



**Auditor of State
Betty Montgomery**

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**MORGAN METROPOLITAN HOUSING AUTHORITY
MORGAN COUNTY**

SCHEDULE OF BOARD OF COMMISSIONERS AND ADMINISTRATIVE PERSONNEL

AS OF MARCH 31, 2002

BOARD OF COMMISSIONERS

Lue Ann Smith	Board Chairperson
Jeff Gillespie	Board Member
Anita Eldridge	Board member
Danny Ray	Board Member
Robert Cosgray	Board Member

ADMINISTRATIVE PERSONNEL

Janet Sweet	Deputy Director
Jeanna Hopkins	Accountant

SCHEDULE OF MORGAN OPTIONS, INC. BOARD MEMBERS

AS OF MARCH 31, 2002

BOARD MEMBERS

Lorraine Hunt	Board President
David Watts	Board Vice-President
Anita Eldridge	Board Member
Lue Ann Smith	Board Member
Danny Ray	Board Member
Dianna Powell	Board member

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Board of Commissioners
Morgan Metropolitan Housing Authority
4580 North State Route 376 NW
McConnelsville, Ohio 43756

We have conducted a Special Audit by performing the procedures enumerated in the attached Supplement of the Special Audit Report for the period July 1, 1997 through March 31, 2002 ("the Period") to determine whether payments to the former Executive Director, Lorraine Hunt, were in accordance with employment contracts, policies, grant agreements and purchases were for a purpose related to the operations of Morgan Metropolitan Housing Authority ("the Housing Authority"). We also performed procedures to determine whether payments and/or wire transfers to Morgan Options, Inc., (a not-for-profit corporation) were authorized and in accordance with program objectives, and for a purpose related to the operations of the Housing Authority. In addition, we reviewed capital improvement expenditures, credit card purchases made with the Housing Authority Corporate American Express credit cards, and other expenditures to determine whether they were authorized, in accordance with the policies, grant agreements and contracts, and for a purpose related to the Housing Authority.

This engagement was conducted in accordance with consulting standards established by the American Institute of Certified Public Accountants. The procedures and associated results are detailed in the attached Supplement to the Special Audit. A summary of our results is as follows:

1. We reviewed payments to the former Executive Director, Lorraine Hunt, and determined whether they were in accordance with her employment contract, Metropolitan Housing Authority policies, grant agreements, Morgan Options Inc., policies and management contract, and whether the expenditures were for a purpose related to the Housing Authority, and Morgan Options, Inc.

Significant Results: Ms. Hunt did not have an employment contract during the period she was employed as Executive Director of the Housing Authority. Ms. Hunt received payments for unauthorized salary increases, unauthorized overtime compensation, and commuting mileage reimbursements, totaling \$10,729, for which we issued Findings for Recovery.

Nonpayroll and petty cash expenditures totaling \$3,124, and the above illegal expenditures were deemed federal questioned costs because the expenditures lacked supporting documentation and/or because the expenditures were not in accordance with the grant agreement.

We issued 2 noncompliance citations because the Board did not follow its policies concerning the approval of meal expenses and travel outside the area. We also issued 10 recommendations related to weaknesses identified in the Board's payroll, internal control, and fiscal monitoring processes.

2. We reviewed payments and/or wire transfers to and from Morgan Options, Inc., and determined if they were authorized, in accordance with program objectives and/or agreements, and for a purpose related to the Housing Authority.

Significant Results: The Housing Authority made loans from its Section 8 Housing Certificate and Housing Voucher Program and financial contributions from its Comprehensive Improvement Assistance Program (CIAP) Grant to Morgan Options, Inc. Additionally, the Housing Authority paid payroll and other expenses on behalf of Morgan Options, Inc. from its Public and Indian Housing Grant. These expenditures were unrelated to, and did not benefit any housing authority programs for which the federal funds were intended, and as such are not recognized as ordinary and necessary for the operation of a metropolitan housing authority or the performance of the program. We issued federal questioned costs totaling \$588,145 for these three federal housing authority grants.

We issued a noncompliance citation because the Board did not comply with its management agreement with Morgan Options, Inc. concerning the hiring, payment, and supervising of Morgan Options, Inc. employees. We also issued 2 recommendations related to weaknesses identified concerning unsupported journal entries and the Board entering into a management agreement with Morgan Options, Inc. which permits the use of federal monies contrary to federal laws and regulations.

3. We reviewed capital improvement expenditures for the Period and determined whether expenditures were authorized and for a purpose related to the Housing Authority.

Significant Results: We issued federal questioned costs of \$236,944 for the Comprehensive Improvement Assistance Program (CIAP) Grant for undocumented payroll, salaries, benefits, other grant charges, and unallowable expenditures made from this grant.

The Housing Authority could not provide a copy of its Comprehensive Plan which identifies all Housing Authority needed improvements. We could not determine whether the Housing Authority's capital improvement expenditures during the Period from the Comprehensive Improvement Assistance Program (CIAP) Grant were approved by HUD, and in accordance with its Comprehensive Plan and Five Year Action Plan. We recommended the Housing Authority maintain copies of these documents and management and the Board review these documents to determine whether the Housing Authority is following the Plan and expenditures are made from the CIAP Grant are in accordance with program objectives.

4. We reviewed credit card purchases for the Period made with the Housing Authority's Corporate American Express credit cards and determined whether they were authorized, in accordance with Housing Authority's policies, grant agreements and contracts, and for a purpose related to the Housing Authority.

Significant Results: We issued federal questioned costs of \$37,439 for the Public and Indian Housing Grant for unallowable and undocumented expenditures.

The Housing Authority did not have a formal written credit card policy. We recommended the Housing Authority discontinue the use of direct bill Housing Authority credit cards. We recommended business and travel related expenses incurred by employees be reimbursed to the individual following the completion and approval of an expense reimbursement form and upon submission of appropriate documentation to support the business related expense incurred.

5. We reviewed Housing Authority non-payroll expenditures made for the Period that were not reviewed in Issue Nos. 1 through 4 and determined whether they were in accordance with Housing Authority policies, grant agreements and contracts, and for a purpose related to the Housing Authority.

Significant Results: We issued a Finding for Recovery totaling \$296 against Ms. Hunt for personal annual memberships to the Ohio Auto Club which were not for a purpose related to the Housing Authority.

We issued federal questioned costs totaling \$193,843 for loans originating from the federal Section 8 Housing program to the Housing Authority's operating account. Additionally, we issued federal questioned costs of \$1,737 for unsupported and illegal expenditures from the Public and Indian Housing program.

6. On June 26, 2003 we held an exit conference with the following:

Lue Ann Smith, Board Chairperson
Jeff Gillespie, Board Member
Danny Ray, Board Member
John Wells, Legal Counsel

These individuals were given five business days to respond to this special audit report; however, they indicated to us subsequent to the exit conference that they did not intend to provide a formal written response to the report. As such, no response was received.

This report is intended solely for the information and use of the Morgan Metropolitan Housing Authority and is not intended to be and should not be used by anyone other than these specified users. However, reports by the Auditor of State are a matter of public record and use by other components of state government or local government officials is not limited.



Betty Montgomery
Auditor of State

January 15, 2003

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BACKGROUND INFORMATION

On April 23, 2002, the Auditor of State's Office received a letter from J.E. Slaybaugh & Associates, Inc., an independent public accounting firm, who performed the annual financial audit of the Housing Authority and Morgan Options, Inc., (a not-for-profit corporation), for the fiscal year ended June 30, 2001. The letter stated that during the course of performing the financial audit, the Housing Authority's Board of Commissioners made Mr. Slaybaugh aware of several allegations against the former Executive Director, Ms. Lorraine Hunt. Ms. Hunt was also the Executive Director of Morgan Options, Inc. and was responsible for maintaining the books and records for this organization.

The allegations and concerns contained in a Mr. Slaybaugh's letter were as follows:

- Misuse of Federal funds involving transfers between Morgan Metropolitan Housing Authority and Morgan Options, Inc., and use of restricted Housing Authority deposits.
- Unreimbursed and reimbursed personal purchases.
- Misuse of a Housing Authority vehicle.
- Misuse of Housing Authority credit cards.

On June 11, 2002, the above information was presented to the Auditor of State's Special Audit Committee which voted to initiate a special audit.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

Issue No. 1 – Determine whether payments to the former Executive Director, Lorraine Hunt, were in accordance with her employment contract, Housing Authority policies, grant agreements, Morgan Options, Inc. policies, and management contract, and whether the expenditures were for a purpose related to the Housing Authority and Morgan Options, Inc.

PROCEDURES

1. From the Housing Authority’s and Morgan Options, Inc.’s check registers, we scheduled payroll and nonpayroll expenditures to the former Executive Director, Lorraine Hunt.
2. We obtained payroll reports, cancelled checks, accounts payable vouchers, travel expense forms, and other supporting documentation for payments made to the former Executive Director, and determined whether these payments were in accordance with her employment contract, Housing Authority policies, Morgan Options, Inc. policies, and were for a purpose related to the Housing Authority and Morgan Option’s, Inc.
3. We interviewed Ms. Hunt concerning questionable or unsupported expenditures. Ms. Hunt’s responses were incorporated into the Results of Procedure No. 2, as appropriate.

RESULTS

1. Payroll Expenditures

Ms. Hunt did not receive any payroll compensation from Morgan Options, Inc., during the Period. The following is a schedule of compensation to Ms. Hunt from the Housing Authority.

<u>Calendar Year</u>	<u>Number of Payments</u>	<u>Amount</u>	<u>Personal Auto Use</u>	<u>Total Compensation</u>
1997	28	\$39,243	\$705	\$39,948
1998	27	37,578	705	38,283
1999	27	37,949	705	38,654
2000	26	39,363	705	40,068
2001	26	42,630	450	43,080
2002	5	8,228	0	8,228
Totals	<u>139</u>	<u>\$204,991</u>	<u>\$3,270</u>	<u>\$208,261</u>

The Housing Authority could not provide a copy of Ms. Hunt’s Form W-2 for 1997 and 2000; therefore, we could not verify the amounts reported for those years to her Form W-2 as we did for 1998, 1999, and 2001. The 2002 Form W-2 was not prepared as of the date of our report. We will recommend the Housing Authority maintain copies of employees’ Form W-2s.

Nonpayroll Expenditures

Ms. Hunt received \$5,487¹ from the Housing Authority for the reimbursement of expenses such as meals, food/groceries, mileage, parking, office supplies, and other miscellaneous expenses for which there were receipts totaling \$5,095. Ms. Hunt repaid 7 Housing Authority related travel advances totaling \$238 which were in excess of actual expenses incurred. Ms. Hunt repaid these amounts during a period ranging from 1 to 21 days after she received the advance. On August 10, 2000, Ms. Hunt received a \$250 advance for travel to Atlanta which was considered personal. This amount was repaid on August 25, 2000.

¹ The reimbursements included 58 checks totaling \$4,027 and 30 petty cash payments from the petty cash fund totaling \$1,460. These petty cash payments were in addition to the petty cash expenditures noted on page 9 of this report.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

Ms. Hunt received \$1,806² from Morgan Options, Inc. for reimbursement of expenses such as meals, mileage, and other business expenses for which there were receipts totaling \$1,854.

Petty Cash Expenditures

Ms. Hunt received 44 checks totaling \$2,818 from the Housing Authority for reimbursement of expenses such as parking, mileage, dues, money orders, newspapers/publications, phone calls, supplies, holiday decorations, and other expenses. These expenses were paid from the Housing Authority's petty cash fund for which there were receipts totaling \$2,816. The Housing Authority issued checks to the former Executive Director as the sole custodian of the Housing Authority's petty cash fund. These disbursements were to replenish the petty cash fund.

Morgan Options, Inc. did not maintain a petty cash fund during the Period.

2. Payroll

Ms. Hunt did not have an employment contract during the period that she was employed as Executive Director by the Housing Authority. We obtained copies of payroll reports and the Housing Authority's Board minutes for the Period. We reviewed the Housing Authority's Board minutes noting any compensation issues which were voted upon and approved by the Board. We recalculated Ms. Hunt's bi-weekly salary based on Board approved resolutions. We compared these amounts to the payroll journals and canceled payroll checks Ms. Hunt received noting the following exceptions:

- Ms. Hunt received payments for her regular bi-weekly salary totaling \$201,694. Based on approved Board resolutions during the Period, Ms. Hunt was entitled to receive payments totaling only \$194,365. Ms. Hunt's attorney asserted that the Board approved salary increases for her position as part of the Housing Authority's annual operating budget. However, we reviewed the Housing Authority's operating budget and the Executive Director's salary amount was not individually itemized. We will issue a Finding for Recovery against Ms. Hunt in the amount of \$7,329, for salary amounts in excess of the approved Board resolutions.
- We reviewed the Housing Authority's payroll journals and noted the Housing Authority's payroll system did not maintain employee leave balances. We requested from the Housing Authority copies of schedules maintained outside the payroll system for employee sick leave balances; however, the Housing Authority could not provide this information. Although leave balances were not maintained, Ms. Hunt received payment for three annual sick leave bonuses which were paid prior to December 24 each year contrary to the Housing Authority's policy. We could not verify whether Ms. Hunt's sick leave balances were reduced for payouts for the annual sick leave bonuses. Ms. Hunt asserted to us that sick leave balances were not reduced for payouts and that this was an annual bonus to discourage employees from using sick leave when they were not sick. We will recommend that the Housing Authority maintain sick leave balances and sick leave balances be reduced for payouts for the payment of annual sick leave bonuses. We will recommend the Board maintain leave balances for all employees and follow the applicable personnel policies concerning leave and the payment of annual sick leave bonuses. In addition, we will recommend that the Board determine if Ms. Hunt is entitled to payment of any outstanding leave balances which she may have had upon termination.

² The reimbursements included 22 checks totaling \$1,806.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

- On December 14, 1998, the Housing Authority's Board voted and passed a resolution to allow Ms. Hunt to convert 24 hours of sick leave to personal time and authorize her to receive her annual sick leave bonus³. The Morgan Metropolitan Housing Authority Personnel Policy Manual does not indicate that an employee is entitled to personal leave. No other employees were entitled to this type of leave. Therefore, Ms. Hunt was not entitled to personal leave, and would not be allowed to convert sick leave hours to personal based on the policy. On December 18, 1998, Ms. Hunt received a check totaling \$436 for the annual sick leave bonus. On December 22, 23, and 28, 1998 according to Ms. Hunt's time sheets, Ms. Hunt used 8 hours of sick leave each day which made Ms. Hunt ineligible for the annual sick leave bonus according to the policy. We will recommend the Board follow its policy concerning the annual sick leave bonus and the Board not act above Board policy.
- Morgan Metropolitan Housing Authority's Personnel Policy Manual, Section VII(C) states, "Management employees who perform overtime duties, and who are not subject to overtime pay will be reimbursed via the use of compensatory time." Ms. Hunt received three payments totaling \$1,591 for 59 overtime hours. We obtained and reviewed Ms. Hunt's daily time sheets for the Period noting that Ms. Hunt did not record any overtime worked for the Period. There also was no record in the minutes of Board approval for these payments. Additionally, based on the Board's policy, Ms. Hunt was not eligible to receive overtime compensation. As a result, we will issue a Finding for Recovery against Lorraine Hunt in the amount of \$1,591.
- On June 29, 2001, Ms. Hunt received other compensation totaling \$410. There was no explanation on Ms. Hunt's time sheets or on the Housing Authority's payroll journal as to why Ms. Hunt received this payment in excess of her bi-weekly salary. There also was no record in the minutes of Board approval for the payment. We spoke with Ms. Hunt and her attorney concerning this and they asserted that the Board approved the payment. Neither Ms. Hunt nor her attorney provided documents to support this assertion. We will issue a Finding for Recovery against Lorraine Hunt in the amount of \$410.
- There was no evidence in the Board's minutes or the passing of a Board resolution for the official action which placed Ms. Hunt on administrative leave during March 2002. Ms. Hunt's employment was terminated by the Board on March 21, 2002. Ms. Hunt submitted a final time sheet for the pay period ended March 22, 2002; however, Ms. Hunt did not receive a pay check for this period. Ms. Hunt's time sheet indicated that she worked 6 hours and used 78 hours of sick leave during the pay period. We recommend that the Board review Ms. Hunt's time sheet for the pay period ended March 22, 2002, and determine whether Ms. Hunt is entitled to receive a final paycheck for this period.

Nonpayroll

Ms. Hunt processed nonpayroll payments to herself from the Housing Authority without review and approval by anyone at the Housing Authority or its Board. For the Period, we noted the following exceptions regarding these payments.

- 20 reimbursements totaling \$185 for meals, food, and grocery expenses, and 3 reimbursements totaling \$134 for candy, cakes, and gifts for employees and Board members. These expenditures were unrelated to, and did not benefit any housing authority programs for which federal funds were intended, and as such are not recognized as ordinary and necessary for the operation of the Housing Authority or the performance of these programs. We will issue federal questioned costs of \$319 for unallowable expenses charged to the Public Housing Grant.

³ An employee may be eligible for a Bonus Incentive based on Housing Authority's Personnel Policy Manual, Sick Leave Section XII(F) Bonus Incentive which states that "an annual Bonus Incentive for retaining total sick leave will be paid based on 20% of yearly sick leave of 3 days as of December 24th each year."

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

- 16 reimbursements to Ms. Hunt for mileage totaling \$897 for commuting to the Housing Authority from her residence in Zanesville. These were not allowable based on Section XXIII (A) and (B) of the Housing Authority's Policy Manual which addresses local and outside travel, and transportation costs for employees authorized to travel on official business. We will issue a Finding for Recovery against Ms. Hunt in the amount of \$897.
- 123 reimbursements for meals, food/groceries, parking, car washes, dues/fees, phone calls, and gratuities totaling \$1,358; whereby, there was no original invoice or itemized receipt attached. The Housing Authority's Policy Travel Section XXII (C) provides, "cost of meals during area travel will be reimbursed at the actual expense; providing receipts are secured for costs over \$15 in amount." This Section also provides for, "miscellaneous expenditures such as gratuities for luggage check, bus boys, valet services, and maid services will also be reimbursed if within reason. Receipts will be sought wherever possible. All expenditures under \$15 should be listed even though no receipts accompany said expenditures." Although individual expenses reimbursed may be less than \$15 and did not require a receipt as the Housing Authority's policy states, we will issue federal questioned costs of \$1,358 for undocumented expenses charged to the Public Housing Grant and recommend that the Housing Authority modify its policy to require supporting documentation for all reimbursements paid with federal funds.
- 53 reimbursements for meals, food/groceries, mileage, uniforms, parking, postage, phone calls, gratuities, supplies, and other expenses totaling \$556 related to Morgan Options, Inc., and not for a purpose related to the Housing Authority. We will issue federal questioned costs of \$556 for unallowable expenses charged to the Public Housing Grant.

We noted the following exceptions related to reimbursements Ms. Hunt received from the Housing Authority's petty cash fund:

- 10 reimbursements for dues/fees, gifts, meals, and supplies totaling \$236 which were unrelated to, and did not benefit any housing authority programs for which federal funds were intended, and such are not recognized as ordinary and necessary for the operation of the Housing Authority or the performance of these programs. We will issue federal questioned costs of \$236 for unallowable expenses charged to the Public Housing Grant.
- 22 reimbursements for mileage totaling \$502 for commuting from her residence in Zanesville to the Housing Authority. These were not allowable based on Section XXIII (A) and (B) of the Housing Authority's Policy Manual which addresses local and outside travel, and transportation costs for employees authorized to travel on official business. We spoke with Ms. Hunt and her attorney concerning these expenditures, and they asserted that the Board approved these expenditures. Neither Ms. Hunt nor her attorney provided documents to support this assertion. We will issue a Finding for Recovery against Lorraine Hunt in the amount of \$502.
- 15 reimbursements totaling \$111; whereby, original invoices or receipts were not attached. We could not determine whether the expenditures were for a purpose related to the Housing Authority. We will issue federal questioned costs of \$111 for undocumented expenditures charged to the Public Housing Grant and recommend the Housing Authority maintain documentation to support expenditures related to reimbursements which were paid with federal funds.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

- 28 reimbursements totaling \$248; whereby, original invoices or receipts were not attached. These individual reimbursements were less than \$15 and did not require a receipt as the policy states; however, we could not determine whether the expenditures were for a purpose related to the Housing Authority. We will issue federal questioned costs of \$248 for undocumented expenditures charged to the Public Housing Grant and recommend the Housing Authority maintain documentation to support expenditures related to reimbursements.
- 31 reimbursements for parking, dues/fees, gifts, newspapers, groceries/food, meals, phone calls, supplies, and decorations totaling \$296 for purchases related to Morgan Options, Inc., and which were not for a purpose related to the Housing Authority. We will issue federal questioned costs of \$296 for unallowable expenses charged to the Public Housing Grant.
- 4 reimbursements totaling \$136 which individually were in excess of \$15; however, the receipt was not itemized. We will recommend that the Housing Authority establish a travel policy requiring meal expenses to be itemized.

In addition to the above, we noted the following weaknesses related to nonpayroll and petty cash payments to Ms. Hunt from the Housing Authority for which we will issue noncompliance citations or management comments:

- 41 reimbursements for travel and other expenses totaling \$1,496 for which there was no "Statement of Travel and Other Expenses" form attached to the original invoices or receipts submitted by Ms. Hunt. This was contrary to the Housing Authority's standard practice. We will recommend employees who travel or request reimbursements for other business expenses complete and submit a "Statement of Travel and Other Expenses" form when requesting reimbursement.
- 6 reimbursements from the Housing Authority checking account totaling \$53 for which the supporting documentation or Accounts Payable Voucher Form did not specify account codes for which these expenditures were charged. As a result, we were unable to determine to which program the expenditure was charged.
- 6 instances for meal expenditures totaling \$792 where individual meal expenditures in excess of \$55 for travel were not reviewed and approved by the Board prior to travel as required by the Housing Authority's Personnel Policy Manual.
- 33 reimbursements totaling \$359 and 2 reimbursements from the Housing Authority's petty cash fund totaling \$22 to Ms. Hunt for travel outside the jurisdiction of the local agency which the trip was not authorized by resolution of the Board as required by the Housing Authority's Personnel Policy Manual.
- 94 reimbursements from the Housing Authority's petty cash totaling \$640 for which no "Petty Cash Slips" were attached.

Morgan Options, Inc.

For nonpayroll payments to Ms. Hunt for reimbursements from Morgan Options, Inc., we noted the following exceptions:

- 1 reimbursement totaling \$32; whereby, an original invoice or itemized receipt was not attached and we could not determine whether the expenditure was for a purpose related to the operations of Morgan Options, Inc.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

- 11 reimbursements to Ms. Hunt for mileage totaling \$798 for commuting to Morgan Options, Inc. from her residence in Zanesville. These reimbursements are not allowable based on Section XXIII (A) and (B) of the Morgan Option, Inc.'s Policy Manual which addresses local and outside travel and transportation costs for employees authorized to travel on official business. We will recommend the Board members of Morgan Options, Inc. seek reimbursement from Ms. Hunt.
- 2 reimbursements totaling \$85 for which the purpose related to Morgan Options, Inc. could not be determined. We will recommend detailed itemized receipts be required in order to determine the purpose of the expenditure.

FINDINGS FOR RECOVERY

Compensation to Lorraine Hunt

On January 6, 1993 the Board passed a resolution to hire Lorraine Hunt as the Housing Authority's Executive Director. During the period Ms. Hunt was employed, she did not have an employment contract with the Housing Authority. Approved Board resolutions stated that Ms. Hunt was entitled to receive payments for her regular bi-weekly salary totaling \$194,365 for the Period. Ms. Hunt actually received payments totaling \$201,694. The Board resolutions did not include any approval of additional pay increases for Ms. Hunt although Ms. Hunt and her attorney asserted to us that the Board approved salary increases as part of the Housing Authority's annual budget.

In accordance with the foregoing facts pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery is hereby issued against Lorraine Hunt and Housing Insurance Services, Inc., the Housing Authority's bonding company, jointly and severally, for moneys illegally expended in the amount of \$7,329 in favor of the Morgan Metropolitan Housing Authority.

Overtime Compensation to Lorraine Hunt

Morgan Metropolitan Housing Authority's Personnel Policy Manual, Section VII(C) states, "Management employees who perform overtime duties, and who are not subject to overtime pay will be reimbursed via the use of compensatory time." Ms. Hunt received three payments totaling \$1,591 for 59 overtime hours. We obtained and reviewed Ms. Hunt's daily time sheets for the Period noting that Ms. Hunt did not record any overtime worked for the Period. There also was no record in the minutes of Board approval for these payments. Additionally, based on the Board's policy, Ms. Hunt was not eligible to receive overtime compensation.

In accordance with the foregoing facts pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery is hereby issued against Lorraine Hunt and Housing Insurance Services, Inc., the Housing Authority's bonding company, jointly and severally, for public moneys illegally expended in the amount of \$1,591, in favor of the Morgan Metropolitan Housing Authority.

Unauthorized Compensation to Lorraine Hunt

On June 29, 2001, Ms. Hunt received other compensation totaling \$410. There was no explanation on Ms. Hunt's time sheets or on the Housing Authority's payroll journal as to why Ms. Hunt received this payment in excess of her bi-weekly salary. There also was no record in the minutes of Board approval for the payment. We spoke with Ms. Hunt and her attorney concerning this, and they asserted that the Board approved the payment. Neither Ms. Hunt nor her attorney provided documents to support this assertion.

In accordance with the foregoing facts pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery is hereby issued against Lorraine Hunt and Housing Insurance Services, Inc., the Housing Authority's bonding company, jointly and severally, for moneys illegally expended in the amount of \$410, in favor of the Morgan Metropolitan Housing Authority.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

Commuting Mileage Reimbursements

Ms. Hunt received 16 reimbursements totaling \$897 for commuting mileage to the Housing Authority from her residence in Zanesville.

Ms. Hunt received 22 reimbursements from the Housing Authority's petty cash fund totaling \$502 for commuting mileage to the Housing Authority from her residence.

These were mileage reimbursements for commuting to the Housing Authority from her residence in Zanesville and are not allowable based on Section XXIII (A) and (B) of the Housing Authority's Policy Manual which addresses local and outside travel, and transportation costs for employees authorized to travel on official business.

In accordance with the foregoing facts pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery is hereby issued against Lorraine Hunt, former Executive Director of the Housing Authority and Housing Insurance Services, Inc., the Housing Authority's bonding company, jointly and severally, for monies illegally expended in the amount of \$1,399, in favor of the Morgan Metropolitan Housing Authority.

Total Findings for Recovery – Issue No. 1 - \$10,729

FEDERAL QUESTIONED COSTS

The Housing Authority's Annual Contribution's Contracts, "As Amended" (ACC) No. C-383 Public Housing Grant with the Secretary of Housing and Urban Development (HUD) states that the Housing Authority shall comply with all applicable laws, executive orders, and regulations contained in Title 24 of the Code of Federal Regulations (CFR).

Title 24 CFR 85.22, Allowable Costs, Part (b) Applicable Cost Principles state that the principles of the Office of Management and Budget (OMB) Circular A-87 entitled "*Cost Principles for State and Indian Tribal Governments*, Attachment A, Allowable Costs Section (C)(1)(j) which provides guidelines for identifying costs for federal grants. The Circular provides that for a cost to be allowable, the expenditure must be adequately documented, and moneys may not be illegally expended.

The following nonpayroll and petty cash expenditures were deemed as federal questioned costs because the expenditure lacked supporting documentation and/or because the expenditures were not in accordance with the requirements of the Public Housing Grant. We will issue the following federal questioned costs for the Public and Indian Housing Grant.

Category/Grant Year End	<u>6/30/97</u>	<u>6/30/98</u>	<u>6/30/99</u>	<u>6/30/00</u>	<u>6/30/01</u>	<u>6/30/02</u>	<u>Total</u>
Unallowable Costs		\$448	\$256	\$283	\$253	\$167	\$1,407
Unsupported Costs		589	303	446	108	271	1,717
Commuting Mileage		69	162	332	506	330	1,399
Unauthorized Salary Increases	\$1,412		(1,309) ⁴	1,574	3,000	2,652	7,329
Unauthorized Overtime Compensation	705				886		1,591
Unauthorized Payment					410		410
Total	<u>\$2,117</u>	<u>\$1,106</u>	<u>\$(588)</u>	<u>\$2,635</u>	<u>\$5,163</u>	<u>\$3,420</u>	<u>\$13,853</u>

The amounts related to unauthorized salary increases, unauthorized overtime compensation, an unauthorized payment, and commuting mileage reimbursements are the subject of Findings for Recovery for illegal expenditure of public funds.

⁴ Ms. Hunt was underpaid in one fiscal year and overpaid in the following year; therefore, the amount of the Finding for Recovery was reduced accordingly.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

NONCOMPLIANCE CITATIONS

Board Approval of Meal Expenses in Excess of \$55

The Housing Authority's Personnel Policy Manual Section XXIII (C) states, "Any travel voucher showing meal costs drawn in excess of \$55 must be reviewed by the total Board Membership prior to approval being granted for said expenditures."

There were 6 instances totaling \$792 where individual meal expenditures in excess of \$55 were not reviewed and approved by the total Board Membership prior to travel.

We recommend the Board follow the Housing Authority's Personnel Policy Manual Section XXII (C) which requires travel vouchers showing meal costs drawn in excess of \$55 be reviewed by the total Board membership prior to approval being granted for travel.

Board Approval of Travel Outside of the Area

The Housing Authority's Personnel Policy Manual Section XXIII (A) states, "Each trip to a destination outside the jurisdiction of the local agency shall have prior authorization by a resolution of the Board."

There were 33 reimbursements totaling \$359 and 2 reimbursements from the Housing Authority's petty cash fund totaling \$22 to Ms. Hunt for travel outside the jurisdiction of the local agency for which the trip was not authorized by a resolution of the Board.

We recommend the Board follow the Housing Authority's Personnel Policy Manual Section XXIII (A) and require each trip to a destination outside the jurisdiction of the local agency receive prior authorization by a resolution of the Board.

MANAGEMENT COMMENTS

Form W-2's

We requested from the Housing Authority copies of Ms. Hunt's Form W-2s for the years 1997 through 2001. The Housing Authority could not provide a copy of Ms. Hunt's 1997 and 2000 Form W-2. Therefore, we could not verify the amounts reported for 1997 and 2000.

We recommend the Housing Authority maintain copies of all employee Form W-2's in a central location. Procedures should be devised and implemented for a filing system which will ensure these records are filed and properly maintained.

Leave Balances

We reviewed the Housing Authority's payroll journals and noted the Housing Authority did not maintain employee leave balances. In addition, we requested from the Housing Authority copies of schedules maintained outside the payroll system for employee sick leave balances; however, the Housing Authority could not provide this information. Employee leave balances were not maintained; however, Ms. Hunt received payment for three annual sick leave bonuses which were paid prior to December 24 contrary to the Housing Authority's policy. We could not verify whether her sick leave balances were reduced for payouts for the annual sick leave bonuses. We spoke with Ms. Hunt and her attorney concerning this policy, and they asserted that sick leave balances were not reduced for payouts and that this was an annual bonus to discourage employees from using sick leave when they were not sick.

Also, the Housing Authority does not require employees to complete and submit any type of "Request for Leave Form" prior to using leave.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

Not maintaining employee leave balances can allow Housing Authority employees to use leave which they are not entitled; thus, resulting in employees being overcompensated.

We recommend that leave balances be maintained for all employees and the Board follow the Housing Authority Personnel Policy concerning leave and the payment of annual sick leave bonuses. Sick leave balances should be reduced for payment of annual sick leave bonuses, and not paid prior to December 24 as required by the Housing Authority's policy. In addition, we recommend that that Board devise and implement a "Request for Leave Form," which an employee would be required to complete and submit for approval prior to taking leave.

We also recommend that the Board determine if Ms. Hunt is entitled to payment of any outstanding leave balances which she may have had upon termination.

Sick Leave Compensation to Lorraine Hunt

On December 14, 1998, the Housing Authority's Board voted and passed a resolution to allow Ms. Hunt to convert 24 hours of sick leave to personal time and authorized her to receive her annual sick leave bonus. Morgan Metropolitan Housing Authority Personnel Policy Manual Section XI, "Annual Leave" and Section XII, "Sick Leave" does not address an employee's entitlement to personal leave; therefore, Ms. Hunt was not entitled to personal leave, and would not be allowed to convert sick leave hours to personal leave. On December 18, 1998, Ms. Hunt received a check totaling \$436 for the annual sick leave bonus.

On December 20, 21 and 22, 1998, according to Ms. Hunt's time sheets, she used 8 hours of sick leave each day which made Ms. Hunt ineligible for the annual sick leave bonus totaling \$436. It would appear that Ms. Hunt attempted to circumvent the policy by converting sick leave to personal time which would allow her to receive the annual sick leave bonus.

The Board should follow its policy and not act above its policy to allow employees to receive annual sick leave bonuses when they are not entitled to receive these payments. Also, the Board should not allow employees to convert sick leave to personal time when the policy does not address the employee's entitlement to personal leave.

Ms. Hunt's Final Paycheck

There was no evidence in the Board's minutes or the passing of a resolution for the official action which placed Ms. Hunt on administrative leave during March 2002. Ms. Hunt's employment was terminated by the Board on March 21, 2002. Ms. Hunt submitted a final time sheet for the pay period ended March 22, 2002; however, Ms. Hunt did not receive a pay check for this period. Ms. Hunt's time sheet indicated that she worked 6 hours and used 78 hours of sick leave during the pay period.

We recommend that the Board review Ms. Hunt's time sheet for the period ended March 22, 2002, and consult with its legal counsel to determine whether Ms. Hunt is entitled to receive a final paycheck for this period.

Board's Travel Policy

Section XXIII (C) of the Housing Authority's Personnel Policy Manual states, that "costs of meals during area travel will be reimbursed at the actual expense providing receipts are secured for costs over \$15." In part, this section states, "miscellaneous expenditures such as gratuities for luggage check, bus boys, valet parking, and maid services will be reimbursed within reason." However, Office of Management and Budget (OMB) Circular A-87 entitled *Cost Principles for State, Local and Indian Tribal Governments* Attachment A, Allowable Costs Section (C)(1)(j) provides guidelines for identifying costs for Federal grants. The Circular provides that for a cost to be allowable, the expenditure must be adequately documented.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

When we reviewed nonpayroll and petty cash reimbursements made to Ms. Hunt from the Housing Authority, we noted 123 reimbursements for meals, parking, and gratuities totaling \$1,358; whereby, there was no original invoice or itemized receipt attached. These individual reimbursements were less than \$15 and did not require a receipt as the policy states; however, we could not determine whether the expenditures were for a purpose related to a metropolitan housing authority. Additionally, we noted 4 reimbursements totaling \$136 which individually were in excess of \$15; however, the receipt was not itemized.

Although the Housing Authority's Travel Policy does not require receipts to be submitted if the reimbursement is less than \$15, OMB Circular A-87 provides for a cost to be allowable under a federal program, the expenditure must be adequately documented. Therefore, we recommend that the Housing Authority modify and adopt a travel policy consistent with the guidelines outlined in the grant agreements, and OMB Circular A-87. By implementing a travel policy which mirrors these guidelines, this will ensure that travel costs are adequately documented and the costs are allowable.

Statement of Travel and Other Expenses Form

The Housing Authority's Personnel Policy Manual Section XXIII (C), "Other Travel Costs", addresses the use of a "Travel Voucher". However, we interviewed Housing Authority personnel and they asserted that a "Statement of Travel and Other Expenses Form" was used to claim reimbursements for travel and report Housing Authority credit card expenses. This form was used in lieu of a "Travel Voucher", and was considered an acceptable practice among Housing Authority employees.

There were 36 reimbursements for travel totaling \$718 and 5 reimbursements from the Housing Authority's petty cash fund totaling \$778 for which there was no "Statement of Travel and Other Expenses" form attached to the original invoices or receipts submitted by Ms. Hunt. We also noted that Ms. Hunt processed her own reimbursements without review and approval by anyone at the Housing Authority.

We recommend employees who travel provide adequate documentation as to why it is necessary to travel and complete the "Statement of Travel and Other Expenses Form" disclosing the nature of the trip and as it pertains to Housing Authority business, and communicate to the Board as to how the Housing Authority will benefit from the trip prior to receiving proper approval. We also recommend the Executive Director not be permitted to review and approve her own reimbursements. Once a request for reimbursement is prepared by the Executive Director, it should be reviewed and approved by a Board member prior to receiving reimbursement.

Petty Cash Slip

The Housing Authority's Personnel Policy Manual does not address the use of a "Petty Cash Slip". However, we interviewed Housing Authority personnel and they asserted that a "Petty Cash Slip" was used when payments from the Housing Authority's petty cash fund were made. The use of this form was considered an acceptable practice.

There were 94 reimbursements from the Housing Authority's petty cash totaling \$640 for which there were no "Petty Cash Slips" attached.

We recommend the petty cash custodian issue "Petty Cash Slips" to employees who receive payments from the petty cash fund providing that adequate documentation for purchases made are submitted to the custodian.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

Coding and Posting of Expenditures

There were 6 reimbursements from the Housing Authority's checking account totaling \$53 for which the attached supporting documentation or Accounts Payable Voucher Form did not specify account codes for which these expenditures were charged.

Reimbursements made and posted to the Housing Authority's books without specifying proper account codes may result in amounts posted to incorrect accounts within the Housing Authority's accounting system.

We recommend all reimbursements which are processed should, at a minimum, include supporting documentation with account distribution codes and be reviewed and approved independently from the person entering the data into the Housing Authority's accounting system.

Internal Controls

Management and the Board of the Housing Authority are responsible for the design and implementation of an internal control process that provides reasonable assurance of the integrity of its financial reporting, the safeguarding of its assets, the efficiency and effectiveness of its operation and its compliance with applicable laws, regulations, and contracts.

In designing the internal control processes, management and the Board should consider policies and procedures that provide for the following:

- Appropriate authorization and approval of transactions
- Adequately designed records to facilitate classification and summarization of financial transactions
- Security of assets, and financial records
- Segregation of incompatible duties
- Periodic reconciliations of account balances
- Periodic verification of existing assets

We noted that the former Executive Director, Lorraine Hunt, performed all fiscal and administrative duties and responsibilities for the Housing Authority and Morgan Options, Inc. These are incompatible functions within the Housing Authority and Morgan Options, Inc. and represent a serious lack of segregation of duties. We also noted there were few review and monitoring procedures performed by the Board of Ms. Hunt's activities. These circumstances increased the risk that fraud could occur and not be detected in a timely manner.

We recommend the Board design and implement an internal control process that provides reasonable assurance of the integrity of its financial reporting, the safeguarding of its assets, the efficiency and effectiveness of its operation and its compliance with applicable laws, regulations, and contracts.

Fiscal Monitoring by the Board

One of the most important functions of the Board is frequent and ongoing fiscal monitoring of the Housing Authority's finances and the Executive Director's financial accountability. The Board did not have monitoring procedures in place to assess the Housing Authority's financial condition on a regular and continual basis which allowed federal funds to be used to make illegal expenditures for unauthorized salary increases, overtime compensation, commuting mileage reimbursements, and personal purchases noted in Issue Nos. 1 and No. 5 of this report.

In addition, we identified in Issue Nos. 3 and No. 5 of this report payments to Morgan Options, Inc., a not-for-profit corporation, which were unrelated to, and did not benefit any housing authority programs for which the federal funds were intended, and as such were not recognized as ordinary and necessary for the operation of the Housing Authority or the performance of its programs.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

Furthermore, we identified in Issue No. 3 expenditures made from the Comprehensive Improvement Assistance Program (CIAP) Grant for undocumented payroll, salaries, benefits, and other grant charges.

Had the Board established and implemented fiscal monitoring procedures over the finances of the Housing Authority, the Board may have been able to identify expenditures made by the former Executive Director with federal monies which were illegal, unallowable, and unsupported which resulted in federal questioned costs.

We recommend the Board develop and implement fiscal monitoring procedures so that the Board can identify, on a timely basis, signs that the Housing Authority could be having financial difficulties based on the spending of federal funds. These procedures should include an evaluation of the Housing Authority's financial condition on a regular basis, its record keeping practices, its compliance with grant agreements, contracts, applicable management guidelines and internal policies and procedures.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

Issue No. 2 - Review payments and wire transfers to/from Morgan Options, Inc. (a not-for-profit Corporation) to determine if they were authorized, in accordance with program objectives and/or agreements, and for a purpose related to the Housing Authority.

PROCEDURES

1. We scheduled payments and/or wire transfers for the Period to and from Morgan Options, Inc.
2. We reviewed supporting documentation for payments and/or wire transfers and verified whether these payments were authorized, in accordance with program objectives and/or agreements, and for a purpose related to the Housing Authority.
3. We interviewed Ms. Hunt concerning questionable or unsupported expenditures. Ms. Hunt's responses to these questions were incorporated into the results of Procedure No. 2, as appropriate.

RESULTS

1. Payments to Morgan Options, Inc. from the Housing Authority

We reviewed bank statements, canceled checks, check copies, and Board minutes of the Housing Authority and Morgan Options, Inc., for the Period. We noted no wire transfers between the two entities. However, we noted the Housing Authority made physical payments to, or on behalf of, Morgan Options, Inc. as follows.

<u>Year End</u>	<u>Loans</u>	<u>Financial Contributions</u>	<u>Expense Reimbursement</u>	<u>Payroll</u>	<u>Other Expenses</u>	<u>Total</u>
June 30, 1998		\$8,000	\$1,286	\$24,243	\$30,412	\$63,941
June 30, 1999	\$26,000	11,213		34,821	12,879	84,913
June 30, 2000	41,000	9,000		92,384	19,475	161,859
June 30, 2001	5,000	3,000		129,747	13,375	151,122
June 30, 2002	<u>7,205</u>	<u>6,000</u>		<u>99,597</u>	<u>13,508</u>	<u>126,310</u>
Total	<u>\$79,205</u>	<u>\$37,213</u>	<u>\$1,286</u>	<u>\$380,792</u>	<u>\$89,649</u>	<u>\$588,145</u>

The loans consisted of 14 payments from the Housing Authority's Section 8 bank account. The financial contributions consisted of 11 payments from the Housing Authority's Comprehensive Improvement Assistance Program (CIAP) Grant to support Morgan Options, Inc.'s programs. The expense reimbursement consisted of one payment from the Housing Authority's Section 8 bank account.

The Housing Authority paid for the salaries, wages, retirement, and health care benefits for Morgan Options, Inc. employees from its Public Housing Grant. Other expenses consisted of various operating expenses such as supplies, equipment, postage, and advertising paid on behalf of Morgan Options, Inc.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

Payments to the Housing Authority from Morgan Options, Inc.

During the Period, Morgan Options, Inc. made the following payments to the Housing Authority.

<u>Year</u>	Reimbursement Of Payroll and Other Expenses	Loan Repayments	Total
June 30, 1998	\$79,588		\$79,588
June 30, 1999	47,709	\$216	47,925
June 30, 2000	102,155	36,500	138,655
June 30, 2001	123,637	10,000	133,637
June 30, 2002	<u>81,084</u>		<u>81,084</u>
Total	<u>\$434,173</u>	<u>\$46,716</u>	<u>\$480,889</u>

Reimbursements consisted of 67 payments to the Housing Authority for payroll, benefits, and other related operating expenses which were paid by the Housing Authority on behalf of Morgan Options, Inc. Loan repayments consisted of 7 payments to repay loans received from the Housing Authority. These repayments were deposited and credited to the Housing Authority Section 8 bank account.

During the Period there were 13 debits totaling \$29,514 and 46 credits totaling \$55,987 to the Housing Authority's Morgan Options, Inc., accounts receivable account. Of the 13 debits to this account, only 7 journal entries totaling \$8,588 were supported by a journal entry voucher. The remaining 6 journal entries totaling \$20,926 were not supported by a journal entry voucher and were labeled in the general ledger account as entries to "balance the ledger."

2. Our review of supporting documentation for payments between the Housing Authority and Morgan Options, Inc., noted the following exceptions.

The Housing Authority used federal funds received from its Annual Contribution Contracts for Public Housing, Section 8, and CIAP Grants to make loans, financial contributions, and expense reimbursements to Morgan Options, Inc. to support Morgan Options, Inc.'s operations. These payments were unrelated to, and did not benefit any housing authority programs for which those federal funds were intended. Based on the requirements of those federal programs, these types of expenses were not allowed to be funded with program funds. Ms. Hunt and her attorney asserted to us that the financial contributions were not required to be repaid and that the grants provided for these types of expenditures. However, Ms. Hunt did not provide any documentation to support her assertion. As a result, we will issue federal questioned costs of \$117,704 for unallowable expenditures.

During the Period, the Housing Authority paid payroll, benefits, and other related expenses of Morgan Options, Inc. totaling \$470,441. The Housing Authority was then partially reimbursed by Morgan Options, Inc. for these expenses. This arrangement essentially resulted in Morgan Options, Inc. receiving additional loans from the Housing Authority. These payments to Morgan Options, Inc. were unallowable based on the Housing Authority's Annual Contribution Contracts for Public Housing, Section 8, and CIAP Grant requirements. We will issue federal questioned costs of \$470,441 for unallowable expenditures charged to these grants, and a noncompliance citation with the management agreement between the Housing Authority and Morgan Options, Inc. Additionally, although not considered public employees and hired by the not-for-profit corporation, employees of Morgan Options, Inc. were enrolled in the Public Employee Retirement System.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

The Housing Authority and Morgan Options, Inc., have a management agreement dated June 11, 2001 which provides that in the event the Morgan Options, Inc. account is at anytime insufficient to pay disbursements due and payable, the Housing Authority will remit to Morgan Options, Inc. sufficient funds to cover the deficiency. The language within this contract is contrary to the Housing Authority's Consolidated Annual Contribution's Contract (ACC) and Office of Management and Budget (OMB) Circular A-87 entitled "*Cost Principles for State and Indian Tribal Governments*", Attachment A, Allowable Costs Section (C)(2)(a). We will recommend the Board not enter into agreements which contradict the terms of the Consolidated Annual Contribution's Contract, and OMB Circular A-87.

During the period there were 6 journal entries totaling \$20,296 in the Housing Authority's general ledger accounts receivable from Morgan Options, Inc. labeled "balance the ledger." These entries were not supported by a journal entry voucher or any other supporting documentation. As such, we could not determine the purpose or nature of these 6 journal entries. We will recommend all journal entries be supported by a journal entry voucher and supporting documentation which describes the nature and purpose of the transactions.

Based on the results of our procedures, our review of expenditures, and results of the other issues of this report, the net change in the Morgan Options, Inc., accounts receivable balance at July 1, 1997 of \$13,164 would have been increased by \$85,553. Amounts were not charged to the accounts receivable for expenditures made on behalf of Morgan Options, Inc. loans and contributions to Morgan Options, Inc., debits and credits posted, and payments from Morgan Options, Inc.

FEDERAL QUESTIONED COSTS

The Housing Authority's Consolidated Annual Contribution's Contracts, "As Amended" (ACC) No. C-383 Public Housing, C-5065 Section 8 Housing Certificate Program and Housing Voucher Program, and C-5093 Comprehensive Improvement Assistance Program (CIAP) Grants with the Secretary of Housing and Urban Development (HUD) state that the Housing Authority shall comply with all applicable laws, executive orders, and regulations contained in Title 24 of the Code of Federal Regulations (CFR).

Title 24 CFR 85.22, Allowable Costs, Part (b) Applicable Cost Principles state that the principles of the Office of Management and Budget (OMB) Circular A-87 entitled "*Cost Principles for State and Indian Tribal Governments*, Attachment A, Allowable Costs Section (C)(2)(a) provides guidelines for identifying allowable costs for federal grants. "The Circular provides that for a cost to be allowable, the cost must be reasonable. A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under circumstances prevailing at the time the decision was made to incur the cost. The question of reasonableness is particularly important when the governmental unit is predominately federally funded. In determining reasonableness of a given cost, consideration shall be given as to whether the cost of this type generally is recognized as ordinary and necessary for the operation of a metropolitan housing authority or the performance of the Federal award."

The Housing Authority made loans from its Section 8 Program and financial contributions from its CIAP Grant to Morgan Options, Inc., a not-for-profit corporation. Additionally, the Housing Authority paid payroll and other expenses on behalf of Morgan Options, Inc. from its Public Housing Grant. These expenditures were unrelated to, and did not benefit any housing authority programs for which the federal funds were intended and as such are not recognized as ordinary and necessary for the operation of the Housing Authority or the performance of its programs.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

The questioned costs related to these expenditures by program and by grant year are as follows:

<u>Grant Year End</u>	<u>Public Housing Grant</u>	<u>CIAP Grant</u>	<u>Section 8 Grant</u>	<u>Total</u>
June 30, 1998	\$54,655	\$8,000	\$1,286	\$63,941
June 30, 1999	47,700	11,213	26,000	84,913
June 30, 2000	111,859	9,000	41,000	161,859
June 30, 2001	143,122	3,000	5,000	151,122
June 30, 2002	<u>113,105</u>	<u>6,000</u>	<u>7,205</u>	<u>126,310</u>
Total	<u>\$470,441</u>	<u>\$37,213</u>	<u>\$80,491</u>	<u>\$588,145</u>

NONCOMPLIANCE CITATION

Management Agreement

Paragraph 7 of the management agreement between the Morgan Metropolitan Housing Authority and Morgan Options, Inc., dated June 11, 2001, states in part that "...employees of Morgan Options, Inc. will be hired, paid, supervised and paid through Morgan Options, Inc."

The Housing Authority paid for the salaries, wages, retirement, and health care benefits from its Public Housing Grant for Morgan Options, Inc. employees. Although not considered public employees and hired by the not-for-profit corporation, these employees were enrolled in the Public Employee Retirement System. Because payments for these expenses did not relate to, or benefit, any of the federal programs which funded these expenses, we issued questioned costs related to these expenses.

The Board should have complied with the agreement, and employees should have been hired, paid, supervised, and paid by Morgan Options, Inc. We recommend that the Housing Authority consult with the Public Employee Retirement System (PERS) and Internal Revenue Service in order to correct, revise, amend and reissue employee wage reports in order to remove employees from PERS, and properly reflect employees' wages.

MANAGEMENT COMMENTS

Journal Entries

A review of the Housing Authority's accounts receivable general ledger account from Morgan Options, Inc. revealed that there were 6 journal entries totaling \$20,926 which were labeled in the general ledger account as "balance the ledger". We could not determine the purpose or nature of these 6 journal entries because there were no journal entry vouchers or supporting documentation which described the nature and purpose of these account transactions.

It is essential that accounts be complete and accurate in order to adequately identify the source and application of all Housing Authority program funds. It is the responsibility of management to maintain financial records which provide the basis for budgetary control and monitoring of financial activities of each program. The lack of supporting documentation for each journal entry limits management and the independent auditor's ability to detect errors and irregularities within the general ledger account.

We recommend journal entries made to Housing Authority general ledger accounts be supported by documentation and journal entry vouchers which describe the rationale and nature of the transaction. All journal entries should be reviewed and approved by the Board, and an adequate audit trail maintained to ensure the propriety of each adjusting journal entry made to the Housing Authority's records.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

Management Agreement Provision

Paragraph 8(b) of the management agreement dated June 11, 2001, between the Housing Authority and Morgan Options, Inc., states in part; "in the event that the balance of Morgan Options, Inc. account is at anytime insufficient to pay disbursements due and payable Morgan Metropolitan Housing will remit to Morgan Options, Inc. sufficient funds to cover the deficit."

The language within this contract is contrary to the Housing Authority's Consolidated Annual Contribution's Contract (ACC) and Office of Management and Budget (OMB) Circular A-87 entitled "*Cost Principles for State and Indian Tribal Governments*", Attachment A, Allowable Costs Section (C)(2)(a). We recommend the Board not enter into agreements which contradict the terms of the Consolidated Annual Contribution's Contract, and OMB A-87.

Use of federal monies for expenditures and purposes which do not relate or benefit the intended federal programs could jeopardize the Housing Authority's future funding.

The Housing Authority should not use federal funds to satisfy this provision if the expenditures do not relate to or benefit the federal program. We recommend the Board be more familiar with the terms of the Consolidated Annual Contribution's Contract and cost principles contained in OMB Circular A-87. We further recommend the Board not enter into an agreement which permits the use of federal moneys contrary to federal laws and regulations.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

Issue No. 3 - Review capital improvements expenditures for the Period to determine whether expenditures were authorized and for a purpose related to the Housing Authority.

PROCEDURES

1. We scheduled all expenditures for the capital improvement fund.
2. We reviewed supporting documentation to determine whether expenditures from the capital improvement fund were authorized, in accordance with program objectives and/or agreements, and for a purpose related to the Housing Authority.
3. We interviewed Ms. Hunt concerning questionable or unsupported expenditures. Ms. Hunt's responses to these questions were incorporated into the results of Procedure No. 2, as appropriate.

RESULTS

1. During the Period, we reviewed bank statements, canceled checks, check copies, and Board minutes of the Housing Authority and Morgan Options, Inc., and we noted the Housing Authority made 519 expenditures from the Comprehensive Improvement Assistance Program (CIAP) Grant for the following:

Year	Payroll and Fringe Benefits	Capital Improvements	Financial Contributions To Morgan Options, Inc.	Repayment of Section 8 Loans	Other	Other Debits To the Account	Total
June 30, 1998	\$61,829	\$313,414	\$8,000		\$695	\$2,484	\$386,422
June 30, 1999	48,420	114,018	11,213	\$26,000	700		200,351
June 30, 2000	44,586	228,155	9,000		1,025		282,766
June 30, 2001	43,383	24,081	3,000		1,000		71,464
June 30, 2002	<u>32,822</u>	<u>28,591</u>	<u>6,000</u>				<u>67,413</u>
Total	<u>\$231,040</u>	<u>\$708,259</u>	<u>\$37,213</u>	<u>\$26,000</u>	<u>\$3,420</u>	<u>\$2,484</u>	<u>\$1,008,416</u>

2. We reviewed supporting documentation for these payments and noted the following:

Payroll and fringe benefit expenditures consisted of 100% of the Housing Authority's Maintenance Director's salary, 10% of the Executive Director's salary, and 10% of the Accountant's salary. The payroll and fringe benefit expenditures are considered indirect costs; however, the Housing Authority does not have an approved indirect cost allocation plan. Payroll and fringe benefit expenditures did not meet the documentation requirements for allocating costs per OMB Circular A-87 Appendix C, Section 11(h)(4). We will issue federal questioned costs of \$231,040.

The Housing Authority made 154 disbursements totaling \$708,259 for capital improvements. We reviewed the Board minutes noting that major capital improvement purchases were approved by Board resolution. We reviewed expenditures and determined the expenditures would be considered eligible costs in accordance with the Housing Authority's Annual Contribution's Contract (ACC) and HUD Guidebook 7485.3G, Chapter 2, Section 3(A) Eligible Costs. However, HUD Guidebook 7485.3G, Chapter 4, Section 4, Submission and Components of Comprehensive Plan, states "in its first year of participation in the CGP and every sixth year thereafter, the Housing Authority shall develop and submit a Comprehensive Plan. The Comprehensive Plan is comprised of the following: Executive Summary; Physical Needs Assessment; Five Year Action Plan; Management Needs Assessment; Local Government Statement; and Housing Authority Board Resolution.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

We requested from the Housing Authority a copy of its Comprehensive Plan and Physical Needs Assessment Plan which identifies all needed improvements. The Housing Authority could not provide these documents during the course of the audit; therefore, we could not determine whether the Housing Authority's capital improvement expenditures from the (CIAP) Grant were approved by HUD, and in accordance with its Comprehensive Plan and Five Year Action Plan. We will recommend the Housing Authority maintain copies of these documents.

In Issue No. 2 of this report, we noted the Housing Authority made 11 disbursements totaling \$37,213 as financial contributions to Morgan Options, Inc., from its CIAP grant. We spoke with Ms. Hunt and her attorney concerning this and they asserted to us that the financial contributions were not required to be repaid and that the grant provided for these types of expenditures. We further noted that these disbursements were unrelated to, and did not benefit the Housing Authority program for which the federal funds were intended. As a result, we questioned these costs in Issue No. 2 of this report.

We noted that the Housing Authority made two disbursements totaling \$26,000 from its CIAP grant to the Section 8 Program. These disbursements were to repay loans which the Section 8 Program made directly to Morgan Options, Inc. We noted in Issue No. 2 that the Housing Authority used Section 8 Program funds to make loans totaling \$79,205 to Morgan Options, Inc. Because the loans were unrelated to, and did not benefit the Housing Authority program for which the federal funds were intended, we issued federal questioned costs in Issue No. 2 for these loans.

The Housing Authority made 7 disbursements totaling \$700 related to Morgan Options, Inc.'s Summer Lunch Program. The Housing authority was unable to provide documentation which supported that these disbursements were for capital improvements and related to the CIAP grant. As a result, we will issue federal questioned costs of \$700 for the CIAP grant.

The Housing Authority made 2 disbursements totaling \$475 for the rental of a van. The Housing authority was unable to provide documentation which supported that these disbursements were for capital improvements and related to the CIAP grant. As a result, we will issue federal questioned costs of \$475 for the CIAP grant.

The Housing Authority made 3 disbursements totaling \$2,245 for consulting fees related to the production of a newsletter and grant writing services. The Housing authority was unable to provide documentation which supported that these disbursements were for capital improvements and related to the CIAP grant. As a result, we will issue federal questioned costs of \$2,245 for the CIAP grant.

Two entries in the general ledger totaling \$2,484 were not supported by a journal voucher. The entries were labeled as "balance the ledger". There was no support for these entries. Because these unsupported entries increased the charges to the CIAP grant, we will issue federal questioned costs for these items. We also issued a management comment in Issue No. 2 regarding unsupported journal entries.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

FEDERAL QUESTIONED COSTS

The Housing Authority's Annual Contribution's Contracts, "As Amended" (ACC) No. C-5093 Comprehensive Improvement Assistance Program (CIAP) Grant with the Secretary of Housing and Urban Development (HUD) states that the Housing Authority shall comply with all applicable laws, executive orders, and regulations contained in Title 24 of the Code of Federal Regulations (CFR).

Title 24 CFR 85.22, Allowable Costs, Part (b) Applicable Cost Principles states the principles of the Office of Management and Budget (OMB) Circular A-87 entitled "*Cost Principles for State and Indian Tribal Governments*", Attachment A, Allowable Costs Section (C)(1)(j) provides guidelines for identifying allowable costs for federal grants. "The Circular provides that for a cost to be allowable, the cost must be reasonable. A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under circumstances prevailing at the time the decision was made to incur the cost. The question of reasonableness is particularly important when the governmental unit is predominately federally funded. In determining reasonableness of a given cost, consideration shall be given as to whether the cost of this type generally is recognized as ordinary and necessary for the operation of a metropolitan housing authority or the performance of the Federal award."

In addition, Section (C)(1)(j) of the Circular also provides that for a cost to be allowable, the expenditure must be adequately documented. For employees who work on multiple activities, Appendix C, Section 11, (h), (4) requires that the distribution of the employees' salaries be supported by personnel activity reports.

100% of the Housing Authority Maintenance Director's and 10% of the Executive Director's and Accountant's payroll, salary and fringe benefits for the Period were paid from the Comprehensive Improvement Assistance Program (CIAP) Grant. In addition, 2 journal entries in the general ledger for a capital improvement account were not supported by a journal entry voucher or supporting documentation; therefore, charges to this account from this grant did not meet the documentation requirements per OMB Circular A-87, Appendix C Section 11(h)(4).

The following expenditures made from the Comprehensive Improvement Assistance Program (CIAP) grant were either unallowable or not adequately documented in accordance with OMB Circular A-87.

<u>Fiscal Year</u>	<u>Undocumented Payroll, Salaries, & Benefits</u>	<u>Unallowable</u>	<u>Other Undocumented Grant Charges</u>	<u>Total</u>
June 30, 1998	\$61,829	\$695	\$2,484	\$65,008
June 30, 1999	48,420	700		49,120
June 30, 2000	44,586	1,025		45,611
June 30, 2001	43,383	1,000		44,383
June 30, 2002	<u>32,822</u>			<u>32,822</u>
Total	<u>\$231,040</u>	<u>\$3,420</u>	<u>\$2,484</u>	<u>\$236,944</u>

MANAGEMENT COMMENT

Comprehensive Plan

We requested from the Housing Authority a copy of its Comprehensive Plan which identifies all Housing Authority needed improvements. The Housing Authority could not provide these documents during the course of the audit; therefore, we could not determine whether the Housing Authority's capital improvement expenditures during the Period from the Comprehensive Improvement Assistance Program (CIAP) Grant were approved by HUD, and in accordance with its Comprehensive Plan and Five Year Action Plan.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

The Comprehensive Plan is the focal point of the Housing Authority's modernization and improvement plan. The Plan should identify all of the planned physical improvements needed for the Housing Authority. The Plan serves as a management tool in monitoring the progress and spending for projects which the Housing Authority plans to undertake.

We recommend the Housing Authority maintain copies of these documents. Management and the Board should periodically review these documents to determine whether the Housing Authority is following the Plan and expenditures made from the CIAP grant are in accordance with program objectives.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

Issue No. 4 - Review credit card purchases for the Period made with the Housing Authority's Corporate American Express credit cards to determine whether they were authorized, in accordance with the Housing Authority's policies, grant agreements and contracts, and for a purpose related to the Housing Authority.

PROCEDURES

1. From the Housing Authority's check registers for the Period, we identified and scheduled payments to this credit card company.
2. We obtained and reviewed canceled checks, accounts payable vouchers, travel expense forms, and other supporting documentation for credit card payments made and determined whether these payments were authorized, in accordance with Housing Authority policies, grant agreements and contracts, and for a purpose related to the Housing Authority.
3. We interviewed Ms. Hunt concerning questionable or unsupported expenditures. Ms. Hunt's responses to these questions were incorporated into the Results of Procedure No. 2, as appropriate.

RESULTS

1. We reviewed the Board Minutes and determined that the Board did not formally pass a resolution authorizing the Executive Director to apply for a Housing Authority credit card. We spoke with Ms. Hunt and her attorney and they asserted that the Board asked her to secure a credit card for the benefit of the Board. The Housing Authority could not provide a copy of the original credit card application.

We identified six credit cards issued in the names of five Housing Authority employees and one Morgan Options, Inc. employee as follows.

- Lorraine Hunt – Executive Director of Morgan Metropolitan Housing Authority and Morgan Options, Inc. President and CEO
- Janet Sweet – Deputy Director of Morgan Metropolitan Housing Authority
- Mary Ruth Coles – Family Self-Sufficiency Coordinator for Morgan Metropolitan Housing Authority
- Barbara Hambel – Administrative Assistant and Family Self-Sufficiency Coordinator for Morgan Metropolitan Housing Authority
- Jeanna Hopkins – Accountant for Morgan Metropolitan Housing Authority
- Jeff Duncan – Morgan Options, Inc. Asset Development Coordinator and General Manager

Although Mr. Duncan was an employee of Morgan Options, Inc. and not of the Housing Authority, he was an authorized cardholder of a Housing Authority credit card. We will recommend that the Housing Authority adopt and implement a credit card policy which outlines policies and procedures for authorizing cardholders.

We scheduled credit card expenditures from the Housing Authority's check registers and determined that the Housing Authority made 51 payments related to 670 charges totaling \$63,662 to American Express for charges on its Corporate American Express credit cards during the Period. Using the canceled checks of Morgan Options, Inc., we also identified nine payments related to 99 charges totaling \$12,654 made by Morgan Options, Inc. directly to American Express for purchases made with the Housing Authority's Corporate American Express credit card which benefited Morgan Options, Inc., rather than the Housing Authority.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

For the 51 payments made by the Housing Authority, the number of charges by cardholder was as follows:

<u>Name of Cardholder</u>	<u>Number of Charges</u>	<u>Amount Charged</u>
Lorraine Hunt	403	\$32,585
Janet Sweet	48	6,372
Mary Ruth Coles	49	3,297
Barbara Hambel	95	11,553
Jeanna Hopkins	2	145
Jeff Duncan	68	7,378
Unknown	<u>5</u>	<u>2,332</u>
Total	<u>670</u>	<u>\$63,662</u>

The following table summarizes the types of purchases made by the above cardholders.

<u>Description of Purchase</u>	<u>Total</u>
Office Supplies, Copying, and Postage Expense	\$5,524
Furniture, Fixtures, and Equipment	4,176
Education and Art Supplies	6,574
Membership Fees, Dues, and Subscriptions	2,192
Training	5,128
Travel	20,025
Meals and Gratuities	7,133
Vehicle Repairs and Maintenance	1,750
Clothing and Toys	2,450
Gifts, Flowers and Cards	754
Unidentified Purchases	4,503
Other	<u>3,453</u>
Total	<u>\$63,662</u>

For the nine payments made by Morgan Options, Inc. directly to American Express for purchases made with the Housing Authority's Corporate American Express credit card(s) which benefited Morgan Options, Inc., the number of charges by cardholder was as follows:

<u>Name of Cardholder</u>	<u>Number of Charges</u>	<u>Amount Charged</u>
Lorraine Hunt	39	\$3,554
Janet Sweet	1	537
Mary Ruth Coles	4	583
Barbara Hambel	18	3,536
Jeff Duncan	<u>37</u>	<u>4,444</u>
Totals	<u>99</u>	<u>\$12,654</u>

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

The following table summarizes the types of purchases made by the above cardholders.

<u>Description of Purchase</u>	<u>Total</u>
Office Supplies, Copying and Postage Expense	\$1,976
Furniture, Fixtures, and Equipment	873
Education and Art Supplies	3,650
Film, Disposable Cameras, and Developing	703
Training	537
Travel	615
Meals & Gratuities	852
Decorations and Other Household Items	1,086
Clothing & Toys	485
Unidentified Items	496
Other	<u>1,381</u>
Total	<u>\$12,654</u>

Both the Housing Authority and Morgan Options, Inc. employees used Housing Authority Corporate American Express credit cards to make purchases for Morgan Options, Inc. Although Morgan Options, Inc. remitted payment directly to the credit card company for these charges, the Housing Authority incurred debt, and it would have been liable for payment. We will recommend the Housing Authority adopt and implement a credit card policy to address the types of purchases allowed and authorized card users.

2. Corporate American Express provided the Housing Authority with a monthly statement which listed the date, vendor name, type of vendor, and amount charged. Additionally, the charges were detailed by cardholder. Ms. Hunt often noted on the credit card statements account codes to which the credit card charge was to be posted. As a result, we were often able to determine the nature of a credit card charge based on the information noted on the monthly credit card statement even though original, itemized receipts were not attached to the accounts payable voucher. During our review of supporting documentation for the charges incurred on the Housing Authority's credit cards, we noted the following exceptions and/or questionable charges:
 - 228 charges totaling \$18,796 for purchases which benefited Morgan Options, Inc. and were not for a purpose related to the operations of the Housing Authority.
 - 2 instances totaling \$1,470; whereby, purchases for catering, beer, and wine for a Christmas party were made with the Housing Authority credit card and were not for a purpose related to the operations of the Housing Authority.
 - 142 instances totaling \$12,207; whereby, the charge was not supported by an original itemized receipt or a receipt was attached but was not itemized; therefore, a business purpose could not be determined.
 - 22 instances totaling \$2,036; whereby, a business purpose was documented on a travel expense form or credit card statement, but was not supported by an original itemized receipt.
 - 27 instances totaling \$627; whereby, the charge was supported by a receipt; but the business purpose could not be determined when the documentation was reviewed.
 - 2 instances totaling \$2,303; whereby, the Housing Authority issued a check to the credit card company, but it did not maintain a copy of the credit card statement or supporting documentation for the purchases related to this payment.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

The payments for these charges were paid from the federal Public and Indian Housing Grant program. We spoke with Ms. Hunt concerning these purchases and she asserted that the Board approved all these expenditures. Ms. Hunt did not provide any documentation to support her assertion. We will issue federal questioned costs of the Public and Indian Housing Grant program totaling \$37,439 for unallowable and undocumented expenditures.

FEDERAL QUESTIONED COSTS

Unallowable and Undocumented Public and Indian Housing Program Expenditures

The Housing Authority's Annual Contribution's Contracts, "As Amended" (ACC) No. C-383 Public Housing Grant with the Secretary of Housing and Urban Development (HUD) states that the Housing Authority shall comply with all applicable laws, executive orders, and regulations contained in Title 24 of the Code of Federal Regulations (CFR).

Title 24 CFR 85.22, Allowable Costs, Part (b) Applicable Cost Principles state that the principles of the Office of Management and Budget (OMB) Circular A-87 entitled "*Cost Principles for State and Indian Tribal Governments*, Attachment A, Allowable Costs Section (C)(1)(j) which provides guidelines for identifying costs for federal grants. The Circular provides that for a cost to be allowable, the expenditure must be allowable and adequately documented.

The former executive director, other Housing Authority and Morgan Options, Inc., employees used credit cards to charge expenditures that were paid for with federal Public and Indian Housing Program funds. These expenditures were unallowable expenditures. In addition, we noted other significant expenditures of Public and Indian Housing funds which were not supported by adequate documentation.

The following is a summary of questioned costs by grant year for the Public and Indian Housing program for unallowable and undocumented expenditures.

Fiscal Year	Unallowable	Unsupported	Amount
1998	\$1,338	\$4,797	\$6,135
1999	2,802	2,318	5,120
2000	4,169	1,065	5,234
2001	5,354	2,005	7,359
2002	<u>6,603</u>	<u>6,988</u>	<u>13,591</u>
Total	<u>\$20,266</u>	<u>\$17,173</u>	<u>\$37,439</u>

MANAGEMENT COMMENTS

Credit Card Policy and Procedures

There were 6 credit cards issued in the names of 5 Housing Authority employees and 1 Morgan Options, Inc. employee. The Board did not formally pass a resolution authorizing the former Executive Director to apply for a Housing Authority credit card. Additionally, during the Period the Housing Authority did not have a formal written credit card policy. On March 18, 2002, the Board passed a resolution, effective immediately, which mandated that all credit cards be kept in the office vault, under the control of the Accountant. A sign-in/sign-out sheet would be used to document credit card usage. Since that date, the Housing Authority has ceased using the Corporate American Express credit cards. During our review of the Housing Authority Corporate American Express credit card expenditures, we noted the following:

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

- Charges for purchases related to Morgan Options, Inc. and not for a purpose related to the operations of the Housing Authority.
- Charges for catering services and the purchase of beer and wine for a Christmas party.
- Charges not supported by an original receipt or if a receipt was provided, it was not itemized; thus not documenting the business purpose of the charge.
- Charges which were supported by a receipt; however, the business purpose could not be determined when the supporting documentation was reviewed.
- Instances where the Housing Authority issued a check to the credit card company but did not maintain a copy of the credit card statement or supporting documentation for the purchases related to this payment.

Permitting the use of direct bill Housing Authority credit cards and payment of these credit card bills without the credit card statement or supporting documentation allows purchases to be made with federal funds which are not related to the operations of the Housing Authority and are not in accordance with the Housing Authority's grant agreements.

We recommend the Housing Authority discontinue the use of direct bill Housing Authority credit cards. Business and travel related expenses incurred by employees on behalf of the Housing Authority should be reimbursed to the individual following completion and approval of an expense reimbursement form and upon submission of appropriate documentation to support the business related expense incurred. Documentation should support that the expense was related to the operations of the Housing Authority.

Should the Housing Authority continue to use direct bill credit cards issued in the name of the Housing Authority, the Board should establish and formally adopt a written credit card policy and related administrative procedures. The policy and procedures should include, but not be limited to the following:

- Identification of individuals authorized to use the Housing Authority credit card(s).
- Identification of the types of charges allowed.
- A requirement that purchase orders be utilized with pre-approved amounts for credit card transactions.
- Board established maximum gratuities permitted.
- A requirement that all purchases made with credit cards be supported by an itemized receipt or other supporting documentation.
- A requirement that all credit card expenditures be reviewed by the Board to ensure the purchases related to the operations of the Housing Authority.
- Board established credit limits on the credit cards.
- A prohibition on the use of Housing Authority credit cards by other outside organizations or unauthorized individuals.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

Issue No. 5 – We reviewed Housing Authority nonpayroll expenditures made for the Period that were not reviewed in Issue Nos. 1 through 4 and determined whether they were in accordance with Housing Authority policies, grant agreements and contracts, and for a purpose related to the Housing Authority.

PROCEDURES

1. We obtained a vendor payment history report for the Period.
2. We reviewed the vendor history report and identified large or unusual amounts paid to vendors which required further investigation.
3. We obtained supporting documentation for all payments identified as unusual and verified whether these payments were in accordance with Housing Authority policies, grant agreements and contracts, and for a purpose related to the Housing Authority.
4. We interviewed Ms. Hunt concerning questionable or unsupported expenditures. Ms. Hunt's responses to these questions were incorporated into the results of Procedure No. 3, as appropriate.

RESULTS

1. We obtained vendor payment history reports for the Period from the Housing Authority's Accountant, Jeanna Hopkins, and we noted the following information listed in the reports:

<u>Calendar Year</u>	<u>No. of Vendors</u>	<u>Total Amount Paid</u>
1997	152	\$184,681
1998	223	375,436
1999	164	397,600
2000	181	423,632
2001	186	463,300
2002	<u>141</u>	<u>213,871</u>
Total	<u>1,047</u>	<u>\$2,058,520</u>

As noted in Issue No. 1, the Housing Authority also issued manual checks during the Period which were not included on the vendor payment history reports. Therefore, we could not ensure the completeness of these reports.

2. We reviewed the vendor payment history reports for large or unusual amounts paid to vendors. Based on our review and discussions with Housing Authority employees and its legal counsel, we identified payments to 23 vendors which we felt warranted further investigation.
3. As noted in the Result No. 2, we identified payments to 23 vendors which we felt warranted further investigation. We identified 136 payments totaling \$50,488 to the 23 vendors. Our review of the supporting documentation for payments to the vendors noted the following exceptions:

Sam's Club

During the Period, the Housing Authority made four payments totaling \$385 to Sam's Club for membership renewals, supplies and groceries. We noted four payments totaling \$195 were for membership fees for Lorraine Hunt and five other employees. These membership fees were reimbursed annually by Ms. Hunt and the employees to the Housing Authority.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

AAA Ohio Auto Club

During the Period, the Housing Authority made five payments totaling \$296 for annual memberships to the Ohio Auto Club (AAA). Memberships were in Lorraine Hunt's name, and the billing information which was reviewed indicated that the invoices had been sent directly to her home address. We spoke with Ms. Hunt concerning these expenditures and she asserted that the memberships were purchased for the Housing Authority's vehicles. Ms. Hunt did not provide any documentation to support her assertion. We spoke with a representative from the Ohio Auto Club who asserted that all memberships must be purchased for individual use only. These expenditures were not for a purpose related to the Housing Authority. We will issue a Finding for Recovery against Lorraine Hunt in the amount of \$296.

Lowes Home Improvement

During the Period, the Housing Authority made 14 payments totaling \$1,919 to Lowes for various purchases on its revolving business account. We noted two payments totaling \$361 and \$674, respectively, were not supported by detailed itemized receipts. While reviewing the Lowes vendor files, we noted a money order dated December 2, 1998 for \$859 made payable to the Housing Authority. We spoke with Ms. Hunt and she asserted that she made personal purchases and reimbursed the Housing Authority for these purchases. Ms. Hunt did not provide any documentation to support her assertion. We could not determine the item(s) purchased or item(s) to which the reimbursement related because there was no individual invoice or statement which equaled this amount. We will issue federal questioned costs of \$1,035 for the Public and Indian Housing Grant program for unsupported expenditures.

Majestic Paint

During the Period, the Housing Authority made three payments totaling \$1,376 to Majestic Paint. We noted one payment totaling \$156 was not supported by an invoice. As a result, we could not determine whether the purchase was for a purpose related to the operations of the Housing Authority. We will issue federal questioned costs of \$156 for the Public and Indian Housing Grant program for unsupported expenditures.

YWCA

We noted one payment totaling \$250 for dinner for eight individuals at an event titled "Sustaining Sponsorship Program." The Housing Authority was unable to provide documentation indicating this expenditure was for a purpose related to the operations of the Housing Authority. As a result, we will issue federal questioned costs of \$250 for the Public and Indian Housing Grant program.

Morgan Metropolitan Housing Authority

We identified payments from the vendor history reports which indicate the Housing Authority wrote checks to itself. After further review of canceled checks, check copies, bank statements, and Housing Authority files, we determined that the Housing Authority wrote 4 checks and made 3 bank transfers totaling \$111,443 from its operating account to the Section 8 Program bank account. The check copies for the 4 payments indicated that these payments were repayment of loans from the Section 8 Program bank account. There was no supporting documentation for the 3 transfers. Based on the requirements of the Section 8 Program; loans were not allowed to be made with these program funds. We will issue federal questioned costs of \$111,343.

We also identified 10 payments totaling \$82,500 made from the Housing Authority's Section 8 bank account and deposited into the Housing Authority general operating account. The check copies indicated that these were "loans"; however, the Housing Authority's accounting records do not indicate as such. We will issue federal questioned costs of \$82,500 for the Section 8 Program for unallowable expenditures.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

FINDING FOR RECOVERY

AAA Membership Fees

During the Period, the Housing Authority made 5 payments totaling \$296 to the Ohio Auto Club for annual memberships which were in Lorraine Hunt's name, and the billing information reviewed indicated that the invoices had been sent directly to Ms. Hunt's home address. We spoke with Ms. Hunt concerning these expenditures and she asserted that the membership was purchased for the Housing Authority's vehicles. Ms. Hunt did not provide any documentation to support her assertion. We spoke with a representative from the Ohio Auto Club, and she asserted that all memberships must be purchased for individual use only. These expenditures were not for a purpose related to the Housing Authority.

In accordance with the foregoing facts pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery is hereby issued against Lorraine Hunt, Housing Insurance Services, Inc., the Housing Authority's bonding company, jointly and severally, for public moneys illegally expended in the amount of \$296 in favor of the Morgan Metropolitan Housing Authority.

FEDERAL QUESTIONED COSTS

Section 8 Housing "Loans"

The Housing Authority's Consolidated Annual Contribution's Contracts, "As Amended" (ACC) C-5065 Section 8 Housing Certificate Program and Housing Voucher Program with the Secretary of Housing and Urban Development (HUD) state that the Housing Authority shall comply with all applicable laws, executive orders, and regulations contained in Title 24 of the Code of Federal Regulations (CFR).

Title 24 CFR 85.22, Allowable Costs, Part (b) Applicable Cost Principles state that the principles of the Office of Management and Budget (OMB) Circular A-87 entitled "*Cost Principles for State and Indian Tribal Governments*, Attachment A, Allowable Costs Section (C)(2)(a) provides guidelines for identifying allowable costs for federal grants. "The Circular provides that for a cost to be allowable, the cost must be reasonable. A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under circumstances prevailing at the time the decision was made to incur the cost. The question of reasonableness is particularly important when the governmental unit is predominately federally funded. In determining reasonableness of a given cost, consideration shall be given as to whether the cost of this type generally is recognized as ordinary and necessary for the operation of a metropolitan housing authority or the performance of the Federal award."

The Housing Authority made loans to the Housing Authority's operating account from its federal Section 8 Housing program. These expenditures were unrelated to, and did not benefit any housing authority programs for which the federal funds were intended and as such are not recognized as ordinary and necessary for the operation of the Housing Authority or the performance of the program. These transactions were identified as both direct payments from the Section 8 Housing program account to the Housing Authority's operating account and payments from the operating account to the Section 8 Housing program account identified in the Housing Authority's records as "loan" repayments.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

The following is a summary of questioned costs by grant year for the federal Section 8 Housing program related to "loans" originating from the federal Section 8 Housing program.

<u>Fiscal Year</u>	<u>"Loan"</u> <u>Repayments</u>	<u>"Loans"</u>	<u>Total</u>
June 30, 1998		\$12,500	\$12,500
June 30, 1999	\$56,343	42,000	98,343
June 30, 2000	45,000	13,000	58,000
June 30, 2002	<u>10,000</u>	<u>15,000</u>	<u>25,000</u>
Total	<u>\$111,343</u>	<u>\$82,500</u>	<u>\$193,843</u>

Illegal and Undocumented Public and Indian Housing Program Expenditures

The Housing Authority's Annual Contribution's Contracts, "As Amended" (ACC) No. C-383 Public Housing Grant with the Secretary of Housing and Urban Development (HUD) states that the Housing Authority shall comply with all applicable laws, executive orders, and regulations contained in Title 24 of the Code of Federal Regulations (CFR).

Title 24 CFR 85.22, Allowable Costs, Part (b) Applicable Cost Principles state that the principles of the Office of Management and Budget (OMB) Circular A-87 entitled "*Cost Principles for State and Indian Tribal Governments*, Attachment A, Allowable Costs Section (C)(1)(j) which provides guidelines for identifying costs for federal grants. The Circular provides that for a cost to be allowable, the expenditure must be adequately documented, and moneys may not be illegally expended.

The former executive director used federal Public and Indian Housing Program funds to pay for personal memberships to the AAA Ohio Auto Club. We issued a finding for recovery related to those expenditures for public monies illegally expended. In addition, we noted several expenditures of Public and Indian Housing funds which were not supported by documentation.

The following is a summary of questioned costs by grant year for the Public and Indian Housing program for undocumented and illegal expenditures.

<u>Fiscal</u> <u>Year</u>	<u>Unsupported</u>	<u>Illegal</u> <u>Expenditure</u>	<u>Amount</u>
1998	\$406	\$56	\$462
1999	1,035	56	1,091
2000		56	56
2001		64	64
2002		<u>64</u>	<u>64</u>
Total	<u>\$1,441</u>	<u>\$296</u>	<u>\$1,737</u>

Total Questioned Costs Issue No. 5 - \$195,580.



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MORGAN METROPOLITAN HOUSING AUTHORITY

MORGAN COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JULY 24, 2003**