General, the District Attorney General, certain state legislators, and various other interested parties. A copy is available for public inspection in our office.

Very truly yours,

A handwritten signature in black ink that reads "John G. Morgan". The signature is written in a cursive style with a long horizontal flourish at the end.

John G. Morgan  
Comptroller of the Treasury



STATE OF TENNESSEE  
COMPTROLLER OF THE TREASURY  
DEPARTMENT OF AUDIT  
DIVISION OF MUNICIPAL AUDIT

John G. Morgan  
Comptroller of the Treasury

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Dennis F. Dycus, CPA, CFE, Director  
Division of Municipal Audit

July 25, 2008

Mr. John G. Morgan  
Comptroller of the Treasury  
State Capitol  
Nashville, TN 37243-0260

Dear Mr. Morgan:

As part of our ongoing process of examining the records of nonprofit organizations, including public housing authorities, we have completed our investigative audit of selected records of the Hohenwald Housing Authority. This investigative audit focused on the period July 1, 2004, through December 31, 2005. However, when the examination warranted, this scope was expanded.

The Comptroller has prescribed a minimum system of recordkeeping for nonprofit organizations, which is detailed in the *Accounting and Financial Reporting for Not-For-Profit Recipients of Grant Funds in Tennessee*. The purpose of our audit was to determine the extent of the entity's compliance with certain laws and regulations, including those in the above-mentioned manual.

William Hurshell Clay, former executive director, apparently misappropriated at least \$6,700.20 from the Hohenwald Housing Authority. This matter was referred to the local district attorney general. As the result of a grand jury indictment, Mr. Clay is currently facing charges on two counts of Theft over \$1,000.

Our examination also resulted in findings and recommendations related to the following:

1. Questionable payments to former executive director totaling over \$20,000 purportedly for compensation and expense reimbursements
2. County sheriff was paid personally for patrolling housing authority and supporting documentation indicated some patrol hours were double claimed
3. No written contract for performance of background checks and no supporting documentation for related payments

Mr. John G. Morgan  
Comptroller of the Treasury  
July 25, 2008

4. Internet transfers between bank accounts without proper authorization
5. Inadequate separation of duties
6. Deposits not made timely or intact and collection overages and shortages not reflected on daily statements of operations

If after your review, you have any questions, I will be happy to supply any additional information which you may request.

Sincerely,

A handwritten signature in black ink, appearing to read "Dennis F. Dycus". The signature is fluid and cursive, with a large initial "D" and "F".

Dennis F. Dycus, CPA, CFE, Director  
Division of Municipal Audit

**INVESTIGATIVE AUDIT OF SELECTED RECORDS OF THE  
HOHENWALD HOUSING AUTHORITY  
FOR THE PERIOD JULY 1, 2004, THROUGH DECEMBER 31, 2005**

**LEGAL ISSUES**

1. **ISSUE:**      **Apparent misappropriation totaling at least \$6,700.20 by former executive director**

William Hurshell Clay, former executive director, apparently misappropriated at least \$6,700.20 from the Hohenwald Housing Authority (HHA). The investigative audit revealed that Mr. Clay perpetrated the misappropriation by using at least three separate schemes:

- **Misappropriation by former executive director of \$1,700.20 by diverting proceeds from sale of lumber**

The investigative audit revealed that the former executive director of HHA apparently diverted for his personal benefit the proceeds from the unauthorized sale of timber located on HHA property. Conversation with HHA board members, personnel and others, as well as documents located at HHA indicated that, without the knowledge or consent of the board of commissioners, Mr. Clay entered into an agreement with two HHA residents to remove trees from housing authority property. The timber was sold to a lumber company which, in turn, issued checks to both HHA and the two residents. The lumber company verified that four checks totaling \$1,700.20 were issued payable to HHA. Mr. Clay apparently intercepted the checks, converted them to cash, and retained the proceeds for his personal benefit. The first check was cashed through the HHA cash drawer. Mr. Clay apparently altered the face of the remaining three checks payable to HHA by writing "W.H. Clay c/o" above the payee and cashed them at a local bank.

- **Misappropriation by former executive director of \$3,000 by use of fraudulent internet transfers**

Without authority or knowledge of the board of commissioners, the former executive director transferred at least \$3,000 via the internet from an HHA bank account to his personal account. HHA records indicated that during the nine-month period July 1, 2004, through April 1, 2005, William Hurshell Clay, former executive director, made numerous internet transfers between housing authority bank accounts. In addition to these transfers, however, he also transferred \$3,000 from housing authority bank accounts into his personal bank account and retained the proceeds for his personal benefit.

| <u>Date</u>       | <u>Amount</u>     |
|-------------------|-------------------|
| December 29, 2004 | \$1,200.00        |
| January 10, 2005  | 800.00            |
| January 28, 2005  | 500.00            |
| March 28, 2005    | <u>500.00</u>     |
|                   | <u>\$3,000.00</u> |

A former housing authority office employee stated that when she initially noticed the internet transfers and questioned Mr. Clay about them, Mr. Clay instructed her to record the transactions in the housing authority's financial records utilizing a seldom used account, apparently to conceal the true nature of these apparently fraudulent transfers. On August 29, 2005, an unexplained deposit of \$4,500 cash was made to an HHA bank account. In an interview, Mr. Clay stated that the cash deposit was his repayment, including interest, of the internet transfers into his personal account.

- **Misappropriation by former executive director of \$2,000 by unauthorized use of a counter check**

On April 25, 2005, without the authority or knowledge of the board, William Hurshell Clay, former executive director, obtained and transacted a counter check drawn on a housing authority bank account for \$2,000, keeping the proceeds for his personal benefit. The counter check was made payable to Mr. Clay. There was no apparent purpose for the payment and the proceeds of the check could not be traced into a housing authority bank account.

**Summary of misappropriation by former executive director William Hurshell Clay:**

|                             |                   |
|-----------------------------|-------------------|
| Checks from logging company | \$1,700.20        |
| Internet transfers          | 3,000.00          |
| Counter check               | <u>2,000.00</u>   |
|                             | <u>\$6,700.20</u> |

This matter was referred to the local district attorney general. As the result of a grand jury indictment, Mr. Clay is currently facing charges on two counts of Theft over \$1,000.

2. **ISSUE: Apparent misappropriation by bookkeeper**

The investigative audit revealed an apparent misappropriation of at least \$596.92 by the bookkeeper of HHA. Home Depot issued a refund check for \$596.92, dated April 7, 2006, to HHA in refund of an overpaid invoice. Our investigative audit revealed that Wanda Vineyard, bookkeeper, apparently cashed the check through the housing

authority's cash drawer and retained the cash for her personal benefit. Ms. Vineyard confirmed to auditors that she prepared the related questioned deposits and stated that she always reconciled collections received to deposits she prepared. Ms. Vineyard agreed that the documentation indicated she had misappropriated the missing cash from the deposits, but ultimately denied that she took the money.

3. **ISSUE: Unattributed misappropriations of collections totaling \$225**

Our investigation revealed at least two other instances totaling \$225 in which housing authority cash collections were apparently misappropriated. We were unable to conclusively determine responsibility for either instance of apparent misappropriation.

**Summary of Apparent Misappropriation from the Hohenwald Housing Authority**

|  |                   |
|--|-------------------|
| Misappropriations by former executive director William Hurshell Clay | \$6,700.20        |
| Misappropriation by bookkeeper Wanda Vineyard                        | 596.92            |
| Unattributed misappropriations                                       | <u>225.00</u>     |
| Total misappropriation   | <u>\$7,522.12</u> |

**FINDINGS AND RECOMMENDATIONS**

1. **FINDING: Questionable payments to former executive director totaling over \$20,000 purportedly for compensation and expense reimbursements**

Documentation was insufficient to determine the validity of compensation totaling \$9,173.14 and reimbursements totaling \$10,943.06 paid to the former executive director. A contract between the HHA and William Hurshell Clay, former executive director, dated May 25, 2005, increased Mr. Clay's monthly salary to \$5,950 for the same services he previously provided. The former chairman of the board of commissioners confirmed that he signed the contract authorizing the pay increase. The second signature on the contract appeared to be Mr. Clay's. However, other than the former chairman of the board, board members stated that they were unaware of the contract.

HHA records show that from June 10, 2005, through September 8, 2005, Mr. Clay received four payments pursuant to the contract totaling \$23,800. A former office employee stated that Mr. Clay personally typed three of the checks in question. These three checks bore Mr. Clay's signature and the former board chairman's stamped signature. In addition, the housing authority's personnel policy limited the accrual of vacation leave to 30 days. However, on June 23, 2005, Mr. Clay was paid \$11,422 for the sale of vacation leave, apparently well in excess of the 30-day limit.

Auditors compared Mr. Clay's compensation during the period in question based on the rate of pay and maximum accrual of vacation leave days approved by the entire board with the compensation actually received. The analysis revealed that Mr. Clay was paid additional compensation totaling \$9,173.14.

Mr. Clay was also reimbursed \$17,151.34 for travel and other expenses during the period March 1, 2004, through September 30, 2005. Of this amount, \$10,943.06 in reimbursement payments to Mr. Clay was either unsupported or inadequately supported.

Questioned compensation and undocumented reimbursement to the former executive director totaled \$20,116.20 as shown below.

|  |                    |
|--|--------------------|
| Excess compensation to former executive director         | \$ 9,173.14        |
| Undocumented reimbursements to former executive director | <u>10,943.06</u>   |
| Total unsupported payments to former executive director  | <u>\$20,116.20</u> |

**RECOMMENDATION:**

To fulfill their fiduciary duty to the housing authority and protect housing authority assets, members of the board of commissioners should ensure that all contracts for services are brought before the board for authorization, and the authorization is documented in the minutes of board meetings. Further, board members should require that all checks bear two signatures. Although use of a signature stamp may be allowed, board members and other housing authority officials should ensure that custody of the stamp is maintained by someone other than the second signature on checks and that access to the stamp is limited. To ensure that only valid, appropriate, and eligible expenses are paid, members of the board of commissioners should require that all reimbursement payments are adequately supported by original receipts or other reasonable and adequate documentation of the expenses incurred.

2. **FINDING: County sheriff was paid personally for patrolling housing authority and supporting documentation indicated some patrol hours were double claimed**

Beginning in the 1990s, the housing authority entered into a series of four contracts with the Lewis County Sheriff's Department to provide additional patrols of housing authority property in exchange for monetary compensation. Although each of the contracts was between the sheriff's department and HHA, Lewis County Sheriff Dwayne Kilpatrick was personally paid \$17,586 during calendar years 2004 and 2005 for patrolling HHA property. In an interview with auditors, Sheriff Kilpatrick confirmed that he patrolled the housing authority, sometimes in a sheriff's vehicle, and personally received the benefit of the payments. Our investigative audit also revealed that, on at least four occasions, the sheriff double claimed some patrol hours. Sheriff Kilpatrick was unable to provide an explanation for the double claiming of hours patrolled.

**RECOMMENDATION:**

To fulfill their fiduciary duty to the housing authority, officials should take reasonable steps to ensure that the party with whom the housing authority contracts receives the benefit of any related payments. Further, housing authority officials should ensure that documentation of work performed pursuant to contracts is carefully scrutinized. Finally, housing authority officials should consult legal counsel regarding the propriety of any such payments to an elected official.

3. **FINDING: No written contract for performance of background checks and no supporting documentation for related payments**

Housing authority officials failed to obtain a written contract for the performance of background checks or require and retain documentation supporting the related payments. During the period October 1, 2003, through December 31, 2005, the housing authority issued 24 checks payable to “D KILPATRICK LCSO” totaling \$12,000. All but two of the checks were endorsed “Trina Kilpatrick.” The remaining two checks were endorsed “D. Kilpatrick.” Housing authority personnel confirmed that the payments were intended for Katrina Kilpatrick, wife of Lewis County Sheriff, Dwayne Kilpatrick, for performing background checks on prospective residents. However, HHA had no written agreement with Ms. Kilpatrick on file, and failed to request and retain documentation of the background checks that Ms. Kilpatrick indicated she performed. Further, HHA personnel could not provide any reasonable explanation for preparing the checks in such a way as to make it appear as though the payments were being made to the sheriff’s office.

In a follow-up conversation, Sheriff Kilpatrick verified that the Lewis County Sheriff’s Department did not receive the proceeds of these checks. Instead, the proceeds were retained by his wife, Katrina Kilpatrick.

**RECOMMENDATION:**

To verify that the housing authority’s agreements with individuals are properly documented and to avoid any confusion or misunderstandings regarding the responsibilities of the parties to the contract, housing authority officials should ensure that copies of all contracts are obtained and maintained in housing authority files. To ensure that contracting parties are fulfilling their contractual obligations, housing authority officials should require all vendors to submit documentation of work performed pursuant to such contracts. Documentation of work performed should be maintained in housing authority files.

4. **FINDING: Internet transfers between bank accounts without proper authorization**

Without authorization or knowledge of the board of commissioners, William Hurshell Clay, former executive director, made numerous internet transfers of housing authority funds. As previously noted in Legal Issue 1, Mr. Clay made several internet transfers from housing authority accounts into his personal bank accounts. The audit also revealed that Mr. Clay made numerous internet transfers between housing authority bank accounts totaling \$343,500 based on his sole authority.

*Accounting and Financial Reporting for Not-for-Profit Recipients of Grant Funds in Tennessee*, Section 6, lists control objectives and specific control procedures for the purchasing cycle. To help ensure that purchases or disbursements are properly authorized, the manual, page 6-8, requires that checks be signed by two authorized individuals.

**RECOMMENDATION:**

To help ensure that disbursements and transfers are properly authorized, members of the board of commissioners should ensure that all disbursements, transfers, and other account withdrawals, require the authorization of at least two individuals.

5. **FINDING: Inadequate separation of duties**

Housing authority officials failed to ensure that financial responsibilities were properly separated. During the scope of our audit, the housing authority's bookkeeper and a clerk were primarily responsible for receiving, recording, and depositing collections. Although responsible for receiving and recording collections from different groups of housing authority residents, the two employees occasionally received collections on behalf of one another and each of the collection drawers was accessible to anyone in the housing authority's offices.

*Accounting and Financial Reporting for Not-for-Profit Recipients of Grant Funds in Tennessee*, Section 6, lists control objectives and specific control procedures for the collection cycle. To help ensure that revenue is properly recorded and deposited, the manual, page 6-4, requires management to ensure that

11. The following procedures are not performed by the same individual: receiving cash, making deposits, and maintaining the accounting records.
12. Deposits are reconciled with the list or tape of cash receipts by a person independent of the receiving and recording functions.

**RECOMMENDATION:**

To decrease the risk of undetected errors, irregularities, or misappropriations, housing authority officials should review employees' responsibilities to ensure that no employee has control over a complete transaction. To help ensure accountability, each collection drawer should be accessible only to the employee assigned the drawer.

6. **FINDING: Deposits not made timely or intact and collection overages and shortages not reflected on daily statements of operations**

Housing authority officials failed to ensure that deposits were made timely and intact, and that amounts over and short were appropriately documented. In at least 100 instances during the period July 1, 2004, through June 30, 2006, collections were deposited more than one week after being received. In at least 16 instances, two or more weeks elapsed between collection and deposit. The audit revealed that housing authority employees frequently cashed personal checks using the housing authority's cash collections and that collections were sometimes intermingled between collection drawers. Finally, auditors noted that although housing authority personnel generated daily statements of operations corresponding with deposits of collections, these statements failed to disclose whether receipted collections matched deposited amounts or whether the related deposits were over or short. Each of these deficiencies appears to have contributed, in some part, to the apparent collections misappropriations noted in Legal Issues 2 and 3.

**RECOMMENDATION:**

To decrease the risk of errors, irregularities, and additional misappropriations of collections, housing authority officials should require that all deposits be made promptly and intact. Under no circumstances should third-party checks be cashed through the housing authority's collections drawers. Deposits should be reconciled to related receipts, and amounts over and short should be appropriately documented and recorded in the accounting system.