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DEPARTMENT OF AUDIT
DIVISION OF MUNICIPAL AUDIT

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August 22, 2006

Members of the Board of Commissioners
Lewisburg Housing Authority
744 Bark Street
Lewisburg, TN 37091

Board of Commissioners:

As requested by the Honorable Edward Bernard, Assistant District Attorney General, we have completed our investigative audit of selected records of the Lewisburg Housing Authority. The audit focused on the period January 1, 2002, through August 31, 2003. However, when warranted, this scope was expanded. The audit was limited to specific issues identified by Mr. Bernard. During the course of our audit, we noted the following weaknesses:

1. Bids were not solicited for maintenance contract work. The Lewisburg Housing Authority's "Statement of Procurement Policy" requires bids to be solicited for contracts exceeding \$25,000.
2. Due to the lapse of time and the lack of adequate of records, we could not determine if certain materials and supplies purchased by the housing authority were actually received by and used for the benefit of the housing authority. *Accounting and Financial Reporting for Not-for-Profit Recipients of Grant Funds in Tennessee*, Section 6, lists control objectives and specific control procedures regarding the inventory cycle including maintaining perpetual inventory records, taking periodic physical inventories, and releasing items from inventories only on the basis of written and properly approved requisitions.
3. There were inadequate internal controls over the housing authority's fixed assets and high-risk, moveable property. *Accounting and Financial Reporting for Not-for-Profit Recipients of Grant Funds in Tennessee*, page 6-13, requires:

At least annually, a physical inventory of property and equipment is taken that is compared with subsidiary records.

- a) Reconciliations are prepared and any discrepancies are immediately followed up and explained.
 - b) Reconciliations are reviewed by a responsible person.
4. Many invoices and/or work orders on file to support disbursements for contract work were not signed or initialed to document that the work was actually done. *Accounting and Financial Reporting for Not-for-Profit Recipients of Grant Funds in Tennessee*, Section 6, includes in its control objectives the requirement that disbursements be supported by adequate documentation.
 5. Due to lack of adequate records, we were unable to determine if certain residents were eligible for subsidized housing. Section 13-20-113, *Tennessee Code Annotated*, states:
 - (a) In the operation or management of housing projects, an authority shall at all times observe the following duties with respect to rentals and tenant selection: ... (4) It shall not accept any person as a tenant in any housing project if the person or persons who would occupy the dwelling accommodations have annual **net** income in excess of five (5) times the annual rental of the quarters to be furnished such person or persons.... In computing the rental for this purpose of selecting tenants, there shall be included in the rental the average annual cost (as determined by the authority), to the occupants, of heat, water, electricity, gas, cooking range and other necessary services or facilities, whether or not the charge for such services and facilities is in fact included in the rental. [Emphasis added.]

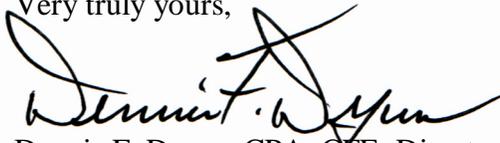
The housing authority uses gross income, not net, to determine the amount of rent. Because we did not have access to personal records, we could not determine if this law has been violated. Housing authority personnel should take steps to obtain the necessary information to ensure that all tenants are in compliance with Section 13-20-113, *Tennessee Code Annotated*. This determination should be documented and maintained.

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Management should take immediate action to ensure all of these control deficiencies are corrected.

If you have any further questions concerning the above matter, please contact me.

Very truly yours,

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