



**2019 OSA Albert Lea Housing and Redevelopment Authority Investigation
Resulted in Felony Charge**

October 21, 2022

The Office of the State Auditor (OSA) received information from the City of Albert Lea (City) regarding financial issues at the Albert Lea Housing and Redevelopment Authority (HRA), including a shortfall of cash deposits.

In cooperation with the Albert Lea Police Department, the OSA reviewed HRA financial records from 2011 through 2018. Based on this review, the OSA prepared an Investigative Report, finding a cash shortfall of **at least \$201,986.17** in apparently diverted tenant rent payments. The OSA provided its Investigative Report to the Albert Lea Police Department and the Freeborn County Attorney's Office on April 10, 2019, for their use in possible further criminal investigation and pursuit of prosecution. At that time, the OSA's Investigative Report was not public, pursuant to Minn. Stat. § 6.715.

Subsequently, on August 16, 2022, federal prosecutors brought theft charges against the former bookkeeper in federal court, alleging theft of more than \$213,000 from the HRA. On October 12, 2022, the former bookkeeper of the HRA pleaded guilty in U.S. District Court to one count of Theft from Program Receiving Federal Funds.¹ The October 12, 2022, plea agreement includes information on possible sentences and reflects an agreement that the former bookkeeper should be ordered to pay restitution of \$213,217 to the HRA.

With the entry of the plea agreement, the OSA now is able to make available a public version of the Investigative Report given to law enforcement in 2019. A copy of this public version is attached.

¹ See United States District Court District of Minnesota Criminal No. 22-185.



INVESTIGATIVE REPORT

Albert Lea Housing and Redevelopment Authority PUBLIC VERSION¹

Executive Summary

The Office of the State Auditor (OSA) received information from the City of Albert Lea (City) regarding financial issues at the Albert Lea Housing and Redevelopment Authority (HRA), including a shortfall of cash deposits, questionable reductions of tenant accounts receivable, missing receipt records, and questionable supply purchases. The City discovered these issues upon the departure of the HRA's now former bookkeeper (former bookkeeper) on July 18, 2018.²

In response, the OSA contacted the City, the HRA, and the Albert Lea Police Department (Police Department). In cooperation with the Police Department, the OSA reviewed HRA financial records. Many government records relevant to the reported issues were missing. Due to differences in the availability of pertinent government records, the OSA divided its review as follows.

First, the OSA performed a detailed comparison of cash received by the HRA as received from tenants to cash deposited by the HRA during the period of 2016 through 2018.³

Second, for the period 2011 through 2018, the OSA performed analytical procedures to provide context and to demonstrate the magnitude of the probable financial loss of public funds.

Review of 2016-2018 Records

In its detailed comparison of cash receipts to deposits for the period January 1, 2016, through July 31, 2018, the OSA found the following:

- 1) Receipt books for 7 of the 31 months in the review period were missing and unavailable for review,
- 2) A cash shortfall of at least **\$201,986.17** in tenant rent payments,⁴
- 3) Unexplained accounts receivable reductions totaling \$248,238.40, and

¹ A not public version of the Investigative Report was provided to law enforcement on April 10, 2019.

² City staff informed the OSA that the former bookkeeper held that position from July of 2008 through July 18, 2018. According to the City, the former bookkeeper abruptly left employment with the HRA on July 18, 2018.

³ The majority of the pre-numbered receipt books that documented tenant payments received by the HRA (receipt books) were not available for the years prior to 2016. As a result, the OSA set a review period of January 1, 2016, through July 31, 2018.

⁴ This total includes only the 24 months for which receipt books were available for review. In order to project a total shortfall, the OSA calculated the average cash shortfall per month ($\$201,986.17 / 24 \text{ months} = \$8,416.09$ per month), and assigned this amount for each of the seven missing months. The total projected shortfall for the seven missing months was $\$58,912.63$ ($\$8,416.09 \times 7 = \$58,912.63$). The resulting projected total cash shortfall for the full 31 months is $\$260,898.80$ ($\$201,986.17 + \$58,912.63 = \$260,898.80$).

- 4) Instances in which (a) individual tenants provided documentation showing they made rent payments, (b) the rent payments were not credited to their accounts, and (c) the amount due was instead reduced with an accounts receivable adjustment.

These findings appear to indicate a possible accounts receivable skimming scheme that may have diverted money from the HRA.

Analytical Analyses – 2011-2018 Records

The OSA's analytical procedures disclosed the following:

- 1) Although tenant billing remained relatively consistent for the period January 1, 2011, through December 31, 2018, rental revenue decreased, in large part due to **\$416,149.29** in unexplained accounts receivable reductions.⁵
- 2) Average monthly cash deposits for the period January 1, 2016, through December 31, 2018, increased from \$1,806 to \$18,239 (over nine times), after July 18, 2018.

Additional Concern

The City also reported that \$749.30 in supplies purchased with HRA funds were shipped to the former bookkeeper's address.

This report summarizes the OSA's findings and provides additional information about the HRA's finances during the period reviewed.⁶

Investigative Report

Background

The HRA is "a public body, corporate and politic."⁷ The Minnesota statutes governing HRAs were enacted for purposes that include providing adequate dwellings for the health, safety, morals, and welfare of citizens, and "to remedy the shortage of housing for low and moderate income residents."⁸ A seven-member Board governs the HRA.⁹ "Of the members, five members are elected by the City Council to serve five-year terms and two members are elected by the residents to serve two-year terms."¹⁰

The HRA is one of two legally separate discretely presented component units of the City.¹¹ This means that financial information regarding the HRA's operations are reported separately in the City's audited

⁵ This amount includes the \$248,238.40 reported for the period January 1, 2016, through July 31, 2018.

⁶ This Investigative Report covers certain issues reviewed by the OSA. Nothing herein should be interpreted to imply the absence of other issues or approval of any act or transaction not mentioned. We understand that law enforcement is continuing its investigative work and that additional information may exist or arise.

⁷ Minn. Stat. § 469.003.

⁸ Minn. Stat. § 469.001.

⁹ See Annual Financial Report of the Housing and Redevelopment Authority of Albert Lea for the Years Ended March 31, 2015, and 2014, and March 31, 2017, and 2016.

¹⁰ *Id.*

¹¹ See Comprehensive Annual Financial Report Albert Lea, Minnesota Year Ended December 31, 2017. The other discretely presented component unit is the Albert Lea Port Authority.

financial report in the government-wide financial statements.¹² The HRA is “backed by the full faith and credit of the City.”¹³

According to its 2017 and 2016 fiscal year-end report, 26.3% of the HRA’s revenue came from tenant rent income. The HRA has reported **decreases** in its “Net tenant rental revenue” each fiscal year since the fiscal year ended March 31, 2014, as follows:¹⁴

Fiscal Year ended March 31, 2017 - \$404,465 (\$58,240 less than 2014)
Fiscal Year ended March 31, 2016 - \$419,916 (\$42,789 less than 2014)
Fiscal Year ended March 31, 2015 - \$433,000 (\$29,705 less than 2014)
Fiscal Year ended March 31, 2014 - \$462,705

These decreases occurred without any concomitant decrease in amounts charged for tenant rent; as demonstrated in Chart 2, rent due remained relatively consistent.

The HRA accepted tenant rent payments made in cash, by check, or by money order in person at the HRA office or by mail. According to the City, the majority of tenant rent payments were made in person at the HRA office to an employee of the HRA. It was the HRA’s practice to record in-person payments in receipt books containing individual pre-numbered receipts.¹⁵

City staff informed the OSA that the former bookkeeper was the only employee responsible for preparing, making, and reconciling deposits.

The HRA managed tenant accounts payable records electronically. At the beginning of each month, the electronic tenant account records system (“the system”) generated an accounts receivable (rent due) balance for each billed tenant. Manual entries were made in the system to record rent payments received throughout the month and reduce the accounts receivable balance in the system. Accounts receivable adjustments were also manually made to either increase or decrease the amount of rent due.¹⁶

The OSA’s review for the period January 1, 2016, through July 31, 2018

1) Missing Receipt Books

As noted previously, the majority of receipts books were not available for the years prior to 2016. As a result, the OSA set a review period of January 1, 2016, through July 31, 2018. The OSA obtained the receipt books for this period and found that even these records were not complete. Receipts books

¹² See Comprehensive Annual Financial Report Albert Lea, Minnesota Year Ended December 31, 2017.

¹³ See Comprehensive Annual Financial Report Albert Lea, Minnesota Year Ended December 31, 2017, (Management’s Discussion and Analysis) p. 26.

¹⁴ See Annual Financial Report of the Housing and Redevelopment Authority of Albert Lea for the Years Ended March 31, 2015, and 2014, and March 31, 2017, and 2016.

¹⁵ It appears that not all in-person tenant payments were documented on receipts. For the review period, the OSA focused on those payments that were documented with receipts.

¹⁶ In many instances, the reason for a proper adjustment was documented (i.e. Tenant moved out). Proper accounts receivable adjustments should be minimal.

were not provided to the OSA for seven of the 31 months: the months of January and February 2016, and March, April, May, June, and July 2017.¹⁷

2) Cash Shortfall

In its review of available receipt books for this period, the OSA noted that a typical receipt documented the amount, payment type (cash, check, or money order), and date of specific tenant payments. The OSA isolated receipts that documented cash payments and compared them to cash deposits made around the same time.¹⁸

This comparison clearly shows that the majority of cash received by the HRA, as documented in the available receipt books, was not deposited into the HRA's bank account from January 1, 2016, through July 31, 2018.¹⁹ In total, this comparison revealed a shortfall of **\$201,986.17** in the HRA's deposits.²⁰ This comparison is presented in Chart 1, below.

3) Unexplained Accounts Receivable Reductions

To learn more about this cash shortfall, the OSA isolated a sample of cash receipts and traced them to individual accounts in the HRA's electronic tenant account records.²¹ This allowed us to see how a sample of individual tenant accounts were managed. The OSA found that several cash rent payments documented in the cash receipts were not then applied in their entirety to the corresponding individual tenant accounts to reduce rent due. Instead, rent due in the electronic tenant accounts was reduced with accounts receivable reduction entries.²² In other words, it appears individual cash payments were not fully credited to the HRA and the underlying electronic tenant records were adjusted to cover up the cash shortfall. Within the sample, the OSA also found two accounts receivable reduction entries recorded in the accounts of tenants who paid by check or money order. These unexplained accounts receivable reductions could not be tied directly to a missing cash payment of the same amount but may have been used to force the overall records to balance.

Based on these observations, the OSA accumulated all unexplained accounts receivable reductions made to the electronic tenant account records system. The OSA found \$248,238.40 in unexplained accounts receivable reductions in the period January 1, 2016, through July 31, 2018. The OSA summarized these reductions by month and compared them to the apparently diverted cash.

¹⁷ In addition, certain receipts were not legible or lacked pertinent information such as dollar amount or source of payment. The OSA observed \$30,319.50 in pre-numbered receipts dated within this period that did not document whether the payment was made in cash or by other means.

¹⁸ City staff reported that the HRA did not collect cash payments through other sources other than minor collections for a pop machine and that all cash deposits were made to one HRA bank account.

¹⁹ The HRA confirmed that this cash was not held un-deposited by the HRA.

²⁰ The OSA also looked at cash deposits in months for which no or minimal receipts were available and found no instances where it appears subsequent cash deposits could account for the discrepancies reported.

²¹ The OSA's sample included 232 receipts dated June 1, 2018, to August 8, 2018. 139 of them were dated June 1, 2018, through July 18, 2018.

²² 32 of the 139 receipts dated June 1, 2018, through July 18, 2018, appear to show payments received by the HRA that were not credited to the underlying tenant account; but instead the amounts due were reduced in the underlying tenant accounts as if the cash had not been received. There were no similar receipts after July 18, 2018.

The OSA's comparison of (1) the shortfall between cash documented as received and cash deposits, and (2) the accounts receivable reductions is presented in Chart 1, as follows:²³

Chart 1 - Potential Cash Skimming Scheme				
Period	Known HRA Documented Cash Received	Bank Confirmed HRA Cash Deposits	(1) Shortfall - Potentially Diverted Cash	(2) Unexplained Accounts Receivable Reductions
2016				
Qtr1				
Jan	<MISSING RECEIPTS>	1,359.65	<UNKNOWN>	(\$7,632.00)
Feb	<MISSING RECEIPTS>	2,683.00	<UNKNOWN>	(\$8,355.07)
Mar	11,890.00	3,791.37	(8,098.63)	(\$8,680.00)
Qtr2				
Apr	7,720.00	1,254.00	(6,466.00)	(\$2,566.00)
May	8,251.00	1,504.58	(6,746.42)	(\$12,901.00)
Jun	9,111.00	1,647.90	(7,463.10)	(\$6,527.00)
Qtr3				
Jul	11,792.00	2,750.45	(9,041.55)	(\$8,623.00)
Aug	11,239.00	1,379.42	(9,859.58)	(\$6,622.07)
Sep	9,029.00	1,934.20	(7,094.80)	(\$7,844.00)
Qtr4				
Oct	9,421.00	3,609.62	(5,811.38)	(\$11,062.31)
Nov	8,362.00	2,384.11	(5,977.89)	(\$13,613.00)
Dec	9,434.00	998.48	(8,435.52)	(\$7,756.00)
2017				
Qtr1				
Jan	7,997.00	473.00	(7,524.00)	(\$9,126.18)
Feb	6,910.00	1,059.73	(5,850.27)	(\$1,442.00)
Mar	<MISSING RECEIPTS>	3,301.79	<UNKNOWN>	(\$14,761.26)
Qtr2				
Apr	<MISSING RECEIPTS>	2,335.25	<UNKNOWN>	(\$579.00)
May	<MISSING RECEIPTS>	1,205.75	<UNKNOWN>	(\$9,597.50)
Jun	<MISSING RECEIPTS>	1,267.25	<UNKNOWN>	(\$4,283.00)
Qtr3				
Jul	<MISSING RECEIPTS>	3,131.00	<UNKNOWN>	(\$8,917.51)
Aug	8,525.00	1,535.00	(6,990.00)	(\$10,112.50)
Sep	9,447.00	1,337.00	(8,110.00)	(\$6,771.00)
Qtr4				
Oct	9,329.00	2,407.25	(6,921.75)	(\$7,610.00)
Nov	9,236.52	486.52	(8,750.00)	(\$8,731.00)
Dec	11,263.74	1,541.37	(9,722.37)	(\$6,708.00)
2018				
Qtr1				
Jan	11,678.00	1,642.00	(10,036.00)	(\$4,377.00)
Feb	12,081.90	1,269.06	(10,812.84)	(\$5,135.00)
Mar	11,739.72	1,976.72	(9,763.00)	(\$11,053.00)
Qtr2				
Apr	12,672.00	1,027.00	(11,645.00)	(\$9,626.00)
May	11,123.00	1,673.00	(9,450.00)	(\$9,997.00)
Jun	10,415.00	1,376.00	(9,039.00)	(\$6,752.00)
Qtr3				
Jul	14,033.07	1,656.00	(12,377.07)	(\$10,478.00)
Grand Total	242,699.95	55,997.47	(201,986.17)	(248,238.40)

²³ This comparison assumes timing differences at the beginning and end will roughly net.

4) Tennant Examples

Reports from individual tenants also support the existence of cash shortfalls and related tenant account reductions. After July 18, 2018, City staff reached out to individual tenants to gain a better understanding of the scope of inaccuracies in the electronic tenant account records. Tenant account statements were sent out to each tenant in the months following July of 2018. Several tenants contacted the HRA after receiving these statements and provided documentation showing that they made payments that were not applied to their accounts, consistent with what the OSA observed.

For example:

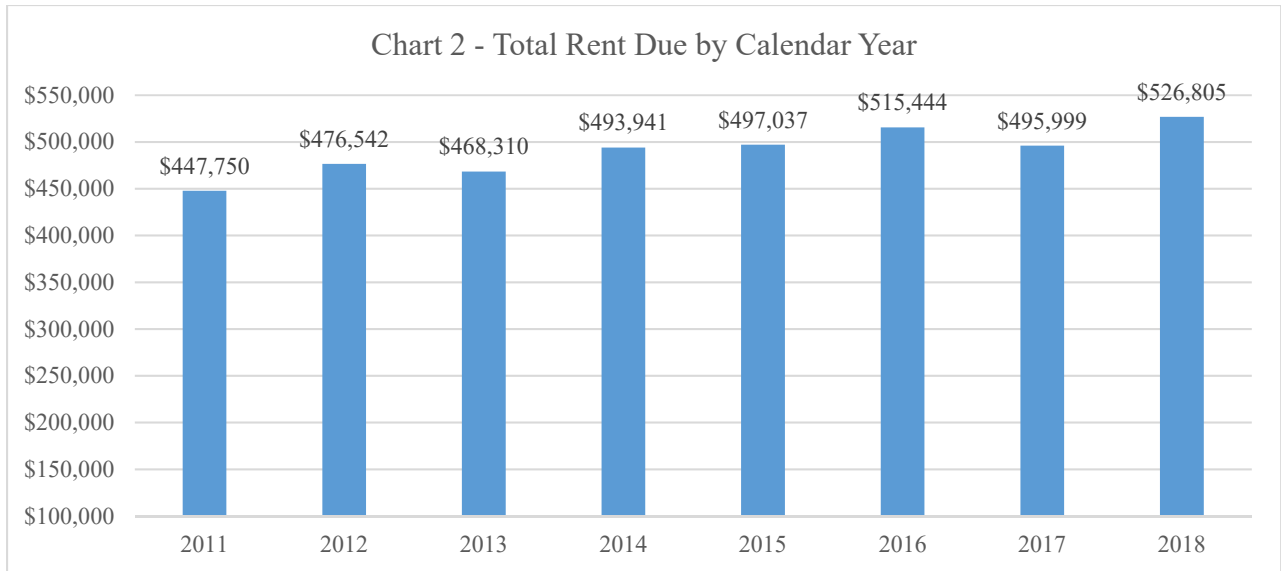
- The HRA sent a tenant account statement to Tenant A in September 2018. Tenant A responded by providing documentation from February 1, 2017, through August 6, 2018, showing that Tenant A made 20 payments (most in cash) totaling \$2,262 to the HRA.²⁴ Tenant A's tenant account in the system, however, reflected only 15 of these payments, totaling \$1,625. Thus, the HRA received, but did not record, \$637 in payments from Tenant A from February 1, 2017, through July 17, 2018. Of this amount, \$509 was written off with three unexplained accounts receivable reduction entries.
- Tenant B provided receipts to the HRA showing a \$300 payment made in cash on April 2, 2018, and another \$300 payment made, also in cash, on May 21, 2018. Tenant B's record in the system did not record either of these payments. Instead, a \$600 unexplained accounts receivable reduction was recorded on May 21, 2018.

The OSA's analytical review for the Period January 1, 2011, to December 31, 2018

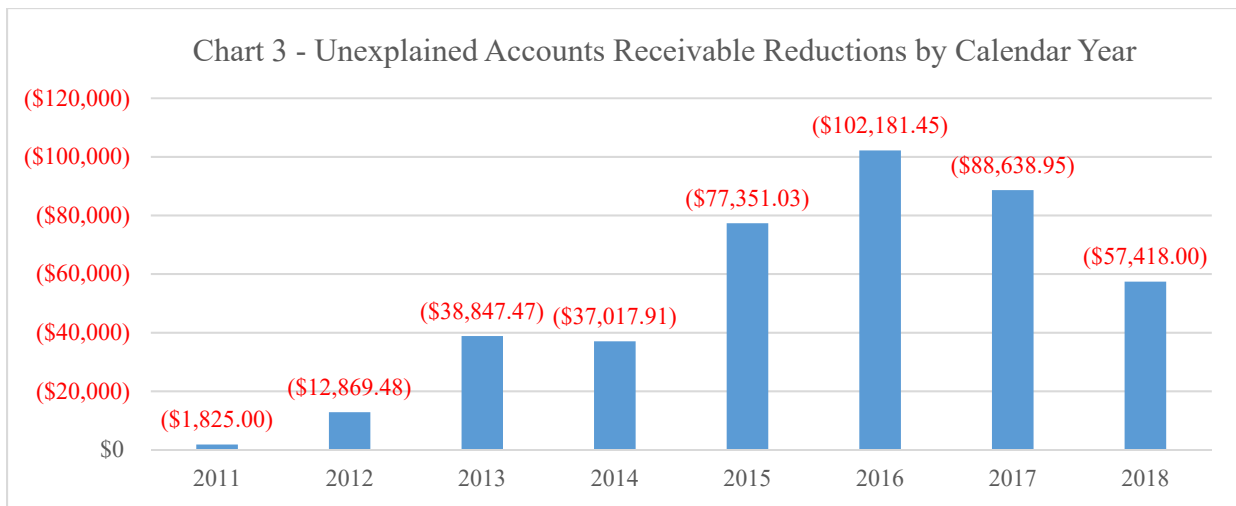
1. Tenant Account Records

In light of the OSA's findings for the period under review above, the OSA performed analytical procedures for 2011 through 2018 to provide context and to demonstrate the likely magnitude of the probable financial loss of public funds. The OSA reviewed all entries made to the HRA's electronic tenant account records from January 1, 2011, through December 31, 2018. The OSA used pivot tables to analyze similar entries over time. For example, the OSA accumulated the total amount of system-generated rent due over this period, as shown in Chart 2, below:

²⁴ Tenant A provided pre-numbered receipts from the HRA and money order receipts (3) corresponding with their issuance.



As Chart 2 shows, rent due remained relatively consistent over this eight-year period. In contrast, the electronic tenant records demonstrate marked increases in unexplained accounts receivable reductions. The OSA aggregated the unexplained accounts receivable reductions by calendar year in the Chart 3:²⁵



The OSA observed that these entries were not made before May of 2011 and were minimal throughout the rest of 2011 (7 entries totaling \$1,825). However, unexplained accounts receivable reductions increased drastically, and remained elevated before completely stopping on July 18, 2018. In total, **\$416,149.29** in unexplained accounts receivable reductions were made to tenant accounts from January 1, 2011, through July 18, 2018.

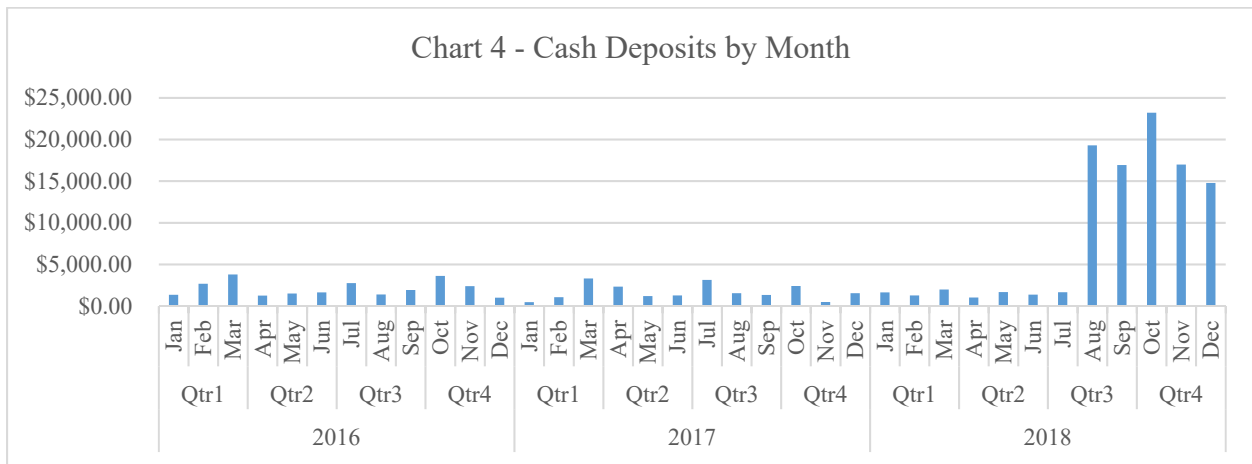
Due to the incomplete state of the HRA's records over this period, these unexplained tenant account reductions cannot be linked to instances in which available cash receipts could be compared to deposits to show conclusively that cash received was not deposited. Chart 2 and Chart 3, however, do illustrate a

²⁵ The entire amount of reductions for 2018 occurred on or before July 18, 2018. There were zero reductions during the remainder of 2018.

troubling pattern. Although the amount of rent billed (tenant accounts receivables created) remained relatively consistent, the amount of unexplained tenant account reductions (administrative reductions in recorded accounts receivable) increased greatly. Based on the substantiated discrepancies between cash received, cash deposited, and unexplained reductions for periods in which documentation is available (see Chart 1), these unexplained tenant account reductions may approximate the amount of cash diverted over this eight-year period.

2. Cash Deposits

The HRA’s cash shortfall can be most clearly seen by comparing deposits made before and after July 2018. In Chart 4 below, the OSA totaled cash deposits according to the HRA’s bank by month.²⁶



This chart shows a sharp contrast between the amount of cash deposited monthly by the HRA before and after July 18, 2018. On average, cash deposits made before and after July 2018 were \$1,806 and \$18,239 per month respectively.

Additional Concern - Purchases Delivered to the Former Bookkeeper’s Residence

The City also reported supplies purchased with HRA funds that were shipped to the former bookkeeper’s address. The OSA requested, and received, invoice detail for purchases made with the HRA’s Staples Credit Account beginning on August 22, 2016, and ending January 4, 2018. The records document a total of \$2,274.99 in purchases made for various supplies “Purchased by” the former bookkeeper. It appears that several different purchases totaling \$749.30 were shipped to the former bookkeeper’s address.²⁷ The products purchased on these occasions included: a Master lock (\$22.60), three Otterbox glass screen protectors (\$128.69), an iPhone hard shell holster (\$36.50), Microsoft Office Home and Student (\$149.99), and what appear to be various school supplies.²⁸ The OSA did not determine the current location of these items.

²⁶ As discussed previously, the OSA requested and obtained bank deposit records for the relevant HRA bank account. The OSA obtained these records for the period January 1, 2016, through December 31, 2018.

²⁷ The “SHIP TO” address is a property for which the former bookkeeper was listed in online County tax records as the taxpayer, under her former name.

²⁸ These items include pencils, school glue, folders, erasers, facial tissues, index cards, a purple zipper binder, and other items purchased on August 23, 2016, totaling \$223.61. The former bookkeeper also purchased items that were shipped to the HRA on this date.

Conclusion

In summary, the OSA notes the following based on its review:

- From January 1, 2016, through July 30, 2018, **\$201,986.17** of cash documented as received by the HRA was never deposited in the HRA's bank account. In the same period, \$248,238.40 was written off without explanation in the HRA's electronic system tracking tenant accounts.
- Over the period January 2011 through July 2018, unexplained reductions of tenant account receivables rose dramatically, and then remained elevated until July 2018. They ceased thereafter. In total, there were **\$416,149.29** in unexplained accounts receivable reductions from January 1, 2011, through July 18, 2018.