



Issue Date April 28, 2010
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Audit Report Number 2010-AT-1003
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TO: Don Clem, Director, Office of Public Housing, Kentucky State Office, 4IPH  
James Beaudette, Acting Director, Departmental Enforcement Center, CV

//signed//

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

SUBJECT: The Housing Authority of Whitesburg, Kentucky, Mismanaged Its Operations

## **HIGHLIGHTS**

### **What We Audited and Why**

We completed an audit of the Housing Authority of Whitesburg, Kentucky (Authority). We selected the Authority for review based on a request from the U.S. Department of Housing and Urban Development (HUD), Office of Public Housing for the Kentucky State Office. The request stated that the Authority had failed to adequately account for several months of rent collections, had failed to obtain required audits, and was not cooperating with either the HUD office or the Authority's fee accountant.

Our objective was to determine whether the Authority properly accounted for cash receipts and disbursements, and made procurements in accordance with federal requirements.

## What We Found

The Authority badly mismanaged its operations. It did not properly account for rental receipts of about \$134,889. It failed to prepare and file some quarterly tax returns and failed to deposit about \$64,341 in federal withholding taxes with the Internal Revenue Service. It could not provide proper support for numerous disbursements totaling \$264,229, and spent \$29,347 for various unnecessary and/or unreasonable costs. The Authority failed to follow federal procurement regulations when awarding \$446,918 in capital fund program contracts and change orders, and could not provide support for \$275,282 in capital fund drawdowns. As a result, fewer funds were available for the Authority's primary mission, and the Authority's financial condition deteriorated to the extent that it was unable to fully meet its financial obligations. These deficiencies occurred because of ineffective management and lax internal controls, including insufficient oversight by the Authority's board. Section 17 of the Annual Contributions Contract between the Authority and HUD provides that HUD may find a housing authority in substantial default for serious and material violation of any one or more contract covenants.

## What We Recommend

We recommend that HUD declare the Authority in substantial default in accordance with Annual Contributions Contract Section 17. HUD should then require the Authority take action necessary to

- Establish an effective system of internal controls for all aspects of Authority operations;
- Account for \$134,889 in tenant rent receipts, provide support for \$264,229 in disbursements and \$275,282 in drawdowns;
- Provide support that \$446,918 in contracts were fairly and openly competed;
- File missing tax returns and make all required tax deposits; and
- Implement requested actions in the existing Memorandum of Agreement between HUD and the Authority.

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

## **Auditee's Response**

We provided the draft report to the Authority on March 29, 2010, and discussed the findings with Authority officials at an exit conference on April 1, 2010. The Authority provided its written comments on April 1, 2010, immediately following the exit conference. It agreed with the report and committed to work with HUD to clear the findings and recommendations.

The complete text of the auditee's response can be found in appendix B of this report.

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## **BACKGROUND AND OBJECTIVES**

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The Housing Authority of Whitesburg (Authority) was chartered on February 7, 1961, in the Commonwealth of Kentucky. The Authority is governed by a five member board of commissioners and has a mission to provide decent, safe, and sanitary housing to eligible residents. In 2008 the Authority received \$259,239 in federal operating subsidy to operate 104 units of public housing. The Authority also received total capital funding of \$1,114,667 for fiscal years 2002 through 2008 to help correct physical and management deficiencies and to keep units in the public housing stock safe and desirable places to live.

The Authority came under increased HUD review in 2008. On January 1, 2008, the Authority received a Financial Assessment score of zero and HUD declared it a troubled agency on February 22, 2008. HUD's Kentucky State Office issued a management review report on April 22, 2008, containing seven findings regarding deficiencies with cash receipts, disbursements, and financial reporting. Subsequently, HUD entered into a Memorandum of Agreement with the Authority in order to correct deficiencies in board oversight, cash management, check writing authorization, financial reporting, and procurement procedures.

The executive director resigned on October 20, 2009, and the board of commissioners contracted with Winterwood, Incorporated, a private property management company, to manage day-to-day operations.

We audited the Authority based on a request from the HUD Office of Public Housing for the Kentucky State Office. Our objective was to determine whether the Authority properly accounted for cash receipts and disbursements and made procurements in accordance with federal requirements.

The issues identified in our report deal with administrative and internal control activities that we believe must be brought to the attention of HUD officials. Other matters regarding the Authority's management may remain of interest to our office as well as other federal agencies. Release of this report does not immunize any individual or entity from future civil, criminal, or administrative liability or claim resulting from action by HUD and/or other authorities.

## RESULTS OF AUDIT

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### Finding 1: The Authority Mismanaged Its Operations

The Authority badly mismanaged its operations. The Authority did not properly account for rental receipts of about \$134,889. It failed to prepare and file some quarterly tax returns and failed to deposit about \$64,341 in federal withholding taxes with the Internal Revenue Service. It could not provide proper support for numerous disbursements totaling \$264,229, and spent \$29,347 for various unnecessary and/or unreasonable costs. The Authority failed to follow federal procurement regulations when awarding \$446,918 in capital fund program contracts and change orders, and could not provide support for \$275,282 in capital fund drawdowns. As a result, fewer funds were available for the Authority's primary mission, and the Authority's financial condition deteriorated to the extent that it was unable to fully meet its financial obligations. These deficiencies occurred because of ineffective management and lax internal controls, including insufficient oversight by the Authority's board.

Section 17 of the Annual Contributions Contract between the Authority and HUD provides that HUD may find a housing authority in substantial default for serious and material violation of any one or more contract covenants.

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#### **Rent Collections Were Not Fully Deposited**

The Authority failed to properly account for about \$134,889 in tenant collections received between April 2006 and September 2008. This failure placed the Authority in violation of Annual Contributions Contract Section 9 (Depository Agreement and General Fund), which requires all funds received by the Authority be deposited into the general fund in accordance with the general depository agreement. Also, regulations at 24 CFR [*Code of Federal Regulations*] Part 85.20 required the Authority to maintain effective control and accountability of cash and other assets to assure they were used solely for authorized purposes.

For fourteen months of the period, we compared funds received by the Authority according to its cash receipt records to bank deposit records and found that \$90,315 had been collected but not deposited. Cash receipt records and other accounting records for the remaining sixteen months of the period were either missing or incomplete. For these months we estimated an additional deposit shortfall of \$44,574. The table below shows the rental collections and deposits.

Month(s)	Collected	Deposited	Difference	Over/ <u>under</u> Deposit
<b>Cash Receipt Records</b>				
April – August 2007 October 2007 - June 2008	\$283,196	\$192,881	(\$90,315)	
<b>Total 14 Months</b>				<b>(\$90,315)</b>
<b>General Ledgers/ Rental Registers</b>				
April 2006	\$15,217	\$16,900	\$1,683	
May 2006	\$21,933	\$22,208	\$275	
June 2006	\$23,147	\$21,203	(\$1,944)	
July 2006	\$23,330	\$20,871	(\$2,459)	
August 2006	\$21,769	\$15,289	(\$6,480)	
September 2006	\$19,307	\$14,861	(\$4,446)	
October 2006	\$24,231	\$6,973	(\$17,258)	
November 2006	\$22,426	\$26,136	\$3,710	
December 2006	\$17,629	\$17,834	\$205	
January 2007	\$20,546	\$22,583	\$2,037	
February 2007	\$17,869	\$24,403	\$6,534	
March 2007	\$25,670	\$16,565	(\$9,105)	
September 2007	\$21,237	\$11,619	(\$9,618)	
July 2008	\$31,129	\$24,386	(\$6,743)	
August 2008	\$25,858	\$20,742	(\$5,116)	
September 2008	\$21,864	\$26,015	\$4,151	
<b>Total 16 Months</b>				<b>(\$44,574)</b>
<b>Total Under Deposit April 2006 – September 2008</b>				<b>(\$134,889)</b>

The Authority's executive director and staff failed to provide us a reasonable explanation for either the disposition of these funds or why the records were missing or incomplete.

### Withholding Taxes Were Not Properly Filed or Paid

The Authority failed to prepare and file some quarterly employer tax returns, and failed to deposit about \$64,341 of withholding taxes with the Internal Revenue

Service. Section 14 (Employer Requirements) of the Annual Contributions Contract required the Authority to comply with all federal laws applicable to employee benefits. The Internal Revenue Service requires employers to quarterly prepare and file Form 941 and deposit federal taxes withheld from employee pay, plus the employer's share for Social Security and Medicare, into an authorized depository for federal taxes. For the period April 2006 through September 2008, we confirmed with the Internal Revenue Service that the Authority filed only one of the ten required quarterly employer tax returns, and failed to deposit about \$64,341 for federal taxes. Our review showed that the Authority should have deposited \$88,624 during the period, but actually deposited only \$24,283.

The executive director provided us documentation for additional federal tax payments and quarterly returns, but our review and the documentation provided by the Internal Revenue Service did not support her claims. We found that the Authority had documentation showing that three of the ten required Form 941s had been prepared; however, the Internal Revenue Service reported receiving just one Form 941.

<b>Tax Period</b>	<b>Authority's Records - Form 941</b>	<b>IRS Report - Form 941</b>
2006 2nd Qtr	Completed Form	Received
2006 3rd Qtr	Worksheet Only	None Received
2006 4th Qtr	Blank Form	None Received
2007 1st Qtr	Completed Form	None Received
2007 2nd Qtr	No Form Provided	None Received
2007 3rd Qtr	No Form Provided	None Received
2007 4th Qtr	Completed Form	None Received
2008 1st Qtr	No Form Provided	None Received
2008 2nd Qtr	No Form Provided	None Received
2008 3rd Qtr	No Form Provided	None Received

We also found the Authority's claimed tax deposits for the three Form 941s were only partially supported. The Authority reported that it made nine federal tax deposits totaling \$24,683.35, but the Internal Revenue Service reported it received only two totaling \$5,388.35. Our review of Authority disbursements found support for only the two deposits.



<b>Tax Period</b>	<b>Authority Form 941- Deposits Made</b>	<b>IRS Report - Deposit Received</b>	<b>OIG Review of Authority Disbursements</b>
2006 2nd Qtr	\$2,676.12	\$2,676.12	\$2,676.12
2006 2nd Qtr	\$4,105.66	Not Received	No Matching Disbursement Found
2006 2nd Qtr	\$2,712.23	\$2,712.23	\$2,712.23
2007 1st Qtr	\$2,644.98	Not Received	No Matching Disbursement Found
2007 1st Qtr	\$3,658.39	Not Received	No Matching Disbursement Found
2007 1st Qtr	\$2,507.76	Not Received	No Matching Disbursement Found
2007 4th Qtr	\$2,128.03	Not Received	No Matching Disbursement Found
2007 4th Qtr	\$2,078.19	Not Received	No Matching Disbursement Found
2007 4th Qtr	\$2,171.99	Not Received	No Matching Disbursement Found

The Authority must file the missing tax returns and pay the taxes. The Internal Revenue Service may also subject the Authority to substantial penalties and interest, and Authority employees for whom the tax deposits should have been made may encounter difficulties with their tax filings.

**Disbursements Were Unsupported or Unnecessary**

We reviewed 1,609 checks valued at \$1,458,343 and 49 bank debits valued at \$8,281. The Authority could not provide supporting documentation for \$264,229 in disbursements, and disbursed \$27,097 for unreasonable costs and \$2,250 for unnecessary costs.

The Authority did not follow regulations (24 CFR 85.20) that required it to maintain accounting records supported by source documentation. Also, it did not comply with the cost principles in Office of Management and Budget Circular A-87 that required costs to be necessary and reasonable for the proper and efficient performance and administration of federal awards. Section 5 (Covenant to Develop and Operate) of the Annual Contributions Contract required the Authority to operate its projects in compliance with HUD's regulations.

The Authority did not have documents to support \$166,444 in disbursements for labor, goods, services, and security deposit refunds as required by 24 CFR 85.20. It was unable to provide supporting invoices, receipts, timecards and contracts for \$158,163 disbursed by checks and \$8,281 through bank debits. In addition, it could not support \$97,785 paid for contract labor to perform administrative and maintenance work. It was unable to provide contracts specifying the tasks and terms for the contract employees. We also found that the Authority made payments based on unsigned, non-descriptive, and sometimes blank timecards and timesheets. This was contrary to the Authority's requirement that contract labor employees maintain, and the executive director or maintenance supervisor sign, work logs detailing the work performed.

The Authority paid \$29,347 for unnecessary and unreasonable costs that were not in accordance with Office of Management and Budget cost principles or the Annual Contributions Contract. We found unnecessary costs of \$2,250 for cable television, food and florists. We also question the cost reasonableness for cell phones (\$10,454), gasoline (\$10,355), and office supplies (\$6,288). We are not questioning the necessity of such expenses; however, we question the reasonableness of these amounts to run a 104 unit housing authority with only three administrative and two maintenance personnel.

### **Procurements Were Not Properly Competed or Documented**

The Authority did not comply with regulations (24 CFR 85.36) that required procurements be conducted in a manner providing full and open competition, and that records be maintained to document the significant history of each procurement. Section 5 (Covenant to Develop and Operate) of the Annual Contributions Contract, in part, requires the Authority to operate its projects in compliance with HUD's regulations. It also did not follow HUD's procurement handbook 7460.8 that states change orders, such as to increase the number of items being purchased or other types of new work, are not to be considered within the scope of the existing contract.

We evaluated 16 procurements for the 2002 through 2007 capital fund program years and found that 14 did not comply with federal requirements. For example, the Authority's documentation did not support the awarding of \$12,790 in architectural and consulting services contracts. We reviewed the bids and the Authority's evaluations and question whether these were fair and open competitions. Bid documents did not support the scores on the evaluation sheets, and for one contract the evaluation sheet was blank. For other contracts, the

Authority did not provide required documentation detailing the expenditure of \$39,323 for computer, architectural, and consulting services.

The Authority issued eight out of scope change orders for additional work to a plumbing and stair rehabilitation contract. The Authority and the contractor agreed to a scope decrease bringing the bid within the cost estimate, but subsequently the Authority added back the deleted work plus additional changes which increased the original contract by \$345,929, from \$161,800 to \$507,729. Without documentation supporting fair and open competition, the Authority cannot show \$446,918 paid for contracts was fair and reasonable.

### **Capital Fund Reimbursements Were Not Supported**

Regulations at 24 CFR [*Code of Federal Regulations*] 85.20 (b)(2)(3) require the Authority to maintain (1) accounting records that adequately identify the source and application of funds provided and must contain information pertaining to liabilities and expenditures and (2) effective control and accountability of cash and other assets to ensure that they are used solely for authorized purposes.

The Authority could not support some HUD reimbursement requests for capital fund program costs. We reviewed reimbursement requests totaling \$837,478 and found that drawdowns of \$275,282 could not be traced to specific expenditures. We attempted to trace the reimbursement requests to vendor payments, but the Authority did not have documentation for some vendors. The \$275,282 includes a check (check number 17968) for \$7,898 the Authority used to support two reimbursements, and a check (check number 18223) for \$4,000 that was never processed by the Authority's bank. Consequently, the Authority could not identify the expenses for which the \$275,282 was used.

### **Complete and Accurate Accounting Records Were Not Maintained**

Because of its failure to maintain complete and accurate accounting records, the Authority violated Annual Contributions Contract Section 15 (Books of Account, Records, and Government Access). As described above, many of the documents supporting rental receipts, disbursements, and procurements were incomplete or missing. In addition, the Authority's tenant security deposit liability was unclear because the records had not been kept current. As of the last independent audit in March 2006, the tenant security deposit liability was reported as \$14,388. As of

September 2008, tenant security deposits are shown as only \$4,052 with numerous current tenants showing zero balances. In addition, the Authority did not maintain a separate bank account for security deposits as required by Kentucky law.

Despite our numerous requests, the Authority did not provide the missing records. Due to the lack of records, the fee accountant has been unable to maintain the general ledger or prepare financial statements since June 2007. In addition, the Authority also has not obtained an annual audit since fiscal year end March 31, 2006. Fiscal years 2007 and 2008 were not auditable due to missing/incomplete records.

### **Ineffective Management and Internal Controls**

The deficiencies detailed in this report occurred because of ineffective management and lax internal controls, including insufficient oversight by the Authority's board. The Authority did not have policies and procedures that assigned responsibilities and assured clear segregation of duties over the collection, deposit, and reconciliation of cash receipts. Authority personnel described a process of weak controls such as confusion over who was responsible for reconciling rents collected to bank deposits. The Authority often did not make daily deposits; for fourteen months of our review period there were three or fewer deposits per month. Although the Authority should have collected and deposited an average of \$21,212 each month, some month's deposits totaled less than half that amount.

Authority staff stored cash and checks not yet deposited in unsecure containers and did not reconcile the daily on hand balances. One employee stored funds not yet deposited in a cubby hole in an unlocked vault. The cubby hole had a pad lock but the key was kept in an unlocked drawer. Another employee stored her funds in a locked drawer, but the key was maintained by other Authority staff. We also found that the Authority often did not follow internal control procedures in place. The accounting system required passwords to control access to the financial records; however, Authority staff reported they shared their passwords with contract labor employees.

In addition to the executive director, there were two other administrative personnel to operate only 104 housing units. Also, the Authority spent \$18,730 during the audit period for contract labor employees to provide extra administrative help. Still, the Authority did not maintain adequate records for rent collections, cash disbursements, and other functions.

The board of commissioners did not exercise sufficient oversight of the Authority's management. One board member said the executive director provided a financial report to the board showing total rent collections and checks written, but the board did not compare the amount of expected rent to that deposited. Another board member said the financial reports prepared by the executive director were not useful because they did not disclose the Authority's indebtedness. The board chairman admitted that he did not always review the supporting documents when signing checks. Although the board required competitive procurements, it allowed the executive director and consultants to make award decisions without apparent oversight. For one contract, a consultant informed the board a contract was extended to preclude the Authority from having to perform a new competitive procurement. If the board had provided better oversight, the Authority's history of mistakes, missing supporting documents, and questionable decisions could have been addressed and corrected.

### **Management Depleted Cash Reserves**

Management depleted the Authority's cash reserves since the last independent audit in March 2006. At that time the Authority had \$11,032 in the general fund and two certificates of deposit valued at \$40,317. Included in those amounts was approximately \$15,000 the Authority was holding in trust for the tenants' security deposits.

When the Executive Director resigned on October 20, 2009, the general fund had a negative balance of \$11,210 and only \$8,946 remained on one certificate of deposit. Management had steadily depleted the certificates of deposits as a source of funds. For example, during August 2007, at a time when the general fund was overdrawn by \$11,345, management cashed in a certificate of deposit valued at \$20,166 and deposited the proceeds into the general fund. This was done without the board's approval or knowledge, and the executive director's subsequent financial reports to the board incorrectly showed the certificate of deposit still existed.

Following the executive director's resignation, the new management redeemed the last \$8,946 from the remaining certificate of deposit on October 22, 2009, in order to partially restore the general fund. After this deposit the general fund had a balance of only \$6,499 and no immediate source of cash to satisfy outstanding obligations. The Authority owed at least \$205,969 to various parties including the City of Whitesburg, the internal revenue service, and various vendors including the local power company. In addition, it needed to restore approximately \$15,000 in tenant security deposits which was supposed to have been held in trust but was

instead used for unknown purposes. The Authority had been making only partial payments for some obligations, including utilities, and the bank statements showed numerous overdraft charges. The Authority's records were in such disarray that the new management had to contact vendors in order to determine some amounts owed.

## **Conclusion**

The Authority mismanaged its operations in violation of multiple Annual Contributions Contract sections. It did not properly account for cash collected from tenants, file and pay federal taxes, support payments it made, or justify contracts it awarded. Its records were missing, inaccurate, or in disarray, and it had not obtained required annual audits. These deficiencies occurred due to ineffective management and lax internal controls, including insufficient oversight by the Authority's board. We believe these serious and material Annual Contributions Contract violations support strong action to protect HUD's interests.

## **Recommendations**

We recommend that the Director, Office of Public Housing, Kentucky State Office

- 1A. Declare the Authority to be in substantial default of its Annual Contributions Contract in accordance with Section 17 and obtain appropriate management.
- 1B. Take appropriate action to obtain effective board oversight of the Authority.
- 1C. Require the Authority to establish an effective system of internal controls for all aspects of its operations.
- 1D. Require the Authority to account for \$134,889 in tenant rent receipts or repay any unsupported amounts to its public housing operating program from nonfederal funds.
- 1E. Require the Authority to file missing tax returns and make all required tax deposits.

- 1F. Require the Authority to provide support for \$264,229 in disbursements or repay any unsupported costs to its public housing operating and capital improvement program from nonfederal funds.
- 1G. Require the Authority to reimburse its public housing program \$2,250 for ineligible costs using non-federal funds.
- 1H. Require the Authority to support the \$27,097 in unreasonable costs or reimburse its public housing and capital improvement program from nonfederal funds.
- 1I. Require the Authority to provide support that \$446,918 in contracts were fairly and openly competed or reimburse its public housing and capital improvement program from nonfederal funds.
- 1J. Require the Authority to provide support for the \$275,282 in capital fund drawdowns or reimburse its capital improvement program from nonfederal funds.
- 1K. Require the Authority to bring the general ledger current and accurate, prepare all financial statements and obtain independent audits.
- 1L. Require the Authority to implement required actions in the existing Memorandum of Agreement between HUD and the Authority. This includes measures to establish effective board oversight.

We also recommend that the Acting Director of the Departmental Enforcement Center in coordination with the Director, Office of Public Housing

- 1M. Take appropriate administrative action against the Authority officials responsible for badly mismanaging its operations.



## SCOPE AND METHODOLOGY

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Our audit objective was to determine whether the Authority properly accounted for cash receipts and disbursements, and made procurements in accordance with federal requirements. To accomplish our objective, we

- Reviewed relevant HUD regulations and guidance;
- Interviewed HUD, Authority, fee accountant, and bank officials;
- Reviewed a HUD management review, prior independent public accounting audit report, financial statements from the fee accountant, bank documents, Internal Revenue Service tax report, and correspondence;
- Reviewed relevant Authority policies and procedures, rent collection records and documents, accounting records like checks and invoices, and capital fund program contracts.

For reviewing cash accountability, we compared funds collected by the Authority to funds deposited into their bank account for the audit period of April 2006 through September 2008. We found that the Authority could provide to us only their collection receipts for April through August 2007 and October 2007 through June 2008. Therefore we performed the comparison in two parts: the first was of the actual rent, deposit and other charges the Authority collected according to their receipts; the other was an estimation of rents collected according to the Authority's rental registers and general ledgers. The Authority did not have collection receipts, financial statements or a rental register for September 2007; therefore we estimated the collected amount based on the number of tenants and rental rates.

We reviewed the Authority's disbursements and noted that it was not making periodic federal tax deposits. We sent a request signed by the Authority to the Internal Revenue Service for the Authority's tax records. The Internal Revenue Service responded with a report on Authority tax returns received and federal taxes deposited. We then reviewed the Authority's payrolls from April 1, 2006, through September 30, 2008, in order to estimate the Authority's tax liability. We reviewed four Forms 941 provided by the Authority to show additional tax deposits. We compared the Forms 941 to the Internal Revenue Service report and our review of the Authority's disbursements to determine if the claimed deposits had been made.

For our overall review of disbursements, we reviewed 1,609 checks valued at \$1,458,343 (including capital improvement funds) and 49 bank debits valued at \$8,281 for April 2006 through November 2008. We identified 266 checks valued at \$97,785 written to 38 contract labor employees. We verbally asked the Authority's executive director several times for the contracts signed by the contract labor employees and again in writing, but she never provided them. We compared contract labor employee timecards and timesheets to the Authority's payment requirements. We reviewed the disbursements and developed a list of disbursements



for which we could not find adequate support in the Authority's files. We provided this to the Authority so that it could provide us with the needed documentation. After reviewing the additional documents, we determined there were still unsupported costs. While reviewing the 1,609 checks for support we also noted disbursements that were either for unreasonable amounts or not necessary for operating a housing authority.

We evaluated 16 procurements for the 2002 through 2007 capital fund programs for compliance with federal procurement regulations and reviewed Line of Credit Control System draws totaling \$837,478. We compared the reimbursed amounts to vendor payments by check or bank debit, and to payments cleared through the Authority's bank.

We determined that we did not need to test data reliability because computer processed data was not an important or integral part of this audit, and that the Authority's data reliability was not crucial to accomplishing our audit objectives. For reviewing rental collections we primarily used the cash receipt documents prepared by Authority staff and provided to tenants. Some were computer processed summaries of these cash receipt documents, but we determined these were supported by the individual cash receipts. We also used general ledgers prepared by the fee accountant and to a limited extent computer processed rental registers. For reviewing disbursements we used Authority check stubs and bank statements to identify any debits. We used the contract documents provided by the Authority for our review of procurements.

The audit generally covered the period April 2006 through September 2008. We extended the period as needed to accomplish our objective. We conducted our fieldwork from August 2008 through January 2009 at the Authority's office located in Whitesburg, Kentucky.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

# INTERNAL CONTROLS

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

- Program operations,
- Relevance and reliability of information,
- Compliance with applicable laws and regulations.
- Safeguarding of assets and resources.

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

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## Relevant Internal Controls

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

- Controls over the safeguarding of resources against waste, loss, and misuse
- Controls over compliance with laws and regulations
- Controls over reliability of data

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, we believe the following is a significant weakness:

The Authority's internal controls over operations were inadequate. (See finding 1)

## APPENDIXES

### Appendix A

#### SCHEDULE OF QUESTIONED COSTS

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<u>Recommendation number</u>	<u>Ineligible 1/</u>	<u>Unsupported 2/</u>
1D		\$134,889
1F		264,229
1G	\$2,250	
1H		27,097
1I		446,918
1J		<u>275,282</u>
Total	<u>\$2,250</u>	<u>\$1,148,415</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 policies 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

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#### HOUSING AUTHORITY OF WHITESBURG

Telephone  
(606) 633-7144  
(voice)

4 BANKS STREET #101  
WHITESBURG, KENTUCKY 41858

TDD  
1-800-247-2510  
(for hearing impaired)

April 1, 2010

Mr. James D. McKay  
Regional Inspector General for Audit  
U. S. Department of Housing and Urban Development  
Office of Inspector General for Audit, Region 4  
Richard B. Russell Federal Building  
75 Spring Street, SW, Room 330  
Atlanta, GA 30303-3388

Dear Mr. McKay:

Regarding the recently received draft of the audit conducted by the Office of Inspector General, the Board of Directions of The Housing Authority of Whitesburg agrees that operational mismanagement has occurred. We also concur that proper expense documentation and rental receipts were missing at the time of the audit.

The Board will make every attempt to locate and produce all missing documents and submit to HUD in a timely manner. We are committed to working with HUD to clear all findings and recommendations and appreciate the assistance that both the OIG and the local HUD office have provided during this investigation.

Respectfully,



Jack Burkich  
Board Chairperson