



BROOKWOOD TERRACE APARTMENTS
(Component Unit of the Douglas-Cherokee Economic Authority, Inc.)

Comptroller's Investigative Report
September 13, 2018

Justin P. Wilson, Comptroller





JUSTIN P. WILSON
Comptroller

JASON E. MUMPOWER
Chief of Staff

September 13, 2018

Board of Directors
Douglas-Cherokee Economic Authority, Inc.
P. O. Box 1218
Morristown, TN 37816

Ladies and Gentlemen:

The Office of the Comptroller of the Treasury conducted an investigation of selected records of the Brookwood Terrace Apartments (component unit of Douglas-Cherokee Economic Authority, Inc.), and the results are presented herein. We reviewed these findings and recommendations with management, and with the district attorney general for the Ninth Judicial District.

Copies of this report are being forwarded to Governor Bill Haslam, 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 and may be viewed at <http://www.comptroller.tn.gov/ia/>.

Sincerely,

A handwritten signature in black ink that reads "Justin P. Wilson".

Justin P. Wilson
Comptroller of the Treasury

JPW/RAD

INVESTIGATIVE REPORT

BROOKWOOD TERRACE APARTMENTS

The Douglas-Cherokee Economic Authority, Inc. (DCEA), notified the Comptroller’s Office of potential financial discrepancies at the Brookwood Terrace Apartments, a component unit of DCEA with 24 rental units located in Wartburg, Tennessee. DCEA sponsors the construction and operation of U.S. Department of Housing and Urban Development housing complexes for persons age 60 and/or disabled. DCEA’s primary funding is federal and state grants. We performed an investigation of pertinent records of the Brookwood Terrace Apartments for the period October 1, 2012, through July 31, 2017. Our investigation revealed the deficiencies noted in this report.

INVESTIGATIVE FINDINGS AND RECOMMENDATIONS



FINDING 1: A cash shortage of at least \$22,036 existed at the Brookwood Terrace Apartments on July 31, 2017

Comptroller investigators reviewed the Brookwood Terrace Apartment’s accounting records, bank statements, and other documentation for the period October 1, 2012, through July 31, 2017, and noted a cash shortage of at least \$22,036 (\$21,520 in rental payments plus \$516 in security deposits) on July 31, 2017. For the period reviewed, DCEA officials were unable to account for rental payments from some tenants, which had been paid by the tenants, but not deposited into the office bank account. In some instances, the office manager issued receipts to the tenants for security deposits and rental payments on either a handwritten piece of paper or a marked over receipt that the office manager previously gave to another tenant. The tenants told investigators they paid their rent each month in cash to the office manager. The office manager resigned on June 9, 2017. We made multiple attempts to meet with the office manager; however, the office manager refused to meet with investigators.

The following table summarizes the cash shortage:

Year	Amount
2012	\$ 648
2013	2,592
2014	5,543
2015	5,484
2016	5,484
2017	<u>2,285</u>
Total Cash Shortage	<u><u>\$22,036</u></u>

This matter was referred to the local district attorney general. On August 15, 2018, former office manager Pamela Byrd pled to an information of one count of Theft between \$10,000 and \$60,000 (Class C Felony). Pamela Byrd has reimbursed Brookwood Terrace Apartments \$22,036 as part of the plea agreement.

FINDING 2: Brookwood Terrace Apartments had operating deficiencies

Our investigation identified the following operating deficiencies related to the Brookwood Terrace Apartments:

- A. DCEA officials failed to separate financial duties adequately and failed to provide adequate oversight. The office manager received collections, issued receipts, and delivered deposits to the bank. Sound business practices dictate that management is responsible for designing internal controls to give reasonable assurance of the reliability of financial reporting and of the effectiveness and efficiency of operations.
- B. DCEA officials did not reconcile rental payments received by the office manager at Brookwood Terrace Apartments with the actual number of apartments occupied. This deficiency can be attributed in part to the failure of management to periodically make onsite visits to verify occupancy numbers and compare these numbers with rental collections.
- C. The office manager failed to always issue receipts for collections. As a result, we were unable to determine if all funds received were receipted and deposited properly. Also, in some instances, our investigation revealed delays in depositing collections into the office bank account. Office records reflected that as many as 13 days lapsed between the date some funds were collected and the date these funds were deposited. Sound business practice dictates that all collections should be receipted, and collections should be deposited daily to minimize the risk of fraud and abuse. In addition, the office manager allowed tenants to make rental payments in cash; however, the DCEA rent collection policy provides rent payments can only be made onsite by check or money order.

RECOMMENDATION:

- A. Management should segregate duties to the extent possible using available resources and provide adequate oversight.
- B. Management should periodically make onsite visits to verify occupancy numbers and reconcile these numbers with rental collections.

- C. Official prenumbered receipts should be issued for all collections. All collections should be deposited within three days of receipt. Rental payments collected onsite should only be received in the form of a check or money order in compliance with DCEA policy.