



Evanston Housing Authority, Evanston, WY

Public and Indian Housing Programs



To: Janice Rodriguez, Director, Office of Public and Indian Housing, 8APH

From: //signed//
Ronald J. Hosking, Regional Inspector General for Audit, 8AGA

Subject: The Evanston Housing Authority, Evanston, WY, Misspent HUD Funds and Mismanaged Its Program Income

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of the Evanston Housing Authority's public and Indian housing program.

HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation without a management decision, please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the audit.

The Inspector General Act, Title 5 United States Code, section 8M, requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at <http://www.hudoig.gov>.

If you have any questions or comments about this report, please do not hesitate to call me at 913-551-5870.



Audit Report Number: 2016-DE-1002

Date: September 13, 2016

The Evanston Housing Authority, Evanston, WY, Misspent HUD Funds and Mismanaged Its Program Income

Highlights

What We Audited and Why

We audited the Evanston Housing Authority's use of its public and Indian housing program funds in response to a hotline complaint. The complaint alleged that the Authority used its purchase cards and laundry machine program income to pay for personal expenses, such as remodeling of staff members' personal residences, gas for nonbusiness miles, and other personal goods and services. Our objective was to determine whether the Authority spent its U.S. Department of Housing and Urban Development (HUD) capital and operating funds in accordance with Federal rules and regulations and properly accounted for its program income.

What We Found

The Authority misspent more than \$16,000 of its HUD funds and could not support more than \$94,000 in additional funds. It paid for the remodeling of staff residences, fuel for personal miles, meals at restaurants, and other personal costs. In addition, it did not deposit laundry machine revenue into its bank account or keep records showing how much it earned or how it spent the money.

What We Recommend

We recommend that the Director of HUD's Denver Office of Public and Indian Housing require the Authority to (1) obtain relevant training on HUD programs for all of its employees, management, members of the board of commissioners, and the executive director; (2) develop and implement detailed policies and procedures for its financial management, to include record retention, handling of petty cash, and issuance of checks; (3) develop and implement detailed policies and procedures for the use of its purchase and gas cards; (4) repay HUD for \$16,078 in ineligible purchases using non-Federal funds; (5) provide support for \$94,685 in purchases, showing that the funds were used for eligible HUD purposes or repay HUD using non-Federal funds; (6) deposit remaining petty cash into the Authority's bank account and take steps to safeguard the missing Home Depot card; (7) Identify all sources of program income and develop and implement detailed policies and procedures to address collections, tracking, and use of its program income; and (8) determine or estimate how much program income was not deposited into its accounts and reimburse its Federal accounts using non-Federal funds.

Table of Contents

Background and Objective.....	3
Results of Audit	5
Finding 1: The Authority Misspent Some of Its HUD Funds	5
Finding 2: The Authority Mismanaged Its Program Income.....	11
Scope and Methodology.....	13
Internal Controls.....	14
Appendixes.....	15
A. Schedule of Questioned Costs	15
B. Auditee Comments and OIG’s Evaluation.....	16

Background and Objective

The Evanston Housing Authority administers low-rent public housing, a Public Housing Capital Fund improvement program, and a Housing Choice Voucher program in Evanston, a rural town in western Wyoming. The Authority is governed by a five-member board of commissioners appointed by the mayor of Evanston. The board employed the executive director, who managed the Authority’s operations; a deputy director; a maintenance supervisor; and four additional staff members.



The Authority administers 80 public housing units and 86 housing choice vouchers. Public housing funding is provided based on rents paid by the tenants and Public Housing Operating Fund payments received from the U.S. Department of Housing and Urban Development (HUD). Under the Capital Fund program, HUD provides funding for the modernization and improvement of the low-rent program. These resources allow the Authority to provide capital improvements for the dwelling structures and assist in their operations. Table 1 shows Authority funding for our audit period.

Table 1

Purchase type	2013	2014	2015
Operating subsidies	\$155,984	\$164,986	\$164,986
Capital Fund program	\$103,591	\$104,796	\$ 63,337
Totals	\$259,575	\$269,782	\$228,323

HUD regulations allow full flexibility for small public housing agencies. Public housing agencies that operate fewer than 250 units, are not designated as troubled, and operate and

maintain their public housing in a safe, clean, and healthy condition may use any amounts for eligible activities, regardless of whether the funding was provided from Operating Fund or Capital Fund payments.

We received a HUD Office of Inspector General (OIG) hotline complaint from a private citizen in October 2015 regarding the Authority's use of its HUD program funds. The complaint alleged that the Authority used its employee purchase cards for personal goods and services, used its gas charge cards for personal miles, and spent its laundry machine revenue on personal goods and services.

Our objective was to determine whether the Authority spent its HUD capital and operating funds in accordance with Federal rules and regulations and properly accounted for its program income.

Results of Audit

Finding 1: The Authority Misspent Some HUD Funds and Could not Support its Use of Additional funds

The Authority misspent some of its HUD funds and could not support the use of additional funds. This condition occurred because the board of commissioners and the former executive director did not provide effective oversight or management of the Authority’s operations. As a result, more than \$16,000 in ineligible expenditures were not available to benefit the Authority’s residents and more than \$94,000 in unsupported expenditures might not have been available to benefit the Authority’s residents.

The Authority Misspent Its HUD Funds and Could not Support its Use of Additional funds

The Authority used its credit cards and business checks to pay for more than \$16,000 in personal goods and services and could not support more than \$94,000 in additional expenses. Table 2 shows the amounts of ineligible and unsupported costs paid by payment type.

Table 2

Purchase type	Ineligible	Unsupported
US Bank credit card	\$10,787	\$76,389
Business checks	4,500	6,298
Home Depot credit card	1,791	9,740
Cardwell gas charge card	0	2,258
Total	16,078	94,685

The Authority Paid for Personal Goods and Services

The Authority paid more than \$16,000 for personal goods, meals at restaurants, personal clothing, and improper payments to employees.

According to Federal regulations, costs charged to a Federal program are allowable only if the costs are necessary, reasonable, and allocable to the program. Regulations at 2 CFR (Code of Federal Regulations) Part 200.445 state that the costs of goods or services for personal use of the governmental unit’s employees are unallowable, regardless of whether the cost is reported as taxable income to the employees.

Home Depot Card

Former Authority staff members used the Authority-provided Home Depot credit card to buy patio furniture, patio stone, paver sand, a ski rack, a bike rack, and a Home Depot gift card. Ineligible costs from these purchases totaled more than \$1,000. Former staff members said these items were not purchased for the tenants and the gift card was used for yearend employee bonuses. However, other employees at the Authority stated that they did not recall receiving Home Depot gift cards as a prior-year bonus.

Business Checking Account

The Authority used a business check to make an ineligible payment of \$3,500 to a former employee on November 20, 2014. The check was endorsed and deposited the following day. The former director did not recall reviewing or signing the check and could not provide support showing that the cost was necessary, reasonable, and allocable to a Federal program. The former director said this check should not have been written or deposited.



The Authority used another business check to make a payment of \$1,000 to cash on December 18, 2014. The former director signed the check, endorsed it on the back, and deposited it at a local Wells Fargo bank. The former director believed the check was for employee Christmas bonuses but could not recall and could not provide supporting documentation. In addition, other Authority employees said they received no monetary bonuses at yearend.

US Bank Purchase Card

Former Authority employees used the Authority-provided US Bank credit card to purchase a personal use bicycle, golf items, gas for personal miles, food for personal use, personal clothing, arts and crafts goods, and meals at restaurants. Ineligible costs from these purchases totaled more than \$10,000. The employees said these were personal purchases and they intended to repay the Authority.

Former Authority employees said they also used their Authority-provided US Bank purchase card to pay for staff meetings held at restaurants. The Authority held meetings to discuss business and improve morale.

Regulations at 2 CFR Part 200.438 do not allow the costs of entertainment, including amusement, diversion, and social activities and any associated costs without prior HUD approval.

The Authority Could Not Support Its Use of Additional Funds

The Authority could not support more than \$90,000 in expenses paid from its purchase cards and business checks.

Home Depot Card Payments

A former Authority employee used the Authority-provided Home Depot credit card to buy gardening items, outdoor lighting, bathroom remodel items, cleaning items, and other miscellaneous goods. The Authority did not have documentation to show that it used these items for eligible purposes. Unsupported costs from these purchases totaled more than \$9,000.

Business Checking Account

The Authority used a business check to make an unsupported payment of more than \$6,000 for fencing supplies in 2010. The former director said he used Authority maintenance staff to install fencing at his personal residence in 2010. Another senior staff person said Authority materials were used for this job. However, the Authority did not have sufficient records to show whether these fencing supplies were used for Authority projects or the fence at the former director's personal residence.

US Bank Credit Card Charges

The Authority could not support more than \$76,000 in US Bank credit card charges. The Authority did not maintain complete credit card statements, receipts, or invoices. As a result, the Authority could not verify all purchases made with the US Bank credit card were eligible.

Cardwell Gas Card Payments

Former Authority employees used the Authority-provided Cardwell gas charge card to purchase more than \$2,000 in unsupported fuel costs. The Authority did not initially keep Cardwell gas card statements or receipts on file. These documents were later obtained by the board of commissioners. We found a number of fuel fill-ups made by the same individual on the same day or charges made in cities where the Authority had no official business.

The Former Director and the Board of Commissioners Did Not Provide Effective Oversight or Management

The former director and the board of commissioners did not provide effective oversight or management of the Authority's operations. The former director did not implement controls, was not aware of HUD requirements for meal purchases, and did not inform the board of the Authority's unwritten policies. In addition, the board of commissioners did not effectively oversee the former director.

The Former Director Did Not Implement Effective Controls

The former director did not implement effective written policies and did not implement controls over the Authority's record retention, purchase cards, petty cash, or vehicle use.

The Authority's written policies were generic and unspecific regarding HUD programs and the Authority's operations. The former director stated that he found generic public housing agency policies on the Internet and adopted them as the Authority's policies after making minor

changes. These policies did not contain guidance for document retention, purchase card use, purchase card member agreements, eligible purchase card expenditures, petty cash, Authority vehicle use, or eligible gas card expenditures. In addition, a former Authority employee said employees were not aware that the Authority had established written policies.

The former director did not implement controls over record retention. Authority staff implemented an unwritten policy to shred records supporting expenditures made with the US Bank credit card, Home Depot credit card, and Cardwell gas charge card. The

Authority staff implemented an unwritten policy to shred records.

Authority did not scan, copy, or share all of these records with its fee accountant before shredding them. The former

director said he had noticed Authority staff shredding records about 2 years earlier. He said he did not like it but did not take action to stop it. A senior Authority employee said the Authority shredded its records to save office space.

The former director did not implement controls over Authority purchase cards. Former Authority employees implemented an unwritten policy of using the Authority-provided US Bank and Home Depot credit cards to make personal purchases. Former employees said they sometimes used the cards to take advantage of the Authority's corporate discount.

The former director did not implement controls over petty cash. A former Authority employee said employees would reimburse the Authority with cash after using the Authority purchase card for personal use. The employee stored the cash in a bag in a locked file cabinet in her office. The bag contained more than \$2,000 in cash, coins, and receipts. The Authority could not provide records showing a history of cash deposited back into the Authority's operating accounts or records showing when cash was added to the bag.



The former director said the Authority kept no petty cash, had no petty cash written policies, and placed a sign in the front office to show tenants that cash was not accepted. The former director said he was not aware that Authority staff used the Authority's credit cards for personal purchases. He also said he was not aware that staff reimbursed the Authority in cash or that more than \$2,000 in cash was stored in the Authority's offices. Other employees at the

Authority said they were not aware of the unofficial reimbursement policy or the existence of the cash bag. Finally, the former director said Home Depot Credit Services issued the Authority two Home Depot credit cards, but he was unable to locate the second card.

The former director did not implement controls over vehicle use. Employees did not sign a vehicle use or gas card agreement before being issued vehicles and gas cards. Employees did not maintain logs for vehicle condition, mileage, or fuel purchases. In addition, the former director did not make written guidance or training available to employees for the proper use of Authority vehicles or gas cards.

The Former Director Was Not Aware of HUD Requirements for Meals

The former director was not aware of Federal regulations for the use of HUD funds to pay for staff meals at restaurants. The former director said meals at restaurants served a business purpose as they allowed staff to discuss work issues and improved morale. He said he was not aware of HUD's regulations on staff meals and he relied on his staff to know the applicable rules and regulations when they used their purchase cards at restaurants. However, he did not personally review their charges to ensure that they followed Federal regulations, and the Authority did not maintain written guidance for the use of HUD funds for meals.

The Former Director Did Not Update the Board of Commissioners

The former director said the Authority tried to hold board meetings every quarter. However, the minutes showed two meetings in 2013, two meetings in 2014, and no meetings in 2015. During the meetings, the former director discussed financial issues and general Authority operations but did not discuss Authority policy changes or efforts to maintain compliance with HUD requirements.

The Board of Commissioners Did Not Effectively Oversee the Former Director

The board of commissioners did not provide effective oversight. The chairman of the board of commissioners said he assumed that the former director adequately performed his duties at the Authority. The chairman allowed other Authority employees to use his electronic signature to authorize Authority business checks, but he did not personally review the checks and was not aware that the Authority used the business checks to pay for unsupported and ineligible costs. Further, the chairman was not aware of the Authority's policy of shredding supporting documentation or using purchase cards for personal purchases. Finally, the chairman was not aware that the Authority used generic written policies.

HUD Funds were not Available To Benefit the Authority's Residents

As a result of the conditions described above, more than \$16,000 in ineligible expenditures were not available to benefit the Authority's residents and more than \$94,000 in unsupported expenditures might not have been available to benefit the Authority's residents.

Conclusion

The Authority used HUD funds to pay for ineligible and unsupported costs because its board of commissioners and former director did not provide effective oversight or management. Without adequate policies, knowledge of HUD requirements, and effective board oversight, the Authority

misspent some of its HUD funds and could not support the use of additional funds. In addition, the Authority exposed itself to potential financial loss when it could not locate one of its credit cards, and it kept more than \$2,000 in cash at its offices without management's knowledge.

Recommendations

We recommend that the Director of HUD's Denver Office of Public and Indian Housing require the Authority to

- 1A. Obtain relevant training on HUD programs for all of its employees, management, members of the Board of Commissioners, and the executive director.
- 1B. Develop and implement detailed policies and procedures for its financial management, to include record retention, handling of petty cash, and issuance of checks.
- 1C. Develop and implement detailed policies and procedures for the use of its purchase and gas cards.
- 1D. Repay HUD for the \$16,078 in ineligible purchases using non-Federal funds.
- 1E. Provide support for the \$94,685 in unsupported purchases, showing that the funds were used for eligible HUD purposes. Repay HUD using non-Federal funds for any portion not supported. .
- 1F. Deposit remaining petty cash into the Authority's bank account and take steps to safeguard the missing Home Depot card.

Finding 2: The Authority Mismanaged Its Program Income

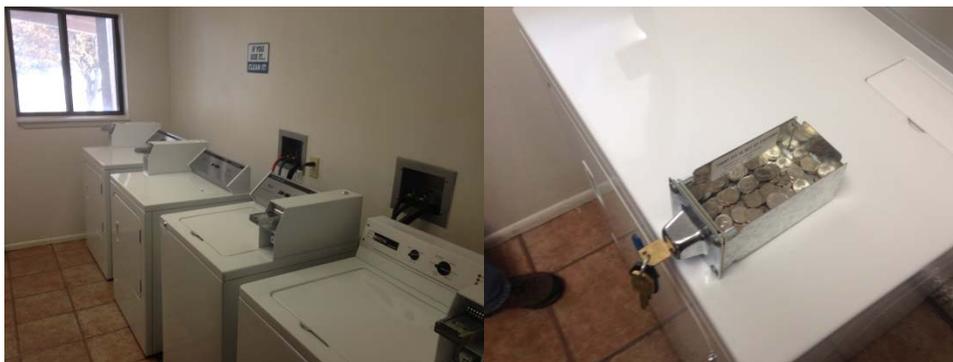
The Authority did not deposit laundry machine revenue into its bank account or keep records showing how much it earned or how it spent the money. This condition occurred because the Authority did not have a policy regarding program income and the former director did not oversee the collection and use of the funds. As a result, program funds were not available for eligible purposes.

The Authority Did Not Deposit or Track Program Income

The Authority collected laundry machine revenue but did not deposit the funds into its bank account. Additionally, it did not keep records showing how much it collected or how it spent the money. The United States Housing Act of 1937, section 9(k), states that income from nonrental sources must be used for low-income housing or to benefit the residents assisted by the housing authority. Regulations at 2 CFR 200.307(e)(1) require the Authority to spend program income on eligible program costs in the same manner as it would treat regular program funds.

The Authority collected laundry machine revenue from January 1, 2013, to October 21, 2015, but did not deposit the funds into its bank account. Additionally, the Authority did not keep records showing how much it collected. The Authority deposited more than \$150 on October 22, 2015, and more than \$140 on November 17, 2015.

The Authority could not show how it spent the laundry machine revenue. An Authority employee said the Authority used the funds to pay for washing the Authority's vehicles. However, the Authority did not maintain records to support these costs.



The Authority Lacked Policies and Oversight of Its Program Income

The former director did not implement written guidance for program income. Specifically, he did not implement written guidance for identifying sources of program income or the collection, tracking, and use of program income.

Additionally, the former director did not oversee the collection of program income. He said he assumed that Authority staff properly collected, deposited, and tracked program income. The former director was aware that one Authority employee went alone to collect laundry machine revenue, but he did not require a second level of review. The former director said he assumed

that Authority staff deposited laundry machine revenue but he did not review the bank statements to confirm that the employees had deposited the funds.

Program Funds Were Not Available for Eligible Purposes

As a result of the conditions described above, program funds were not available for eligible purposes. In addition, the Authority put its program funds at risk of loss or theft when it did not deposit or track its laundry revenue.

Recommendations

We recommend that the Director of HUD's Denver Office of Public and Indian Housing require the Authority to

- 2A. Identify all sources of program income and develop and implement detailed policies and procedures to address collections, tracking, and use of its program income.
- 2B. Determine or estimate how much program income was not deposited into its accounts and reimburse its Federal accounts using non-Federal funds.

Scope and Methodology

Our audit period generally covered January 1, 2013, through October 31, 2015. We performed our audit work from October 2015 through February 2016. We conducted onsite work at the Authority's administrative offices located at 155 Apache Drive, #A, Evanston, WY.

To accomplish our objective, we

- Reviewed applicable laws and regulations and HUD's guidance;
- Reviewed the Authority's policies and procedures;
- Interviewed Authority staff, City of Evanston officials, public housing tenants, and local vendors;
- Interviewed HUD staff responsible for overseeing the Authority;
- Reviewed board minutes and resolutions;
- Reviewed the Authority's audited financial statements covering our review period;
- Reviewed physical and electronic records, including bank records, invoices, credit card statements, receipts, check vouchers, tenant files, and maintenance work orders;
- Conducted a cash count; and
- Observed the collection of program income.

We planned and performed our audit work considering our assessment of the Authority's system of internal controls. Based on our assessment of its controls, we relied only on firsthand observations and third-party documents obtained from vendors, contractors, and financial institutions to support our findings and conclusions. We did not rely on evidence taken from the work of others or the auditee's computerized or electronic media.

During our audit period, we reviewed bank statements and credit card statements to identify the Authority's expenditures. We did not use a statistical sample to select expenditures for review. We reviewed all purchases made with the Authority's business checks, credit cards, and gas charge cards during the audit period to determine whether these charges were necessary, reasonable, and allocable to the HUD program.

We were unable to completely audit program income because we could not determine the total amount of program income collected by the Authority during the audit period. The Authority did not deposit the funds into its bank accounts from January 2013 through August 2015 and there were no third-party records for tracking these funds.

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(s). We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Internal Controls

Internal control is a process adopted by those charged with governance and management, designed to provide reasonable assurance about the achievement of the organization's mission, goals, and objectives with regard to

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

Internal controls comprise the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal controls 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.

Relevant Internal Controls

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

- Policies and procedures that have been implemented to reasonably ensure that purchasing activities, record keeping, payments to vendors, and income reporting activities comply with applicable laws and regulations.

We assessed the relevant controls identified above.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations on a timely basis.

Significant Deficiencies

Based on our review, we believe that the following items are significant deficiencies:

- The Authority did not have adequate controls to ensure that expenditures complied with applicable laws and regulations for eligible uses of funds (finding 1).
- The Authority did not have adequate controls to ensure that its record-keeping activities complied with applicable laws and regulations (finding 1 and Finding 2).
- The Authority did not have adequate controls to ensure that its collection, tracking, and use of program income complied with applicable laws and regulations (finding 2).

Appendixes

Appendix A

Schedule of Questioned Costs

Recommendation number	Ineligible 1/	Unsupported 2/
1D	\$16,078	
1E		\$94,685
Totals	16,078	94,685

- 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 the 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

Comment 1

Evanston Housing Authority



September 2nd, 2016

Mr. Ronald J. Hosking
Regional Inspector General for Audit
U.S. Department of Housing and Urban Development
Office of Audit Region 8
1670 Broadway, 24th Floor
Denver, CO 80202-4801

Dear Mr. Hosking:

I am writing today in response to your letter dated August 17th, 2016 and the attached Draft Audit Report. I will start by passing on the Evanston Housing Authorities appreciation for the professionalism with which your staff conducted themselves and handled the investigation from start to finish. The EHA would also like to thank you for the opportunity to review this draft and provide comments.

The EHA has no objection to the contents of the report and in large do not dispute the findings. The EHA has taken immediate action from the first day we met your staff and continue to refine our policies and procedures to eliminate all deficiencies focusing on our internal Controls policies, procedures and practice to ensure proper use of Federal funds. The following are actions taken to date that help satisfy several of your recommendations.

- All employees have been involved in some level of training with continued education and position specific trainings scheduled in the upcoming months. The Board of Directors will be attending a Board Training on September 8th.
- A new Internal Control Policy has been drafted and adopted within addressing record retention, handling of petty cash, check signing, laundry machine proceeds and the collection thereof.
- A new Credit Card Policy has also been drafted and adopted.
- The EHA has hired a new CPA to submit our annual audited financial statements.

Mr. Hosking we are confident that we will be able to clear up a majority of unsupported costs over the upcoming months in part due to the cost allocation plan that was in place during the audit period. The EHA has also taken steps to obtain all relevant receipts in order to provide HUD the supporting documentation necessary to resolve the matter.

Sincerely,

Chris Gerrard
Chairman Board of Directors

155 Apache Drive, Suite A • Evanston, Wyoming 82930 • (307) 789-2381 • FAX (307) 789-2084

OIG Evaluation of Auditee Comments

Comment 1 The Evanston Housing Authority stated it did not have objections to the contents of the report and in large do not dispute the findings. The Authority has taken proactive steps to strengthen its controls by providing training for its employees and board members and establish policies addressing record retention, handling of petty cash, check signing, laundry machine proceeds, and a new credit card policy. The Authority expressed a willingness to work with HUD to provide supporting documentation and has begun obtaining receipts to resolve the matter.

We agree with the Authority's recent steps to strengthen controls, work with HUD to address our recommendations, and provide supporting documentation. We believe these steps, once fully implemented, will assist the Authority in resolving issues identified in this report. We appreciate the professionalism and seriousness demonstrated by the Authority's board of commissioners in this matter.