



OLIVER SPRINGS HOUSING AUTHORITY

Comptroller's Investigative Report May 3, 2018

Justin P. Wilson, Comptroller





JUSTIN P. WILSON
Comptroller

JASON E. MUMPOWER
Chief of Staff

May 3, 2018

Executive Director and Board of Commissioners
Oliver Springs Housing Authority
113 Wagner Court
Oliver Springs, TN 37840

Ladies and Gentlemen:

The Office of the Comptroller of the Treasury, in conjunction with the Ninth Judicial District Attorney, the Oliver Springs Police Department, and the U.S. Department of Housing and Urban Development (HUD) conducted an investigation of pertinent records of the Oliver Springs Housing Authority (OSHA), and the results are presented herein.

On April 24, 2017, we were notified by the executive director of the OSHA of the potential misuse of the housing authority's credit card. Our investigation revealed the following deficiencies:

- A cash shortage of at least \$149,516.83 existed as of April 30, 2017.
- We noted questionable purchases totaling \$12,484.44 paid from OSHA funds.
- The OSHA board of commissioners did not provide adequate oversight.
- We noted deficiencies in the administration of OSHA.

Findings and recommendations, as a result of our investigation, are presented in this report. We reviewed these findings and recommendations with management. Also, these findings and recommendations have been reviewed with the district attorney general for the Ninth Judicial District and the U.S. Attorney General's Office for the Eastern District of Tennessee.

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

INVESTIGATIVE REPORT

OLIVER SPRINGS HOUSING AUTHORITY

BACKGROUND

The Oliver Springs Housing Authority (OSHA), located in the Town of Oliver Springs, Tennessee, has a low-rent program that provides housing for qualified tenants and has a capital fund program, which is used for improvements to its low-rent property. The housing authority owns and manages 114 units throughout the town and is primarily dependent upon HUD for funding its operations.



OSHA Office

INVESTIGATIVE FINDINGS AND RECOMMENDATIONS

FINDING 1: A cash shortage of at least \$149,516.83 existed at the Oliver Springs Housing Authority as of April 30, 2017

During the period examined, an employee used OSHA credit cards to purchase items for her personal use. This employee admitted to investigators that she used her OSHA credit card and the executive director's OSHA credit card to make the purchases. We reviewed OSHA accounting records, bank statements, credit card statements, and supporting documentation for the period December 1, 2015, through April 30, 2017, and noted a cash shortage of at least \$149,516.83 as described below. This employee's employment was terminated in April 2017.

- A. We identified 139 Amazon online purchases totaling \$16,333.61 in OSHA funds made by the former employee for her personal gain. OSHA received credits from Amazon totaling \$768.16. The remaining cash shortage of \$15,565.45 (\$16,333.61 minus \$768.16) has not been collected.
- B. The former employee transferred \$26,071.60 from OSHA funds to her boyfriend's PayPal account for her personal gain. On March 9, 2017, OSHA received a \$1,200 credit from PayPal. The remaining cash shortage of \$24,871.60 (\$26,071.60 minus \$1,200) has not been collected.

- C. A cashier's check totaling \$6,508 was obtained from OSHA's bank account by the former employee for her personal gain. The former employee was not an approved signature on OSHA's bank account.
- D. The former employee paid property taxes totaling \$3,453.43 to the Roane County Trustee with an OSHA credit card. Included in this amount is the property taxes (\$808) of a current employee. The current employee told investigators she did not know the former employee paid her property taxes with an OSHA credit card. The current employee told investigators that she would reimburse OSHA for the amount paid on her property taxes.
- E. In April 2017, the former employee purchased a golf cart totaling \$2,495 for her personal gain. The purchase of the golf cart was later cancelled, and OSHA was credited \$2,495.
- F. In March 2017, the former employee purchased two Yamaha Jet Skis (\$7,817), a 2001 Tahoe Boat and trailer (\$9,389), and an Orca cooler (\$109.25) for her personal gain totaling \$17,315.25 in OSHA funds. **(Refer to Exhibit 1 photos.)**
- G. The former employee spent \$15,841.04 in OSHA funds to purchase several vehicles for her personal use. A 2007 Saab convertible was purchased from a car dealership in Greenville, South Carolina, for \$6,695. A payment of \$4,146.04 was paid on a 2008 Jeep Wrangler costing \$24,624 from a car dealership in Rogersville, Tennessee. In addition, on March 1, 2017, a \$5,000 deposit was paid on a vehicle at a car dealership in Jasper, Georgia; however, on March 3, 2017, the \$5,000 was credited back to the OSHA credit card by the car dealership because they were unable to get the vehicle. The remaining cash shortage of \$10,841.04 (\$15,841.04 minus \$5,000 refund) has not been collected. **(Refer to Exhibit 2 photos.)**
- H. We noted three credit card payments totaling \$15,000 were paid to a recreational vehicle dealer in Rockwood, Tennessee, on a 2015 Sportsman Travel Trailer costing \$25,713.36. **(Refer to Exhibit 3 photo.)**
- I. We identified personal vehicle repairs paid with OSHA's credit card totaling \$4,356. The repairs consisted of replacing tires on a 2011 Ford Explorer, engine repairs and tires on a 2003 BMW, and new wheels on a 2008 Jeep.
- J. OSHA funds totaling at least \$42,142.90 were spent for personal use on numerous items for the period examined. These purchases included items such as a Carnival Cruise and plane tickets, jewelry, sporting goods, clothes, a Comcast bill, insurance, food, a prom dress, etc. The former employee later refunded OSHA \$467.55 for a Comcast payment. Carnival Cruise credited OSHA \$4,305. The remaining cash shortage of \$37,370.35 (\$42,142.90 minus \$467.55 minus \$4,305) has not been collected.

The following table summarizes the cash shortage:

Item	Description	Amount
A.	Amazon Purchases	\$ 16,333.61
B.	PayPal Transfers	26,071.60
C.	Bank Cashier's Check	6,508.00
D.	Roane Property Taxes	3,453.43
E.	Golf Cart	2,495.00
F.	Water Craft	17,315.25
G.	Automobiles	15,841.04
H.	Travel Trailer	15,000.00
I.	Auto Repairs	4,356.00
J.	Miscellaneous Purchases	<u>42,142.90</u>
	Subtotal	\$149,516.83
A.	Less: Credits/Reimbursements	(768.16)
B.	Less: Credits/Reimbursements	(1,200.00)
E.	Less: Credits/Reimbursements	(2,495.00)
G.	Less: Credits/Reimbursements	(5,000.00)
J.	Less: Credits/Reimbursements	<u>(4,772.55)</u>
	Total Remaining Cash Shortage	<u><u>\$135,281.12</u></u>

RECOMMENDATION:

OSHA officials should take immediate steps to collect the \$135,281.12 cash shortage.

FINDING 2: Questionable purchases totaling \$12,484.44 paid from Oliver Springs Housing Authority funds

We noted questionable purchases totaling \$12,484.44 paid from OSHA funds during the period December 1, 2015, through April 30, 2017. Charges for purchases such as food, fuel, travel, supplies, and auto parts were paid without detailed invoices to document the goods and/or service purchases. Therefore, we could not determine whether these purchases were exclusively for the housing authority.

RECOMMENDATION:

Purchases should be made only for authorized expenditures, and the office should maintain adequate documentation to support all purchases.

FINDING 3: Oliver Springs Housing Authority Board of Commissioners did not provide adequate oversight

The OSHA Board of Commissioners did not provide adequate oversight of the organization's operations. The minutes of board meetings rarely reflected discussions of the financial operations, revenues or expenditures, and personnel policies. The board should exercise greater oversight of the organization's operations by reviewing monthly bank statements, bank reconciliations, and listings and descriptions of monthly revenues and expenditures.

RECOMMENDATION:

The board of commissioners should meet regularly to approve and review the organization's operations. Minutes of these meetings should clearly document the actions of the board.

FINDING 4: Deficiencies noted in the administration of the Oliver Springs Housing Authority

Our investigation identified the following deficiencies related to the administration of OSHA, which can be attributed to the failure of management to adequately monitor daily operations. OSHA has a contract with HUD to administer HUD funds and submits an annual budget for HUD approval.

- A. OSHA did not stay within their annual budget approved by HUD. HUD is responsible for providing oversight of OSHA's operations and accountability for federal funds. HUD uses these budgets to determine the allowability, necessity, and reasonableness of all budgeted expenditures to determine OSHA's ability to manage federal funds.
- B. OSHA did not issue official receipts for collections. Instead, the office used generic receipts and manually entered a receipt number on each receipt. The use of generic receipts exposes the office to risks that collections may not be accounted for properly. In a few instances, the copies of the original receipts were missing, and employees failed to properly record whether the funds received were paid in cash or by check. Therefore, we were unable to determine if all funds received by OSHA were receipted and deposited properly. Since multiple OSHA personnel had access to the collections, and a lack of internal controls existed over collections, we were unable to determine if all collections were properly receipted and deposited.
- C. Duties were not segregated adequately at OSHA. OSHA personnel who were responsible for maintaining accounting records were also involved in receipting and depositing funds.
- D. Multiple employees operated from the same cash drawer in OSHA's office. Sound internal controls dictate that employees have their own cash drawer, start the day with a standard amount of cash, and remove all but the beginning amount at the end of the day. The amount collected should be verified with the employee's receipts issued that day. Failure to adhere to this internal control regimen greatly increases the risk that a cash shortage may not be detected in a timely manner. Furthermore, in the event of a cash shortage, the office would

not be able to determine who was responsible for the shortage because multiple employees were working from one cash drawer.

- E. OSHA did not always deposit collections to the office bank account on a current basis. This deficiency is the result of a lack of management oversight. The delay in depositing funds weakens internal controls over collections and increases the risks of fraud and misappropriation.
- F. Accounting records were not always maintained properly. For a number of weeks, collections were posted to the accounting system several days after being receipted. In one instance, we noted a delay of 32 days from when a payment was receipted in the office to when it was entered into the accounting system. The failure to properly maintain accounting records increases the risks of fraud and abuse.
- G. In most instances, checks issued by OSHA were signed by only the executive director. OSHA policies provide all checks require two authorized signatures.
- H. The office did not reconcile fuel purchases with usage for OSHA vehicles. Monthly statements provided for fuel purchases and usage were not reviewed by an official to determine that the fuel system was not being abused. In addition, vehicles were not labeled as property of OSHA.
- I. In some instances, credit card invoices were paid without adequate documentation to support the charges. Without adequate supporting documentation, we cannot determine if the expenditures were for the benefit of OSHA. In addition, OSHA incurred finance charges totaling \$235.60.
- J. OSHA may have violated their nepotism policy by allowing the executive director to directly supervise her relative. OSHA policy states that the employment of relatives is prohibited insofar as possible. The policy permits employment of a relative if circumstances arise where the relative is the most beneficial choice for the housing authority, and prior approval is obtained by the executive director. OSHA was unable to present such approval. OSHA's board should determine whether their nepotism policy was violated.
- K. Employee leave records were not maintained adequately. OSHA's personnel policy permits employees to accumulate earned but unused leave; however, the executive director was unable to provide us with accurate accrued leave balances of employees. The failure to maintain adequate documentation of accumulated leave weakens internal controls over the payroll process and increases the risk of improper payments.

RECOMMENDATIONS:

- A. OSHA should follow their annual budget and spending plan approved by HUD.
- B. Official prenumbered receipts should be issued at the time of collection. All receipts should be on file for audit inspection and should reflect whether the funds collected were cash or checks.
- C. Duties should be segregated to the extent possible using available resources.
- D. Officials should assign each employee their own cash drawer.
- E. Collections should be deposited intact on a current basis.
- F. The official accounting system should be maintained properly on a current basis to accurately reflect all financial operations of OSHA.
- G. Two authorized signatures should be on all checks issued as required by OSHA policy.
- H. The office should review and reconcile fuel purchases with fuel usage monthly. Department-owned vehicles assigned to OSHA employees should be plainly labeled as property of OSHA.
- I. Credit card purchases should be supported with adequate documentation. Billings should be paid currently to avoid finance charges.
- J. OSHA officials should take steps to ensure compliance with their nepotism policy.
- K. OSHA should maintain accurate accrued leave information for all employees. These records should reflect the hours of the leave at the beginning of the year, amount earned, amount used, and the amount of leave at year-end.

EXHIBITS

Exhibit 1



Exhibit 2



Exhibit 3

