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Office of the Inspector General

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July 19, 2016

Mr. Michael Austin, Chairman
Board of Commissioners
Burlington Housing Authority
15 Birchcrest Street
Burlington, MA 01803

Re: Recommendations to Improve Oversight and Internal Controls

Dear Mr. Austin:

The Office of the Inspector General (“OIG”) has completed an investigation into credit card misuse by Maureen Lynch (“Lynch”), the former Executive Director of the Burlington Housing Authority (“BHA” or “Authority”). The OIG found that between 2009 and 2014, Lynch charged approximately \$65,000 on BHA’s credit card, which included a significant number of personal charges. Following the OIG’s investigation, Lynch was indicted by a Middlesex County grand jury for using her official position to secure an unwarranted privilege in connection with her personal use of the card. Lynch resigned from BHA in September 2015; she pled guilty to the unwarranted privilege charge in February 2016 after paying \$17,822 in restitution to discharge the balance on BHA’s credit card.

The OIG’s investigation revealed significant internal control weaknesses and oversight deficiencies by BHA’s Board of Commissioners (“Board”) that enabled Lynch to misuse the Authority’s funds. This letter outlines Lynch’s misconduct and the Board’s associated oversight and internal control failures. Also provided are recommendations to assist the Board to better protect its funds and more effectively oversee its employees.

Background

The evidence found during the OIG’s investigation indicates the following. BHA hired Lynch in 2000 as a bookkeeper. She was promoted to Executive Director in 2003. As the Executive Director, Lynch controlled BHA’s Bank of America (“BOA”) MasterCard. BHA did not have a credit card policy that outlined how the card should be used, by whom or for what purposes. Similarly, the payment process was lax. Authority staff listed credit card expenses on a list of “warrant of paid invoices” and Lynch presented the warrant to the Board for approval. The warrant listed the vendors’ names and the amount owed to each vendor. The Board did not require Lynch to provide any backup documentation, such as the credit card statement or an

explanation of why the BHA needed the items that she purchased. Checks to the credit card company required the signature of two Board members. According to staff, Board members' signature stamps were sometimes used to endorse the checks after approval from the respective Board members.

Further, Lynch reviewed BHA's credit card statements and tallied the amount of personal charges she incurred. To reimburse these charges, Lynch would typically provide BHA's bookkeeper with a check for her personal expenditures, and the bookkeeper would deposit the check in BHA's bank account. Occasionally, Lynch would pay BOA directly for the personal expenses she accumulated. After 2012, Lynch significantly increased her personal spending on the card while her reimbursements to BHA and BOA became less frequent.

Two other state agencies reviewed BHA's credit card use prior to the OIG's investigation. In 2009, the State Auditor's Office ("SAO") concluded that "the Authority lacked sufficient controls over expenditures made with the Authority's credit card," and that "certain expenditures were not adequately supported with the proper documentation." The Board did not respond to the audit report and made no changes to its credit card practices.

In 2012, the Department of Housing and Community Development ("DHCD") reviewed BHA's operations. During the review, DHCD discovered that Lynch had used BHA's credit card for personal purchases. DHCD instructed Lynch to stop using the card for personal expenses, to repay any personal charges and to assume responsibility for the debt by transferring the account to her own name.

Findings

1. Lynch used BHA's credit card for personal purchases.

The OIG found evidence that Lynch charged between \$30,000 and \$45,000 of personal expenses to BHA's credit card between 2009 and 2014. Compounding Lynch's extensive personal purchases, poor recordkeeping at BHA and a lack of complete documentation made it impossible to determine the exact amount of her charges. Examples of Lynch's use of the credit card for personal expenses include:

- \$5,000.00 in cash advances
- \$3,851.15 for airline tickets
- \$2,166.89 for a Disney World trip
- \$2,249.89 at a motorcycle shop in Orlando, Florida
- \$1,030.00 for tuition for her son to attend the Motorcycle Mechanics Institute in Orlando, Florida
- \$1,023.78 in expenses to move her son to Orlando, Florida
- \$1,263.93 for expenses related to her daughter's wedding
- \$1,667.78 for purchases at Best Buy
- \$1,216.04 from clothing retailers

- \$821.91 for dental work
- \$499.50 for a heating oil delivery to her home

Lynch essentially used BHA's credit card as her own personal line of credit, incurring unauthorized debt and finance charges in BHA's name. As set forth in Findings 3 and 4 below, the Board was unaware of this misconduct due to a lack of adequate controls and oversight.

In addition to Lynch, BHA's maintenance supervisor had a BHA credit card. The OIG found that the maintenance supervisor used his BHA credit card for work-related purchases. Further, he used it sparingly, for purchases that could not be made through existing accounts established with local vendors. It appears, however, that between 2008 and 2010, Lynch used the maintenance supervisor's BHA credit card to charge approximately \$4,000 in personal purchases. Again, the Board was unaware of this misconduct due to a lack of adequate controls and oversight.

2. Lynch's spending increased dramatically after DHCD told her to stop using the Authority's credit card for personal expenses.

At the time of DHCD's 2012 review, Lynch was using BHA's credit card primarily for personal expenses. After DHCD's review – and after having been informed about the inappropriate nature of using the card for personal purposes – Lynch continued to use the credit card almost exclusively for personal expenditures. After receiving DHCD's directive, moreover, Lynch asked the credit card company for multiple credit limit increases. Over a three-month period, BOA increased the credit limit on BHA's card from \$5,000.00 to \$20,000.00 at Lynch's request. Lynch charged more than \$30,000 to the card between June 2012 and August 2014. Of this amount, at least \$20,000 was personal. The card also accumulated nearly \$5,000 in interest charges and almost \$1,000 in late payment penalties.

Lynch's increased personal charges after DHCD's review coincided with a significant decrease in the rate at which she made reimbursements to BHA or the credit card company. As a result, the overall credit card balance grew from less than \$500 in June 2012 to over \$20,000 in May 2013. Eventually, the credit card company would not allow BHA to use the card because Lynch had exceeded the \$20,000 credit limit. In September 2014, Lynch began using a debt management company to assist her to pay off the credit card and to forestall collection activity.

By ignoring DHCD's directive, Lynch put the Authority's funds and credit rating at risk. As detailed in Findings 3 and 4 below, inadequate oversight by the Board allowed Lynch's misconduct to continue and escalate.

3. The Board did not appropriately oversee the use of the Authority's credit cards.

The Board did not adequately oversee the Executive Director and it failed to establish a written credit card policy. First, as discussed above, the Board did not require Lynch to submit any backup documentation before approving payments to the credit card. Rather, the Board

received a warrant from Lynch that listed the amounts due to each vendor, including BOA. This list did not provide sufficient details, such as exactly what Lynch had bought or how the expenses were related to BHA's operations. The Board could have identified Lynch's misconduct if it had required her to submit backup documentation, such as credit card statements, store receipts or invoices. Instead, the Board's lack of oversight provided Lynch with the opportunity to make personal purchases on the Authority's credit card.

The Board also failed to establish a credit card policy outlining how BHA's credit cards could be used, the approval process for credit card purchases, the required backup documentation for approving purchases, the reconciliation and audit procedures, and the disciplinary consequences for failure to use the card in an appropriate manner. The failure to have such a policy resulted in a lack of internal controls that allowed Lynch to consistently use BHA's credit card for her personal purposes.

In all, the Board failed to meet its duty to establish sound policies and exhibit proper oversight over the expenditure of BHA's funds. The Board exhibited a complete reliance on Lynch and provided her with opportunities to misuse BHA's funding. By doing so, the Board failed to fulfill its critical oversight role.

4. The Board failed to respond to concerns raised by the State Auditor's Office and DHCD.

As noted above, the State Auditor's Office ("SAO") issued a report concerning BHA in January 2009. This report concluded that BHA lacked adequate internal controls over credit card expenditures and that certain charges were not supported with appropriate backup documentation. The SAO recommended that BHA "improve its internal controls over credit card expenditures by requiring that supporting documentation (*i.e.*, store receipts or invoices) be submitted for all purchases or services paid by credit card."

The Board chose not to respond to the audit report and failed to address the findings or recommendations. Specifically, the Board did not require complete backup documentation for credit card expenses in the form of receipts or invoices. Furthermore, the Board did not implement a written credit card policy or provide any additional scrutiny of credit card expenses in light of the audit. Rather, in 2009, two Board members defended BHA's practices in a local newspaper, referring to the report's credit card findings as a "miniscule" issue.

By ignoring the SAO's recommendations, BHA's Board continued an environment that was susceptible to credit card abuse. If the Board had improved internal controls or applied the appropriate scrutiny to Lynch's credit card expenditures, the Board could have detected Lynch's misconduct.

Furthermore, the Board failed to exercise reasonable due diligence in response to DHCD's 2012 review, especially in light of the SAO's 2009 report. After learning of DHCD's review, the Board should have exhibited greater concern and taken all steps necessary to

determine why DHCD was on site and whether it had provided any recommendations to BHA staff. Specifically, the Board should have followed up with DHCD staff directly to determine if there were any outstanding issues or concerns regarding BHA's operations.

Conclusion and Recommendations

The Board failed to adequately oversee Lynch or the use of BHA's credit cards. These failures created opportunities for the Executive Director to abuse her position and created an environment that rendered the Authority vulnerable to fraud, waste and other abuses. The Executive Director spent tens of thousands of dollars using the Authority's credit card for personal items without the Board's knowledge. The Board had no policies in place to regulate the use of BHA's credit cards or the Executive Director's ability to incur debt. To address these deficiencies, the OIG recommends that the Board take the following actions:

1. Establish and disseminate a written credit card policy that, at a minimum:
 - a. Defines the appropriate and inappropriate uses of the Authority's credit card, including an express prohibition against using the card for personal purchases or using another BHA employee's credit card;
 - b. Establishes appropriate and reasonable purchasing thresholds. The Board should set an individual purchase threshold (*e.g.*, \$500); purchases above the threshold would require the Board's pre-approval, in writing;
 - c. Requires staff to submit adequate supporting documentation for all purchases, including records that clearly identify the item purchased and its specific business-related purpose. BHA should maintain a complete set of the supporting documentation for audit purposes;
 - d. Describes disciplinary procedures that will result from inappropriate credit card use, including but not limited to the revocation of card privileges for failing to submit the required supporting documentation and termination for using the credit card for personal charges; and
 - e. Outlines the process for regularly reviewing credit card usage and backup documentation. At a minimum, the Board should review the Executive Director's credit card statements and backup documentation monthly, and the Board should not authorize any payments without thoroughly reviewing these documents.
2. Review the current credit limits on the Authority's credit cards to ensure they are at appropriate levels given the typical monthly purchases made on the cards.
3. Conduct a periodic audit of all credit card statements, including a review of receipts and the goods purchased, to ensure that staff are not making unauthorized charges without the Board's knowledge.

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4. Consider requiring staff to submit for reimbursement rather than using a BHA credit card when making incidental purchases.
5. Consult with DHCD regarding training and other services available to assist BHA with respect to internal controls, ethics, public bidding laws (M.G.L. c. 30B) and fraud prevention.
6. Determine whether sufficient internal controls exist with respect to Board members' signature stamps, and whether the practice of endorsing checks with signature stamps should be discontinued.
7. Contact DHCD and the SAO to determine if there are any outstanding recommendations from their respective reviews, and implement corrective actions as appropriate.

This Office requests that the Board respond by to this letter, by August 19, 2016, in writing, and identify what actions BHA will take to implement to these recommendations. Please let us know if we can be of further assistance with this or any other matter. Thank you in advance for your cooperation.

Sincerely,



Glenn A. Cunha
Inspector General

cc: Colleen Lacey, Executive Director, Burlington Housing Authority
Sarah Glassman, Department of Housing and Community Development
Kenneth Woodland, Office of the State Auditor