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COUNTY AUDIT

**AGREED-UPON PROCEDURES ENGAGEMENT
REGARDING EMPLOYEE DEFALCATION
KNOX COUNTY HOUSING AUTHORITY
FEBRUARY 19, 2009**

February 19, 2009

Board of Commissioners
Knox County Housing Authority
6333 Pleasant Ridge Road
Knoxville, TN 37921

We have performed the agreed-upon procedures set forth below, which were agreed to by Mr. William G. Pierce, Executive Director of Knox County Housing Authority (the "Authority"). This agreed-upon procedure engagement was conducted in accordance with the attestation standards established by the American Institute of Certified Public Accountants.

The agreed-upon procedures performed included the following:

1. We reviewed the bi-weekly payroll summaries for Mr. William J. Pollock, Assistant Executive Director, for the period from May, 1999 through October 6, 2008 and accounted for the payroll deposits to Mr. Pollock's personal bank account from August, 2003 to August 19, 2008.
2. We reviewed the Scott Accounting System payroll summaries for all employees from May, 1999 to September, 2008.
3. We reviewed the supporting documentation for all non-payroll disbursements to Mr. Pollock for the period October, 2005 to August, 2008.
4. We reviewed the statements and supporting documents for changes made on the Authority's charge accounts by Mr. Pollock for the following periods:

Charge Account	Periods Reviewed
American Express	July, 2006 to September, 2008
Sam's Club	April, 2007 to March, 2008
Phillips 66 / Conoco 76	April, 2007 to March, 2008

5. We performed a test for fictitious tenants and landlords by an examination of tenant files for all Housing Choice Voucher program tenants and accounted for their respective landlords. We reviewed the direct deposit routing and bank account numbers for the landlords to determine that none were being paid that did not have respective tenants.

6. We reviewed journal entries prepared by Mr. Pollock to determine the bona fid nature of the entry.
7. We reviewed the implementation of the Authority's vacation policy as to the accrual of vacation liability for Mr. Pollock for the period April 1, 2007 to October 6, 2008.
8. We reviewed the accounting for employee loans from the Authority's pension fund.
9. We reviewed and recomputed the contributions made, and others that should have been made but were not, by the Authority on behalf of employees to its Pension Plan, and the overall administration of the Plan.
10. We reviewed the accounting for the Authority's funding of Supplemental Life Insurance and Accidental Death and Dismemberment coverage, both with Fort Dearborn Life Insurance Company.
11. We inquired as to the timely filing of Forms 5500 for the Authority's pension fund.
12. We reviewed the administration of the Authority's Medical and Disability Insurance programs for employees.

FINDINGS

The results of the above procedures were as follows:

1. Unauthorized Payroll Disbursements to Mr. Pollock -

We determined that excessive payroll disbursements were made as follows:

a. Unauthorized payroll direct deposits were made to the personal checking account of Mr. Pollock as follows:

<u>Fiscal Year Ended</u>	<u>Payroll Check</u>	<u>Direct Deposit</u>
2006	10/03/05	\$ 1,726.78
2006	03/22/06	1,729.04
2007	10/02/06	3,371.31
2007	01/02/07	1,755.16
2007	03/05/07	1,869.07
2008	04/13/07	1,935.43
2008	10/04/07	2,165.93
2008	12/28/07	2,573.52
2008	03/28/08	2,014.18
2009	04/01/08	3,985.73
2009	04/17/08	6,915.79
2009	10/06/08	7,149.48 *
Total unauthorized payment		<u>\$ 37,191.42</u>

***NOTE** - This payment was for Mr. Pollock's accrued vacation, prepared and disbursed to himself by Mr. Pollock, while assisting in the preparation of the first payroll done by other employees after the discovery of the above unauthorized payroll disbursements to Mr. Pollock. This payment had not been authorized by the Authority.

Mr. Pollock has reimbursed the Authority for certain of the above unauthorized payroll disbursements as follows:

<u>Date</u>	<u>Check Number</u>	<u>Amount</u>
06/30/08	4686	\$ 6,915.79
09/16/08	4663	6,983.42
09/16/08	4664	2,041.94
09/16/08	4665	133.00
09/22/08	4667	2,014.18
09/22/08	4668	3,804.50
09/23/08	4669	1,755.16
09/23/08	4670	5,100.35
09/25/08	4672	1,726.78
Total reimbursements		<u>\$ 30,475.12</u>

b. Certain of the regular payroll checks had unauthorized additional amounts added to the regular salary amount as follows:

<u>Payroll Date</u>	<u>Regular Salary Amount</u>	<u>Actual Payment Amount</u>	<u>Unauthorized Payroll Amount</u>
09/28/07	\$ 2,561.79	\$ 2,861.79	\$ 300.00
01/15/08	2,561.79	2,761.76	199.97
03/31/08	2,561.79	2,761.79	200.00
Total additional unauthorized amounts			<u>\$ 699.97</u>

2. **Unauthorized American Express Charges by Mr. Pollock -**

The items listed below that did not appear to be normal housing authority purchases were taken from the statements received from American Express:

<u>Vendor / Description</u>	<u>Date</u>	<u>Amount</u>	<u>Repaid</u>
Home Depot	07/04/06 *	\$ 141.50	
Home Depot	07/04/06 *	536.40	
Home Depot	07/08/06	266.06	
Home Depot	07/11/06	132.61	
Home Depot	09/02/06	498.18	
Lowe's	10/28/06	93.00	Yes
Home Depot	10/28/06	131.88	Yes
Home Depot	10/28/06	225.87	Yes
Home Depot	11/04/06	83.71	
Sears	12/02/06	879.33	Yes
Home Depot	12/11/06	9.83	
Home Depot	12/15/06	93.68	
Home Depot	12/16/06	76.70	
Belks	12/19/08	125.42	Yes
Duncan Landscape	04/12/07	40.00	
Duncan Landscape	04/12/07	80.00	
PF Chang's	04/16/07	18.21	Yes
Chop House	04/21/07	47.93	Yes
Verizon	05/01/07	480.67	Yes
Home Depot	05/10/07	45.74	Yes
Home Depot	05/14/07	43.53	Yes
Lowe's	05/15/07	145.66	Yes
Kroger	09/22/07	12.67	Yes
Home Depot	09/22/07	195.56	Yes
Home Depot	09/23/07	78.37	Yes
Charlie's Pawn (Laptop)	10/12/07	600.86	**
Hampton Inns	10/21/07	107.92	Yes
Hampton Inns	10/21/07	107.92	Yes
Lowe's	10/26/07	135.18	Yes
Shields Electronics (Speakers)	11/02/07	238.15	**
Dillard's	12/20/07	83.58	Yes
Borders Books	12/21/07	125.51	Yes
Home Depot	12/22/07	320.08	Yes
BoneFish	12/23/07	59.76	Yes
Lowe's	12/23/07	76.32	Yes
Lowe's	12/24/07	76.34	Yes
Home Depot	12/26/07	97.61	Yes
Circuit City	12/31/07	2,098.02	Yes
Lowe's	06/20/08	10.88	
Home Depot	06/24/08	29.99	
Sherwin Williams	06/25/08	51.87	
Home Depot	07/07/08	47.94	
Lowe's	07/09/08	29.26	
Home Depot	07/11/08	30.65	
Home Depot	07/12/08	38.13	
Lowe's	07/26/08	49.08	
Total Unauthorized American Express Charges		<u>\$ 8,897.56</u>	

Notes: * Holiday
 ** Item returned to Knoxville County Housing Authority.

As indicated, a laptop and speakers have been returned and three (3) checks totaling \$5,882.47 have been received by the Authority for payment of the items indicated above from Mr. Pollock.

3. Unauthorized Sam's Club Charges by Mr. Pollock -

The items listed below that did not appear to be normal housing authority purchases were taken from Sam's Club statements:

<u>Description</u>	<u>Date</u>	<u>Amount</u>
Computer Speakers	04/14/07	\$ 69.83
HP Laptop	04/15/07	1,498.88 *
20" LCD TV	12/21/07	367.89 **
Food Items	12/21/07	29.97
Bed frame / Mattress	12/24/07	294.34
Movie Collection	12/24/07	74.64
Quicken Deluxe 2008	01/16/08	42.47
Lawn Fertilizer	03/25/08	29.78
Total Value		<u>\$ 2,407.80</u>

Notes: * Returned to Knox County Authority on 10/15/08.

** 22" LCD TV returned to Authority on 10/15/08, but manufacturer date is different.

As indicated above, items totaling \$1,866.77 have been returned by Mr. Pollock. No reimbursement for the other above items has been received.

In addition to the above listed unauthorized charges, there was one electronic payment to Sam's Club of \$3,334.83, made on 02/19/07, for which we were unable to obtain an explanation of the nature of the charges.

4. Excessive Vacation Accruals to Mr. Pollock -

The vacation accrual prepared for himself by Mr. Pollock resulted in the recording of 28.2 days of accrued vacation liability for Mr. Pollock, while the Authority's policy called for 24 days to be accrued.

The check issued by Mr. Pollock for accrued vacation for \$7,149.48 is listed above in the Finding No. 1, dated October 6, 2008.

5. Pension Loans -

a. Excessive Loan Repayment by Mr. Pollock -

During 2008, Mr. Pollock had \$1,275 withheld from his salary for pension loan repayment, while he had the Authority pay \$7,786 into the plan loan fund for his loan repayment. This is an excess payment on Mr. Pollock's behalf of \$6,511.

b. Unauthorized Pension Plan Contribution by Mr. Pollock to His Pension Account -

Mr. Pollock made a contribution to his Pension account of \$8,060 in 2008 without Authority approval.

c. **Shortage in Loan Repayments Withheld from Employees -**

The loan repayments by three (3) other employees were not properly applied by Mr. Pollock to their loan balance as follows:

<u>Employee</u>	<u>Period</u>	<u>Loan Repayments Withheld</u>	<u>Loan Repayments by the Authority</u>	<u>(Shortage) In Loan Repayments</u>
C. Holt	2004-2009	\$ 11,676	\$ 5,911	\$ (5,765)
W. Pierce	2008	3,017	937	(2,080)
L. McCannelley	2008	3,000	350	(2,650)
Total shortage in loan repayments				<u>\$ (10,495)</u>

6. **Pension Contribution and Loan Repayment Shortages -**

a. **Shortage in Annual Contributions -**

We noted a disparity in the amount of total pension plan contributions for employees forwarded to the pension fund administrator by Mr. Pollock as follows:

<u>Plan Year</u>	<u>Contribution Required</u>	<u>Contribution Made</u>	<u>Contribution (Shortage)</u>
2002	\$ 41,303	\$ 26,964	\$ (14,339)
2004	43,920	35,474	(8,446)
2005	50,319	40,539	(9,780)
2006	47,835	28,039	(19,796)
2007	46,271	28,665	(17,606)
Total shortage in contributions			\$ (69,967)

b. **Employees Excluded From the Plan in Error -**

Two (2) present employees had not been added to the Plan by Mr. Pollock, although apparently they should have been included in the plan for several years. The approximate contribution that should have been made is estimated to be -

\$ 15,708

c. **Other Contributions Not Properly Made -**

Other employees no longer with the Authority may have been improperly excluded from the Plan (documentation was not available to compute an amount).

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The Plan allows for employee contributions, but the employees apparently had not been informed of this, since there were no employee contributions.

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Total known contributions and loan payments not made

\$ 85,675

7. **Pension Contribution Annual Reports Not Filed -**

- a. The Form 5500 Annual Return / Report of Employee Benefit Plan, for 2007 has been filed, but rejected on January 23, 2009.
- b. Penalties and interest charges have been assessed to the Authority for the March 31, 2005 Form 5500 of \$5,543.64.

8. **Employee Supplemental Life Insurance and Accident, Death and Dismemberment Insurance -**

This insurance has not been made available to all employees as required, and we noted four (4) employees no longer employed by the Authority were still covered in the plans.

9. **Undeposited Cash and Checks -**

A deposit was made October 2, 2008 for \$2,132, including \$1,500 in cash. Several of the checks and money orders in this deposit were several months old.

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SUMMARY OF FINDING AMOUNTS

SUMMARY OF UNAUTHORIZED DISBURSEMENTS TO MR. POLLOCK

Unauthorized Payroll Direct Deposits	\$ 37,891.39
Unauthorized American Express Charges	8,897.56
Unauthorized Sam's Club Charges	2,407.80
Excessive Pension Loan Repayments	6,511.00
Unauthorized Pension Plan Contributions	8,060.00
Grand Total	<u>\$ 63,767.75</u>

**SUMMARY OF REIMBURSEMENTS TO THE AUTHORITY
BY MR. POLLOCK**

For Unauthorized Payroll Direct Deposits	\$ 30,475.12
For Unauthorized American Express Charges -	
Cash Reimbursement	5,882.47
Merchandise Returned	839.01
For Unauthorized Sam's Club - Merchandise Returned	1,866.77
Grand Total	<u>\$ 39,063.37</u>

**SUMMARY OF AUTHORITY APPROXIMATE LIABILITIES
TO PENSION FUND ***

Underpayment to Pension Plan for Withheld Loan Payments From Employees	\$ (10,495.00)
Underfunding of Employer Contributions And Loan Repayments to Pension Fund	(85,675.00)
Late Penalties and Interest Regarding the Form 5500 Required to be Filed for 2005	(5,543)
Total Estimate of Known Liabilities to the Pension Plan	<u>\$ (101,713.00)</u>

*** Note** - We were unable to locate many of the payroll records for periods prior to the current year. If these records had been available, we could have determined if the pension fund loan repayments withheld from additional employees' wages had been properly remitted to the pension fund administration for these additional periods.

The Authority is responsible for accuracy and completeness of this information. The sufficiency of the procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedure described above either for the purpose for which this report has been requested or for any other purpose. The Authority is responsible for the establishment and maintenance of internal controls, including ongoing activities. The Authority is also responsible for management decisions and functions; for designating an individual with suitable skill, knowledge, and/or experience to oversee any nonattest services we provided; and for evaluating the adequacy and results of those services and accepting responsibility for them.

The attest documentation for this engagement is the property of Zoccola Kaplan, PLLC and constitutes confidential information. We may be requested to make certain attest documentation available to various governmental agencies, pursuant to authority given to them by law or regulation. We will notify you of any such request. If requested, access to such attest documentation will be provided under the supervision of Zoccola Kaplan, PLLC personnel.

Zoccola Kaplan, PLLC

ZOCCOLA KAPLAN, PLLC
Germantown, Tennessee
February 19, 2009