



Issue Date

May 2, 2007

Audit Report Number

2007-AT-1009

TO: Larry Knightner, Director, Office of Public Housing, 4EPH

FROM: *James D. McKay*
James D. McKay
Regional Inspector General for Audit, 4AGA

SUBJECT: The Charleston Housing Authority Needs to Improve Controls over Credit Card Use, Travel, and Petty Cash

HIGHLIGHTS

What We Audited and Why

We reviewed the Housing Authority of the City of Charleston's (Authority) controls for credit card use, travel, petty cash, and procurement based on an anonymous hotline complaint. The objective of the review was to determine whether the Authority incurred necessary, reasonable, and allowable costs for credit card purchases, travel, and petty cash and whether it complied with procurement requirements.

What We Found

The Authority's controls over credit card use, review of certain travel costs, settlement of travel advances, and petty cash were inadequate. The credit card charges inappropriately included at least \$16,526 for its chief executive officer's service in a national housing organization and personal charges. The charges for the housing organization included \$1,732 that was not reimbursed and \$4,137 that

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was reimbursed, but incorrectly credited to the Authority's non-U.S. Department of Housing and Urban Development (HUD)-assisted operations rather than the HUD-assisted program that paid the costs. The audit also showed inadequate review of travel incurred by certain managers, \$1,500 in unsettled travel advances, and \$554 in questioned petty cash disbursements. These conditions occurred because the Authority and its board of commissioners did not establish and/or follow requirements to ensure proper stewardship over Authority funds.

We reviewed the Authority's controls for five contracts but did not detect any issues that justified further review.

What We Recommend

We recommend that the director, Office of Public Housing, require the Authority's board of commissioners to develop and implement controls and/or enforce existing controls to restrict credit card use to charges related to official Authority business; ensure proper review and approval of travel claims submitted by senior managers; ensure proper and timely reconciliation of travel advances; and ensure that petty cash disbursements are reasonable, necessary, and properly supported. We also recommend that the director require the Authority to reimburse the housing organization costs and review all trips associated with the housing organization charged to Authority accounts. The Authority should be required to reimburse its HUD-assisted programs for costs identified for the housing organization that were not reimbursed or reimbursed, but not credited to the HUD-assisted program charged for the expense.

For each recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Please furnish us copies of any correspondence or directives issued because of the audit.

Auditee's Response

We discussed the finding with the Authority and HUD officials during the audit. We provided a copy of the draft report to Authority officials on March 15, 2007, for their comments and discussed the report with the officials at the exit conference on March 29, 2007. The Authority provided its written comments to our draft report on April 5, 2007. The Authority generally agreed with the finding.

The complete text of the Authority's response, along with our evaluation of that response, can be found in appendix B of this report.

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BACKGROUND AND OBJECTIVES

The Housing Authority of the City of Charleston (Authority) was organized in 1935. It is a public, corporate, and political body organized under the laws of the State of South Carolina by the City of Charleston. The purpose of the Authority is to provide adequate housing for qualified low-income individuals in compliance with its annual contributions contracts with the U.S. Department of Housing and Urban Development (HUD).

The mayor and City Council of Charleston appoint the Authority's seven-member board of commissioners (board) to five-year terms. The board elects its own chairperson and designates its own chief executive officer, who currently is Donald J. Cameron. The chief executive officer provides oversight of the Authority, and a chief operating officer is responsible for the Authority's daily operations under the direction of the chief executive officer.

During the period covered by the review, the chief executive officer served in various officer positions in a national housing organization. The Authority's board provided advance approval for travel performed by the chief executive officer, including travel related to his role in the national housing organization.

The objective of the review was to determine whether the Authority incurred necessary, reasonable, and allowable costs for credit card purchases, travel, and petty cash and whether it complied with procurement requirements.

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RESULTS OF AUDIT

Finding 1: The Authority's Controls over Credit Card Use, Travel, and Petty Cash Were Inadequate

The Authority needs to improve controls over credit card use, review of certain travel costs, settlement of travel advances, and petty cash. The credit card charges inappropriately included at least \$16,526 for its chief executive officer's service in a national housing organization (\$9,164) and personal charges (\$7,362). Charges for the housing organization included \$1,732 that was not reimbursed and \$4,137 that was reimbursed but incorrectly credited to the Authority's non-HUD-assisted operations rather than the HUD-assisted program that paid the costs. The review further showed inadequate review of travel incurred by the chief executive officer and chief operation officer, \$1,500 in unsettled travel advances, and \$554 in questioned petty cash disbursements. These conditions occurred because the Authority and its board did not establish and/or follow requirements to ensure proper stewardship over Authority funds.

Inappropriate Use of Credit Cards

The Authority inappropriately allowed its chief executive officer to use Authority-issued credit cards to charge costs related to his service in various officer positions in a national housing organization and for personal charges. From January 2004 through October 2006, the chief executive officer charged more than \$73,605 to Authority credit cards of which we examined charges that totaled \$16,770.

The Authority's annual contributions contract does not allow, unless approved by HUD, the use of contract funds for charges not related to the development and operation of HUD-assisted activities. Office of Management and Budget Circular A-87, attachment A, paragraph C(1a), provides that for costs to be allowable, they must be necessary and reasonable for proper and efficient performance and administration of federal awards. The cost of goods or services for personal use is not allowed (Circular A-87, attachment B, section 20). The Authority's Human Resources Guidelines prohibit conditions such as (1) careless, negligent, or improper use of Authority property or equipment and (2) misuse of Authority funds.

Housing organization costs - The Authority inappropriately charged HUD-assisted programs an undetermined amount for credit card charges by the chief executive officer for costs associated with his positions with a national housing

organization. Until October 2006, the Authority generally debited the charges to expense accounts for its HUD-assisted or non-HUD-assisted activities. The amounts should have been recorded to accounts receivable. As a result, the Authority did not maintain controls needed to ensure full reimbursement by the organization and credits to the appropriate expense accounts. We identified instances in which the Authority credited its non-HUD program for reimbursements of costs charged to HUD-assisted accounts. Authority officials stated that after October 2006, they began recording charges for the housing organization to accounts receivable. The account had no balance at the time of our review.

Authority records did not show and we did not determine the amount of housing organization costs charged to the Authority's HUD-assisted program. We reviewed board minutes from January 1, 2004, through October 31, 2006 and identified 31 trips approved for chief executive officer travel for the professional organization. We could not readily determine whether the trips were related to his position with the organization. The chief executive officer reviewed the list and based on his comments, only 15 of the trips were related in whole or in part to his position with the organization. The trips included destinations such as Jerusalem, Ireland, Scotland, and Yellowstone, Montana.

We examined \$9,164 charged for four of the trips the chief executive officer claimed were related in whole or in part to his position with the housing organization. The results showed that \$1,732 was not reimbursed and \$4,137 was reimbursed, but the Authority credited the payments to its non-HUD program accounts rather than the HUD-assisted accounts charged with the expense. Thus, the Authority's HUD-assisted accounts contained \$5,869 (\$1,732 + \$4,137) in cost for the housing organization that either was not repaid or the repayments were not credited to the proper accounts.

<u>Destination</u>	<u>Charged to HUD-assisted operations</u>	<u>Charged to non-HUD-assisted operations</u>	<u>Chief executive Officer's personal charges</u>	<u>Total trip cost</u>	<u>Amounts not repaid</u>	<u>Repayment applied to the wrong account</u>
Scotland	\$2,722	\$840		\$ 3,562	\$ 605	\$2,127
Ireland	1,183	891		2,074	97	1,183
Jerusalem	880			880	53	827
Yellowstone	<u>2,041</u>		<u>\$607</u>	<u>2,648</u>	<u>977</u>	
Total	<u>\$6,826</u>	<u>\$1,731</u>	<u>\$607</u>	<u>\$9,164</u>	<u>\$1,732</u>	<u>\$4,137</u>

The above conditions indicate a need to determine all trips taken by the chief executive officer related to his position with the housing organization. The Authority should ensure that any housing organization trip costs charged to HUD-assisted accounts were repaid and properly credited back to the program.

Personal Charges - The chief executive officer consistently charged personal costs to the Authority's credit card. From January 2004 through December 2006, the files showed 88 personal charges that totaled \$7,362. The charges included items such as airline tickets, rental car fees, Internet fees, and fees associated with a global positioning system for the chief executive officer's personal vehicle. We did not review all of the charges to determine whether they were reimbursed but during the review, we identified an \$18 personal charge that was not reimbursed.

Audit tests showed that the accounting staff did not include the personal charges in the amounts recorded in the Authority's general ledger. Instead, they only recorded the statement amount net of the personal charges due from the chief executive officer.

Inadequate Controls over Administrators Travel Claims

The Authority did not provide for the review and approval of travel expenses incurred by the chief executive officer and the chief operating officer. This review was needed, according to Office of Management and Budget Circular A-87, to ensure that travel costs were reasonable and allowable. The chief executive officer stated that the board chairman stopped reviewing his travel vouchers for approval in the mid-1980s and no one has reviewed the vouchers since that time. The chief executive officer stated that, effective August 15, 2006, he no longer reviews travel performed by the chief operating officer because the board approves the travel in advance of the trip.

The chief executive officer stated that the review of his and the chief operating officer's travel vouchers was an accounting function and the accountants were

responsible for the reconciliation of the travel claims. This reconciliation did not always take place. For example, we identified one instance in which the lack of such a review resulted in the chief executive officer's not reimbursing \$131 due from a cash advance. This condition went undetected for three months until we questioned the amount, which the chief executive officer then paid.

Travel Advances Not Reconciled in a Timely Manner

We identified several instances in which travel advances were not reconciled in a timely manner and the travelers were allowed to receive additional advances for other travel. The Authority's travel policy states that all travel advances must be reconciled within ten days of the end of the travel. The policy provides that travelers who fail to reconcile travel within this timeframe will be denied future cash advances. The Authority did not properly monitor or enforce this policy. For instance, in January 2007, the general ledger showed \$1,500 for advances for the board chairman and a housing manager for trips that occurred two to 15 months earlier without reconciliation. Contrary to its policy, the Authority allowed the individuals to receive advances for additional travel.

Petty Cash Disbursements Not Properly Supported

The Authority needs to improve controls to ensure that petty cash is used only for costs that are reasonable, necessary, and properly supported. We reviewed \$2,954 paid from petty cash. The amount included \$656 for gasoline purchases that were not supported as necessary. The costs included \$554 charged to the Authority's HUD-assisted program and \$102 charged to Section 8 (including \$40 not supported by purchase receipts). The receipts did not identify who purchased the gasoline.

The purchases occurred when the Authority's prior chief financial officer and a prior accountant, who also served as the interim chief financial officer, controlled petty cash. Charges by both individuals were included in a forensic audit requested by the board to look into questionable expenditures. The \$656 was in addition to the transactions questioned by the forensic audit. The purchases occurred when the prior chief financial officer, prior accountant, and many other Authority staff had access to and used Authority-issued credit cards. We could not determine whether the gasoline purchases represented reasonable and necessary costs.

Office of Management and Budget Circular A-87 provides that costs shall be considered reasonable and allowable only to the extent that the costs do not exceed charges normally allowed for regular operations.

The above conditions occurred because the Authority's board and senior managers did not establish or follow requirements to ensure proper stewardship over Authority funds.

Recommendations

We recommend that the director, Office of Public Housing require the Authority to

- 1A. Issue guidance and/or enforce existing guidance and requirements to prohibit future use of Authority credit cards for charges not related to official Authority business, regardless of whether the charges are reimbursed.
- 1B. Reimburse the low-income public housing reserve account \$5,869 for travel costs associated with the housing organization that were either not reimbursed or reimbursed but not credited back to the HUD-assisted program that paid the expense. The reimbursements should be made from non-HUD-assisted sources.
- 1C. Review all cost associated with the 31 trips approved by the board for chief executive officer travel for the professional organization and reimburse the Authority's low-income public housing reserve account for costs not related to Authority operation that were either not reimbursed or reimbursed but not credited back to the proper accounts. If during the review other trips are identified, the trips should also be assessed and appropriate reimbursement made if warranted by the assessment. The reimbursements should be made from non-HUD-assisted sources.
- 1D. Review and ensure that all personal credit card charges were reimbursed, including the \$18 identified by the audit. The reimbursements should be made from non-HUD-assisted sources.
- 1E. Establish administrative controls to ensure proper review, approval, and reconciliation of all travel by the chief executive officer and the chief operating officer by an appropriate management official or board member.
- 1F. Reconcile and require proper settlement of the \$1,500 in travel advances that were outstanding longer than permitted by the Authority's policy.
- 1G. Monitor and enforce existing procedures that require prompt reconciliation and settlement of travel advances.

- 1H. Document the reasonableness of the \$554 in petty cash disbursements or reimburse the amounts from non-HUD-assisted sources.
- 1I. Develop requirements or enforce existing requirements to ensure that petty cash disbursements are reasonable, necessary, and properly supported.

SCOPE AND METHODOLOGY

To achieve our review objective, we reviewed:

- Applicable laws, regulations, HUD program requirements, the Authority's annual contributions contract with HUD, and the Authority's administrative policies and procedures;
- The Authority's financial records including general ledgers, journal vouchers, cash receipt records, and bank deposits. We also examined support for disbursements that included purchase order logs, contract files, credit card statements, travel expense reports, check vouchers, receipts, and invoices;
- The Authority's fiscal years 2004 and 2005 independent public accountant reports, HUD program monitoring reviews, and a forensic audit obtained at the request of the Authority's board.

We interviewed HUD Office of Public Housing program officials and reviewed HUD program files in Columbia, South Carolina. We interviewed Authority's management and staff, and reviewed Authority records in Charleston, South Carolina. Our review generally covered the period January 1, 2004, through October 31, 2006. We expanded the review period as needed to accomplish our objective. We reviewed \$18,426 of the \$314,533 charged to Authority credit cards and \$15,171 charged for petty cash and other travel. The review included four of 31 trips that the board minutes show approved for trips taken by the chief executive officer related to a national housing organization. We also reviewed five contracts for compliance with procurement requirements. We selected transactions based on concerns raised by the complaint, dollar amounts, and other factors we considered relevant. We conducted the audit from November 2006 through January 2007 at the Authority's office in Charleston, South Carolina, and from our office in Jacksonville, Florida.

We performed the review in accordance with generally accepted government auditing standards.

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INTERNAL CONTROLS

Internal control is an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved:

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

We determined the following internal controls were relevant to our audit objectives:

- Policies and procedures that management has implemented to reasonably assure that resource uses are consistent with laws and regulations.
- Policies and procedures that management has implemented to reasonably assure that resources are safeguarded against waste, loss, and misuse.

We assessed the relevant controls identified above.

A significant weakness exists if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet the organization's objectives.

Significant Weaknesses

Based on our review, the Authority did not have adequate controls over credit card use, review of senior managers' travel, settlement of travel advances, and petty cash. Details associated with these issues are discussed in finding 1.

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS

<u>Recommendation</u>	<u>Ineligible costs</u> ^{1/}	<u>Unsupported costs</u> ^{2/}
1B	\$5,869	
1D	18	
1F		1,500
1H	—	<u>554</u>
Total	<u>\$5,887</u>	<u>\$2,054</u>

^{1/} Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or federal, state, or local polices or regulations.


^{2/} Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments



2000
HOUSING ACHIEVEMENT AWARD
S.C. STATE HOUSING FINANCE
AND DEVELOPMENT AUTHORITY

1999
SECRETARY'S COMMENDATION
U.S. DEPARTMENT OF HOUSING AND
URBAN DEVELOPMENT

1991-98
CERTIFICATE OF EXCELLENCE
IN MANAGEMENT OPERATIONS
U.S. DEPARTMENT OF HOUSING AND
URBAN DEVELOPMENT

1997
FOUNDERS AWARD
HISTORIC CHARLESTON FOUNDATION

1994
SUSTAINED PERFORMANCE AWARD
U.S. DEPARTMENT OF HOUSING AND
URBAN DEVELOPMENT

1989, 1990, 1997
CAROLOPOLIS AWARD
PRESERVATION SOCIETY
OF CHARLESTON

1991
SPECIFIC ACTIVITY AWARD
U.S. DEPARTMENT OF HOUSING AND
URBAN DEVELOPMENT

1991
HONOR AWARD
AMERICAN INSTITUTE OF ARCHITECTS

1988
AWARD FOR
NATIONAL EXCELLENCE
U.S. DEPARTMENT OF HOUSING AND
URBAN DEVELOPMENT

1986
HONOR AWARD
AMERICAN INSTITUTE OF ARCHITECTS

1985
AWARD FOR
DESIGN EXCELLENCE
PRESIDENT RONALD REAGAN

1985
HONOR AWARD
NATIONAL ASSOCIATION OF HOUSING
AND REDEVELOPMENT OFFICIALS

1984
FEDERAL DESIGN
ACHIEVEMENT AWARD
NATIONAL ENDOWMENT
FOR THE ARTS

HOUSING AUTHORITY OF THE CITY OF CHARLESTON

550 MEETING STREET, CHARLESTON, SOUTH CAROLINA 29403
TELEPHONE (843) 720-3970 FAX # (843) 720-3977 TDD (843) 720-3685
Donald J. Cameron, SPHM - Chief Executive Officer
James Heyward, Jr. - Chief Operating Officer

April 5, 2007

Mr. James D. McKay
Regional Inspector General for Audit
U.S. Department of Housing and Urban Development
Richard B. Russell Federal Building
75 Spring Street, SW, Room 330
Atlanta, GA 30303-3388

Re: Audit Survey


Dear Mr. McKay:

I am in receipt of your March 15, 2007 correspondence and audit survey report. On behalf of the Board of Commissioners, staff and residents of the Charleston Housing Authority, we appreciate the time, effort and expense which was incurred on our behalf.

We appreciated the opportunity to meet with OIG staff and review the audit survey's recommendations, and as a result of which, we concur with the decision that a full audit is unnecessary.

We have accepted the audit survey as an opportunity to tighten loose policies and ready our operation for asset based management. All funds identified in the audit have been reimbursed from non-HUD aided accounts, and procedural changes to improve our existing internal controls have been implemented, as indicated in the attachment. Documentary evidence of same shall be provided to HUD.

We have also reviewed the minutes of our monthly public meetings, and have verified that the Board of Commissioners reviewed and authorized all of the travel in question.



♻️ Recycled Paper

Comment 1

**April 5, 2007
James D. McKay
Re: Audit Survey
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We are satisfied that all requested information and documentation of our Chief Executive Officer was provided to the audit team, and our staff and leadership cooperated to the best of their ability to facilitate your team's work.

This Authority is in its seventy-second year of operation. We have been blessed with a nationally recognized and outstanding Chief Executive Officer, a productive staff of 108 men and women, and a dedicated Board of Commissioners. We oversee assistance in many programs, HUD and non-HUD funded, to 3,543 families. We are proud that our Chief Executive Officer is President of the National Association of Housing and Redevelopment Officials. Our city and residents benefit from his leadership and we support his participation.

Thank you for your cooperation and understanding.

With kind regards, I remain

Respectfully,



**Henry M. Williams
Chairman**

**HMW:ss
Attachment (1)**

**C: Mr. Edward Kronsberg, Vice Chairman
Mr. Todd Brown, Commissioner
Mr. Donald J. Cameron, Chief Executive Officer**

April 5, 2007
Re: Audit Survey

Attachment

Comment 1

The following are the procedural changes addressed to date corresponding directly with the recommendations outlined in the audit survey:

- 1A. Procedure revised December 1, 2006 and the Board took additional action, March 27, 2007.**
- 1B. Transaction completed April 3, 2007.**
- 1D. Transaction completed March 26, 2007.**
- 1E. Board action taken March 27, 2007.**
- 1F. Settlement documentation received, March 30, 2007.**
- 1G. Board reaffirmed the existing policy March 27, 2007 and added review procedures for CEO, COO and Board travel.**
- 1H. Transaction completed, April 3, 2007.**
- 1I. Revised procedure implemented, December 14, 2006.**

OIG Evaluation

Comment 1 The Authority expressed no disagreement with the finding and recommendations. The attachment to the Authority's written response shows it has taken actions to address several of the recommendations.