



Issue Date	March 23, 2000
Audit Case Number	00-AT-202-1004

TO: Karen Cato-Turner, Director, Office of Public Housing, 4DPH

FROM: Nancy H. Cooper  
District Inspector General for Audit-Southeast/Caribbean, 4AGA

SUBJECT: Pinellas County Housing Authority  
Clearwater, Florida

We have completed a review of the Pinellas County Housing Authority (PCHA). The purpose of our review was to evaluate the efficiency and effectiveness of PCHA operations. Specifically, we evaluated PCHA's: (1) use of Section 23 leased housing funds remaining after program termination, (2) controls over property and Section 8 reserve funds donated to a nonprofit entity, (3) calculation of Section 8 administrative fees, and (4) compliance with procurement policies and procedures.

Our report includes three findings requiring follow up action by your office. We will provide a copy of this report to PCHA.

Within 60 days, please furnish a status report for each recommendation on: (1) the corrective action taken; (2) the proposed corrective action and the date to be completed; or (3) why action is considered unnecessary. Also, please furnish us copies of any correspondence or directives issued related to the review.

Should you or your staff have questions, please contact James D. McKay, Assistant District Inspector General for Audit, at (404) 331-3369 or Sam Daugherty, Senior Auditor, at (904) 232-1226.

(THIS PAGE LEFT BLANK INTENTIONALLY)

---

# Executive Summary

We have completed a review of PCHA operations. Our objective was to evaluate the efficiency and effectiveness of PCHA operations. Based on survey work, we focused our review on evaluating PCHA's: (1) use of Section 23 leased housing funds remaining after program termination, (2) controls over property and Section 8 reserve funds donated to a non-profit entity, (3) calculation of Section 8 administrative fees, and (4) compliance with procurement policies and procedures.

PCHA did not obtain U.S. Department of Housing and Urban Development's (HUD) approval to use residual Section 23 Leased Housing Program funds for rebuilding Crystal Lakes Manor Apartments (CLM). Further, PCHA did not ensure CLM would remain affordable to low income families because PCHA: (1) donated the property without a required deed restriction, (2) did not plan to use a \$2 million escrow fund, and (3) did not have adequate control over \$3.2 million donated Section 8 fees. As a result: (1) PCHA used \$1.3 million of residual Section 23 leased housing funds to pay construction costs rather than offset public housing operating subsidies; and (2) PCHA may not maximize assistance to low income families.

PCHA did not calculate its Section 8 administrative fee for Housing Authority owned/substantially controlled units correctly. As a result, the 1998 ongoing administrative fee was excessive by about \$143,834 and HUD continues to pay excessive administrative fees because the current budget is incorrect.

PCHA's procurement of services and equipment did not comply with policies and procedures. This occurred because PCHA's local procurement policy did not include sufficient and detailed guidance commensurate with procurement policy and because the PCHA expedited procurements. As a result, the PCHA procured in a manner that created the appearance of favoritism, lessened competition, and increased the likelihood of protests and litigation. Competition on future procurements may be adversely affected if the PCHA continues to conduct its procurement in such a manner.

## **Exit Conference**

We discussed the results of our review with the staff of the Florida State Office, Office of Public Housing on February 9, 2000, and solicited their input for recommended corrective actions.

We also discussed the findings with the PCHA staff during the course of the review and at an exit conference on February 11, 2000, attended by the Chairman of the Board of Commissioners, PCHA Counsel, Executive Director and PCHA staff. PCHA provided us written comments on March 2, 2000, which we considered in preparing the final report. PCHA substantially agreed with the issues in findings 1 and 3. PCHA did not agree with the issues in finding 2. We summarized and evaluated the comments following each finding and included PCHA's full comments in Appendix B.

(THIS PAGE LEFT BLANK INTENTIONALLY)

---

# Table of Contents

---

---

Management Memorandum	i
-----------------------	---

---

Executive Summary	iii
-------------------	-----

---

Introduction	1
--------------	---

---

## Findings

1	PCHA Used Program Funds Without HUD Approval and Did Not Ensure CLM Would Remain Affordable Housing	3
2	Incorrect Calculation of Section 8 Administrative Fee	9
3	Procurement Activities Did Not Comply With Policies and Procedures	11

---

Management Controls	17
---------------------	----

---

Follow Up On Prior Audits	19
---------------------------	----

---

## Appendices

A	Schedule of Ineligible and Unsupported Costs	21
B	Auditee Comments	23
C	Distribution	27

**Abbreviations**

ACC	Annual Contributions Contract
CFR	Code of Federal Regulations
CLM	Crystal Lakes Manor Apartments
DHA	Dunedin Housing Authority
ED	Executive Director
HA	Housing Authority
HUD	U.S. Department of Housing and Urban Development
LIH	Low Income Housing
PIH	Public and Indian Housing
PLV	Palm Lake Village Apartments
PCHA	Pinellas County Housing Authority
QBS	Qualification Based Selection
RFP	Request For Proposals
VCA	Voluntary Compliance Agreement

---

# Introduction

## Background

PCHA is a public body organized under Chapter 421 of the laws of the State of Florida. Its mission is to provide low rent housing for qualified individuals in accordance with the rules and regulations prescribed by HUD and other Federal agencies. A five member Board of Commissioners governs PCHA. The Board of Commissioners is responsible for implementing a comprehensive public housing program, setting policy, approving an annual operating budget, and hiring an Executive Director (ED). The Executive Director is responsible for daily operations and oversees a staff of about 70 employees. The former Executive Director retired in February 1999. The Board promoted Ms. Helen Piloneo from the position of Assistant Executive Director for Finance to Executive Director. The current Chairman for the Board of Commissioners is Mr. Herbert L. James.

PCHA operates four Low Income Housing (LIH) developments with 595 units controlled under an Annual Contributions Contract (ACC) with HUD. HUD provides an annual operating subsidy of about \$1.2 million. For our review period, PCHA received approximately \$700,000 in Comprehensive Grant Program funds. PCHA's Section 8 Program includes about 2,128 certificates and 456 vouchers for low income families. HUD provides annual housing assistance payments of about \$10 million.

PCHA manages the day-to-day operations and maintains the books and records for Dunedin Housing Authority (DHA). DHA has 50 units of LIH. HUD provides an annual operating subsidy of about \$126,272. In addition, DHA received about \$354,739 in Comprehensive Improvement Assistance Program funds for the year ending June 30, 1998.

PCHA also manages the day-to-day operations and maintains the books and records for Palm Lake Village Apartments (PLV) and CLM. Both properties are owned by Palm Lake Village Housing Corporation, a non-profit corporation. The nonprofit is an instrumentality established by PCHA. PLV and CLM were former Section 23 leased housing program properties that HUD subsequently approved for disposition. The disposition approval included demolition and replacement of all units on a one for one basis. PLV has 475 units and CLM has 236 units. PLV was completed in September 1990 and the final phase of CLM was completed in July 1999.

PCHA also is the Section 8 contract administrator for two Section 8 New Construction projects with project-based Section 8 rental assistance. Oceanside Estates has 104 units and is located in Pinellas Park, Florida. Cypress Courts Apartments has 68 units and is located in Fort Myers, Florida.

HUD conducted a compliance review July through September 1997. The review focused on the application taking process, tenant selection and assignment, and maintenance services, as well as physical accessibility of PCHA housing and facilities. On September 30, 1997, HUD issued a letter of findings and concluded that PCHA was not in compliance with Title VI and Section 504 and their respective implementing regulations. To resolve the issues, PCHA made no admission to any past violation but entered into a Voluntary Compliance Agreement (VCA). The terms and conditions required PCHA to obtain an Agreement Administrator and VCA Contractor to assist the

PCHA in resolving the matters. The Agreement Administrator receives \$60,000 per year and the VCA Contractor was awarded a contract for \$118,241.

HUD completed a consolidated management review on December 19, 1997, and issued a report dated February 2, 1998. The review contained 28 findings related to management operations and occupancy for the LIH and Section 8 programs. Resolution of the findings is dependent on completion of the VCA. PCHA is submitting quarterly progress reports required by the VCA and HUD is monitoring VCA progress.

In January 2000, HUD presented the PCHA a Secretary's Commendation in recognition as a successful performer in providing decent, safe, and affordable housing.

### **Audit objectives**

The purpose of our review was to evaluate the efficiency and effectiveness of PCHA operations. Based on survey work, we focused our review on evaluating PCHA's: (1) use of Section 23 leased housing funds remaining after program termination, (2) controls over property and Section 8 reserve funds donated to a nonprofit entity, (3) calculation of Section 8 administrative fees, and (4) compliance with procurement policies and procedures.

### **Audit scope and methodology**

Our review methodology included examination of records and files, interviews with HUD, PCHA current and former staff, and review of Independent Public Accountant reports. During our review of the Board of Commissioner's minutes, we identified 22 procurements for the period January 1, 1998 through January 1999. We judgmentally selected six procurement actions to determine whether the PCHA followed procurement policies and procedures.

Our review generally covered the period January 1, 1998, through May 31, 1999. However, we reviewed activity in other periods as necessary. Field work was conducted between April and July 1999.

The audit was conducted in accordance with generally accepted government auditing standards.

---

## PCHA Used Program Funds Without HUD Approval and Did Not Ensure CLM Would Remain Affordable Housing

PCHA did not obtain HUD approval to use residual Section 23 Leased Housing Program funds for rebuilding Crystal Lakes Manor. Furthermore, PCHA lacked assurance the project will remain affordable to low income families because PCHA: (1) donated the Crystal Lakes Manor property without a required deed restriction, (2) did not plan to use a \$2 million escrow fund, and (3) did not have adequate control over \$3.2 million donated Section 8 fees. As a result, PCHA improperly used \$1.3 million of residual Section 23 leased housing funds to pay construction costs rather than offset public housing operating subsidies, and may not maximize assistance to low income families.

---

HUD approval not obtained for use of \$1.3 million residual Section 23 funds

HUD Handbook 7430.01, Chapter 5-8, specifies that cash remaining at the time of final close-out of a Section 23 Program must be used, with prior written authorization from HUD, to offset operating subsidies payable by HUD for the low income housing program. The Handbook also provides guidance and accounting entries to dispose of Section 23 assets and close the books for a terminated Section 23 Program.

PCHA did not properly transfer remaining funds from a terminated leased housing program to the public housing program or use the funds to offset operating subsidies payable by HUD. Instead, PCHA transferred left over trustee funds (\$634,106.08) and deferred maintenance trust funds (\$702,119) to a non-profit corporation to use in rebuilding Crystal Lakes Manor. PCHA did not obtain HUD approval to transfer the funds to the non-profit corporation. Accordingly, PCHA did not use approximately \$1.3 million of left over funds as required by HUD.

### Background

PCHA, through its not-for-profit corporation (Crystal Lakes Housing Corporation), issued bonds (\$2,320,000) in November 1972 to purchase a 236 unit prefabricated apartment project known as Crystal Lakes Manor. The PCHA operated the project under the Section 23 Leased Housing Program.

The non-profit corporation merged with another non-profit corporation (Florida Leased Housing Corporation). In May 1976, Florida Leased Housing Corporation issued bonds in the amount of \$5,585,000 to refund first mortgage bonds issued by predecessor corporations. On May 18, 1993, the Trustee (Nations Bank), disbursed \$634,106.08 representing the remaining funds from the trust accounts to another non-profit corporation (Palm Lake Village Housing Corporation). PCHA deposited and recorded the funds to the non-profit books and records.

According to the trust indenture, the funds became the property of PCHA. Furthermore, Sections 312 and 313 of Part Two of the ACC with HUD include provisions that, in effect, made the residual funds a part of PCHA's assets, and prohibited their disposition or use without HUD approval. Therefore, the funds should have been recorded to PCHA's books and records.

In March 1995, PCHA improperly transferred \$702,119 from a Maintenance Trust Fund to a non-profit corporation (Palm Lake Village Housing Corporation). The funds did not belong to the non-profit corporation. The trust funds were originally set up to fund extraordinary maintenance or equipment replacement for Crystal Lakes Manor during the Leased Housing period. However, the funds were never used, and in effect, the balance represented a payable to the Leased Housing Program. Again, the residual funds were a part of PCHA's assets, and the ACC prohibited disposition or use without HUD approval. The funds should have been recorded to the Leased Housing Program and the program closed out in accordance with Handbook 7430.01, Chapter 5-8.

We also noted that the PCHA had not recorded the necessary entries or closed the books for the terminated Section 23 program. At our audit completion date, the books and records showed the program had operating reserves of \$29,378 which should be transferred to the low income program.

Deed restrictions not clear

In November 1993, PCHA submitted a disposition plan to rebuild Crystal Lakes Manor and continue its use as a low rent housing development for low income elderly. PCHA proposed to deed the 236 unit property back to the non-profit corporation for the purpose of demolishing and rebuilding the project. PCHA agreed the donation and transfer documents would contain a reversionary provision that the entire development would revert back to PCHA if the non-profit corporation at any time did not continue with the low rent/low income housing purpose.

In July 1994, HUD approved the disposition plan. HUD also required that if the property were transferred to a non-profit, the deed should contain a covenant that the units are reserved for occupancy for 15 years for low-income families who may be required to pay no more for rent than is required of families in the Section 8 Program.

PCCHA transferred the property to Palm Lake Village Housing Corporation by a deed executed February 16, 1995. The deed did not contain the required covenant. Instead, it contained a statement that the grantee retained a reversionary interest in the real property and was entitled to re-enter and retake the property in the event the grantee no longer qualified for or received HUD subsidized funding. PCHA also entered into a management services agreement with the non-profit. The agreement did not contain the required restriction.

The deed restriction does not meet HUD's intent to ensure that the units are reserved for occupancy for 15 years to low-income families. PCHA should consider amending the documents or executing additional documents with the non-profit corporation to ensure the low-income nature of the property over the 15 year period.

\$2 million escrow fund not used as required

As part of the disposition approval process, HUD agreed to provide 118 Section 8 tenant based certificates. PCHA agreed to establish an escrow fund of \$2 million to ensure the remaining 118 tenants would not be required to pay more than 30 percent of income for rent.

PCHA is in the process of renting the units. PCHA officials were of the opinion that all 236 units can be rented to Section 8 tenants. They contended the \$2 million escrow account is merely a guarantee put in place in case PCHA runs out of Section 8 certificates/vouchers.

We believe HUD's disposition approval clearly states that 118 units would be assisted by the \$2 million local program. If PCHA does not use the \$2 million local program, then the funds will continue to build in the non-profit corporation, which will not benefit any tenants. Also, use of 236 units of Section 8 instead of the local program will deprive 118 other tenants of assistance.

We believe PCHA should use the local funds to subsidize 118 units as intended by HUD's approval, and use the other 118 Section 8 certificates/vouchers to provide assistance to other needy residents.

Title 24 of the Code of Federal Regulations (CFR) 982.155 (b)(1) allows a housing authority to use Section 8 administrative fee reserves for housing purposes permitted by State and local law.

Inadequate control over  
\$3.2 million donated  
Section 8 reserves

PCHA donated Section 8 administrative fee reserves to a non-profit corporation (Palm Lake Village Housing Corporation) as a way to set aside money for the reconstruction of Crystal Lakes Manor. PCHA started donating its Section 8 administrative fee reserves to the non-profit corporation in 1988. It ceased in 1997 at which time it had transferred a total of about \$6.8 million. When the need arose, PCHA used the Section 8 administrative fee reserves to pay Crystal Lakes Manor construction costs. Approximately \$3.2 of the \$6.8 remains on deposit with the non-profit corporation.

To improve control over the funds, we believe the funds should remain at PCHA until they are actually needed. Accordingly, we believe the \$3.2 million remaining at the non-profit corporation should be returned to PCHA along with accrued interest.

---

**PCHA Comments**

PCHA officials believed they followed HUD's approval to transfer the property to the non-profit through a no cost transfer. They believed the transfer should include all cash as well as the property. They said they had now recorded the necessary entries to transfer the operating reserves to the low income program.

PCHA officials agreed the deed restriction was not clear, and agreed to revise it. They said the deed restriction will contain a covenant to restrict the occupancy for 15 years to low-income families.

PCHA officials said they were committed to serving the low income elderly, and would use the \$2 million escrow fund to assist low income tenants. They said they would make sure that low income tenants did not pay more than 30 percent of adjusted monthly income retroactive to the date of admission.

PCHA officials agreed to strengthen controls over the \$3.2 million donated Section 8 funds. They said they would consider forming an interlocking board with the non-profit.

---

**OIG Evaluation of PCHA Comments**

PCHA's application and information submitted to HUD did not disclose the amount of cash that remained after termination of the Section 23 Program. Accordingly HUD was not aware that substantial cash remained. Furthermore, PCHA did not seek HUD approval to transfer the funds to the non-profit as required by the HUD Handbook.

PCHA's other planned actions are responsive to the other issues. If timely and adequately implemented, the actions should correct the deficiencies discussed in the finding.

---

Recommendations

We recommend you require PCHA to

- 1A. Analyze its overall financial position (including the nonprofit) and submit a request with justification for any planned use of the improperly retained funds. If the funds are not needed or justified, your office should require the funds (\$1,336,225) be used to offset operating subsidies payable by HUD.
- 1B. Submit copies of the accounting entries to close out the Section 23 Program. Your office should assure the reserves of \$29,378 were properly transferred to the low income program.
- 1C. Submit the proposed deed revision for your review and approval. Your office should assure the covenant ensures the low-income nature of the property over the 15 year period.
- 1D. Provide your office with the procedures they propose to follow regarding use of the \$2 million escrow for low income tenants. Your office should assure the PCHA uses the escrow to subsidize 118 units as intended by HUD's approval letter.
- 1E. Return the Section 8 donated funds and accrued interest to the PCHA's books and control. Your office should consider whether any additional controls should be implemented.

# Incorrect Calculation of Section 8 Administrative Fee

PCHA did not correctly calculate its Section 8 administrative fee for Housing Authority owned/substantially controlled units. As a result, PCHA received an excessive fee of \$143,834 for 1998 and HUD continues to pay excessive administrative fees because the current budget is incorrect.

## Criteria

Public and Indian Housing (PIH) Notice 92-59, dated November 10, 1992, provides guidance for calculating the administrative fee for units owned by the HA or substantially controlled by the HA administering the ACC. The Notice states the HA must calculate the administrative fee for owned units and non-owned units separately. It points out the on-going administrative fee is lower for HA-owned and/or substantially controlled units because the HA is not responsible for many administrative functions such as oversight of the owner, approval of initial contract rents, approval of contract rent adjustments, owner briefings, and sanctions against owners. The fee for owned units will be three percent of the two-bedroom Existing Housing Fair Market Rents. This percentage is based on the fee HUD pays for private owner/HA units where HAs administer the Section 8 contracts for HUD. PIH Notice 98-27 also provides guidance for calculating the administrative fee and shows that the calculation is based on the administrative fee rates published in the Federal Register for the Federal Fiscal Years.

The PCHA's fiscal year ends December 31. For fiscal year ending December 31, 1998, PCHA calculated and received an administrative fee of \$1,162,941. The PCHA based its calculation on the rate for non HA-owned units of \$45.21 for the first 7,200 units and \$42.19 for the remaining units.

## PCHA used higher rates for substantially controlled units

The PCHA did not use the reduced rate for calculating the administrative fee for units at Palm Lake Village and Crystal Lakes Manor (HA-owned/substantially controlled units). Also, the PCHA failed to claim the higher rates in effect for the months of October, November, and December (Federal Fiscal Year 1999). For Federal Fiscal Year 1998, the rate for HA-owned units was \$18.08 per unit. For non HA-

owned units, the rates were \$45.21 for the first 7,200 units and \$42.19 for the remaining units. For Federal Fiscal Year 1999, the rates were \$18.60, \$47.44, and \$43.41 respectively. Our calculation showed the PCHA would be entitled to a fee of \$1,019,107. The net effect of the errors amounted to an excess administrative fee of \$143,834.

The 1999 Section 8 program budget includes the HA-owned/substantially controlled units at the higher rates. Consequently, the PCHA continues to receive an excessive monthly administrative fee based on the non HA-owned rates.

---

PCHA Comments

PCHA officials contended they were entitled to the higher administrative fee because they maintained the waiting list, did the leasing, and performed HQS inspection of the units for the non-profit property. They said the responsibilities were similar to their responsibilities with other private Section 8 landlords.

---

OIG Evaluation of PCHA Comments

We contend PCHA has substantial control over the units at Palm Lake Village and Crystal Lakes Manor that receive Section 8 assistance. The HUD Notice points out the administrative fee is lower for substantially controlled units because the HA does not provide oversight of the owner, approval of contract rents, approval of contract rent adjustments, owner briefings, and sanctions against owners.

---

Recommendations

We recommend you require PCHA to

- 2A. Use the lower 3 percent fee for computing the Section 8 administrative fee for Palm Lake Village and Crystal Lakes Manor.
- 2B. Recalculate the Section 8 fee earned since January 1, 1998, at the lower rate and reimburse HUD for the excess amount received.

---

## Procurement Activities Did Not Comply With Policies and Procedures

PCHA's procurement of services and equipment did not comply with HUD policies and procedures. PCHA used hybrid procurement methods, restricted competition in its solicitations, improperly evaluated bids and proposals, and failed to properly maintain contract logs and files. This occurred because PCHA's local procurement policy did not include sufficient and detailed guidance commensurate with HUD requirements. As a result, PCHA procured in a manner that created the appearance of favoritism, lessened competition, and increased the likelihood of protests and litigation. Competition on future procurements may be adversely affected if the PCHA continues to conduct its procurement in such a manner.

---

Procurement handbook  
establishes procedures

Procurement is one of the most important and, in many instances, most complex functions that a housing authority must perform. Competition is the cornerstone of successful procurement. Housing authorities must vigorously seek, through the use of their policies and procedures, to maximize competition and minimize opportunities for favoritism and collusion. HUD prepared a Procurement Handbook for HAs (7460.8 REV-1), which is designed to be a complete reference document for any type of procurement method undertaken.

Sealed bidding is the appropriate procurement method for construction contracts and supplies above the small purchase limitation. This method of procurement requires authorities to write specifications that describe the requirements clearly, accurately, and completely. The authority holds a public bid opening and bases the evaluation of bids and the award of the contract on the lowest responsive bid submitted.

While sealed bidding is the preferred method for conventional construction contracting, HAs should use the competitive proposal method of procurement when small purchases and sealed bidding are not appropriate, such as when contracting for professional services. The procurement file should indicate the reason for choosing the competitive proposal method over sealed bidding.

Under the competitive proposal method, the HA issues a request for proposals (RFP) soliciting price and technical proposals from potential sources; evaluates the proposals; establishes a competitive range; and negotiates with those in the competitive range. The HA then receives and evaluates best and final offers from those in the competitive range. The HA awards the contract based on the most advantageous proposal, considering price and the technical factors stated in the RFP.

An alternate process called qualification-based selection (QBS) is for architect-engineer contracts. The best firm is selected on the basis of qualifications. Then, the HA negotiates a fair and reasonable price with the best qualified firm.

Five of six procurements exhibited deficiencies

We reviewed six PCHA procurement actions and identified deficiencies with five. The Director, Office of Public Housing, Florida State Office, provided direct oversight and guidance to PCHA for the only procurement action performed correctly. The following table shows the results:

Contractor	Amount of Contract	Deficiencies Identified
A	\$68,160	Hybrid procurement method, RFP not in file, all other proposals obtained after PCHA selected contractor A, appearance of pre-selection.
B	\$71,432	Hybrid procurement method, proposals accepted via facsimile, no date-time stamp, proposals opened publicly and tabulated as if they were bids.
C	\$92,356	Hybrid procurement method, prepared RFP instead of invitation for bids, negotiated bids after opening.
D	\$30,403	Invitation for bids specified brand name and unnecessary specifications, no evidence that PCHA disseminated solicitation, only one bid received.
E	\$118,241	No deficiency: (Florida State Office oversaw the procurement)
F	\$6,500,000 (budgeted)	Hybrid procurement method, RFP not in file, evaluation and basis for selection not disclosed, did not negotiate with competitive range, appearance of favoritism.

“Hybrid” procurement  
methods were used

PCHA developed hybrid procurement methods for four of six procurements. Most often, PCHA used combinations of various procurement methods for the same procurement action (contractors A, B, C, and F). For example, PCHA procured construction management services using elements of QBS and competitive proposal methods (contractor F). The contracting official explained the architectural firm hired by PCHA to design the project conducted the procurement. We concluded that because QBS is mandated for selection of architects, it followed that the firm would impose QBS methods. Nonetheless, the competitive proposal method was the correct method, not the hybrid method used.

PCHA staff could not explain why they had used mixed methods for the other procurement actions.

Solicitation needed  
improvement

Some of the most common procurement improprieties that limit or prevent obtaining maximum open and free competition occur when HAs do not use formal advertising and when HAs write specifications to restrict competition. For example, using brand name purchase descriptions and specifications tailored or restricted to favor a particular supplier is improper. Four of the six procurements reviewed were deficient as to bid solicitation (contractors A, C, D, and F).

- PCHA included a brand name, “Ford F150” and specifications that were unnecessarily unique and restrictive giving the appearance of limiting competition. Predictably, the PCHA received only one bid in response to the solicitation (contractor D).
- In another sealed bidding procurement action, PCHA prepared the solicitation for bids as an RFP instead of an invitation for bids (contractor C).

- Solicitations for two procurements were not in the contract files and could not be located. (contractors A and F).<sup>1</sup>

Receipt and evaluation of bids and proposals needed improvement

A fundamental public contracting principle is to evaluate competing contractors only on the factors stated in the solicitation. To award a contract based on factors not made public risks losing industry's confidence in the HA's fairness. Housing authorities can only maintain public trust when they consistently evaluate all offers in accordance with the terms of the solicitation. PCHA did not properly receive and evaluate responses to solicitations for five of six procurements (contractors A, B, C, D and F). For example, PCHA:

- Followed inconsistent and unclear evaluation factors giving appearance of pre-selection and favoritism (contractors A and F). PCHA staff said they preferred the contractors based on personal knowledge of their skills and character of each contractor. Personal knowledge is excluded from the initial technical evaluation.
- Accepted several proposals via facsimile machine and did not date-time stamp bids (contractor B). Sealed bids must be stored securely until the appointed bid opening. Each bid must be date-time stamped in order to document its eligibility for consideration.
- Negotiated both the bid price and product specifications after opening sealed bids (contractor C). An important difference between sealed bidding and competitive proposals is the finality of initial offers. Under competitive proposals, alterations in the nature of a proposal and in prices may be made after proposals are opened; such changes are not allowed in sealed bidding. The contracting official believed negotiations after bid opening were acceptable.

---

<sup>1</sup> PCHA obtained a draft copy of one solicitation from its architectural firm. The solicitation was not signed or dated and it had blank spaces for key information. It was not a copy of the actual solicitation.

Contract register was incomplete

PCHA staff prepared contract registers for calendar years 1997 and 1998; however, these registers were incomplete. No register existed for calendar year 1999. In addition, the registers listed contracts that were not approved by the Board of Commissioners according to the minutes. Likewise the minutes revealed approved contracts that were not listed in the registers. HUD requires HAs to have a management information system for procurement, which may be as simple as an automated procurement log or register. However, PCHA's policy had no such requirement. The ED said PCHA would begin maintaining a complete contract register.

Contract file maintenance was inadequate

Well-organized, accurate, and complete procurement files provide a historical record of procurement activity, and are required of all HAs (24 CFR 85.36(b)(7)). PCHA did not maintain organized contract files that provided a complete record of its procurements. Contract files lacked key documentation such as the solicitation, evidence of its dissemination, and/or responses to the solicitation. The contracting official accepted responsibility and conducted most of the contracting function with minimal assistance from others. Maintenance of the procurement file was not a priority. PCHA staff acknowledged that contract file organization and documentation needed improvement. The ED recognized the need for a contract administrator and was planning to hire a new staff member whose duties would include contract administration.

The deficiencies occurred primarily because PCHA's local procurement policy did not include sufficient and detailed guidance to ensure compliance with HUD's requirements. Consequently, the PCHA obtained services and equipment in a manner that created an environment conducive to fraud, waste, and abuse. Although we did not detect such occurrences, the PCHA's procurement activities cannot continue to rely solely on integrity of its staff. PCHA's faulty procurement methods also increased the likelihood of protests and litigation, created the appearance of favoritism, and lessened competition. Such methods do not instill public trust and confidence. Procurement controls must therefore be improved. The Executive Director agreed the HA's policy was poor and indicated her commitment to revise it.

### Finding 3

---

#### PCHA Comments

PCHA officials substantially agreed with this finding. They said a Modernization Coordinator has been hired and a construction log is now maintained. They also said the procurement policy is being revised.

---

#### OIG Evaluation of PCHA Comments

PCHA's comments and actions are responsive to the finding. If timely and adequately implemented, the actions should correct the deficiencies discussed in the finding.

---

#### Recommendations

We recommend that you follow up to assure PCHA:

- 3A. Revises the procurement policy and submits it to your office for review and approval.
- 3B. Implements the new policy and complies with HUD procurement policies and procedures.

---

# Management Controls

In planning and performing our audit, we obtained an understanding of the management controls that were relevant to our audit objectives. We considered PCHA's management control systems to determine our auditing procedures and not to provide assurance on management controls. Management is responsible for establishing effective management controls. Management controls include the organization plan, methods, and procedures adopted to ensure that goals are met. Management controls include the processes for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

---

## Relevant Management Controls

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

- Section 23 leased housing close out procedures
- Section 8 administrative fee reserves
- Procurement and contracting
- Cost allocation

A significant weakness exists if management controls do not give reasonable assurance that resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data are obtained, maintained, and fairly disclosed in reports.

## Significant Weaknesses

Our review identified weaknesses in PCHA's administration of its programs. These weaknesses included improper use of program funds, incorrect calculations of Section 8 administrative fees, and not following procurement policies and procedures. These weaknesses are discussed in the Findings section of this report.

(THIS PAGE LEFT BLANK INTENTIONALLY)

---

# Follow-Up On Prior Audits

We reviewed PCHA's audited financial statements for the year ending December 31, 1997. A public accounting firm conducted the audit. The report contained no findings.

(THIS PAGE LEFT BLANK INTENTIONALLY)

---

## Schedule Of Ineligible and Unsupported Costs

<u>Recommendation</u>	<u>Ineligible</u> <sup>2</sup>	<u>Unsupported</u> <sup>3</sup>
1A		\$ 1,336,225
2B	<u>\$ 143,834</u>	
Totals	\$ 143,834	<u>\$ 1,336,225</u>

---

<sup>2</sup> Ineligible amounts obviously violate law, HUD or local agency policies or regulations.

<sup>3</sup> Unsupported amounts do not obviously violate, law, contract, policy or regulation, but warrant being contested for various reasons such as the lack of satisfactory documentation to support eligibility and HUD approval.

(THIS PAGE LEFT BLANK INTENTIONALLY)

# Auditee Comments

*Pinellas County*



*Housing Authority*

Helen P. Pilonco  
Executive Director

THE DEAN S. ROBINSON ADMINISTRATION BUILDING  
209 SOUTH GARDEN AVENUE, CLEARWATER, FLORIDA 33756  
TELEPHONE: 727/443-7864 FAX: 727/441-3364 TDD: 800/955-8770

**BOARD OF COMMISSIONERS**

Herbert L. James  
Chairman  
Edgar L. Smith  
Vice Chairman  
Virginia P. Meador  
Commissioner  
Ronald C. Duffey  
Commissioner  
Ivey M. Gulley  
Commissioner

March 2, 2000

Ms. Nancy H. Cooper  
District Inspector General for Audit-Southeast/Caribbean  
U.S. Department of Housing and Development  
District Office of the Inspector General  
Office of Audit, Box 42  
Richard B. Russell Federal Building  
75 Spring Street Southwest, Room 330  
Atlanta, Georgia 30303-3388

Dear Ms. Cooper:

Please find our comments to the audit report exit conference conducted on February 11, 2000.

**Executive Summary**

The Executive Summary (ES) does not accurately reflect the specific findings in the actual audit report. The ES makes the actual findings appear more substantive and more serious than the actual audit report. For example: The ES says (in paragraph 2) "*fewer low income families will receive housing assistance*". The actual audit report states that PCHA's development method "*may not maximize assistance to low income families*". This statement is misleading because, to date, the level of assistance has been adequate to serve every qualified low-income family who has applied.

Example 2: The ES states that PCHA "*donated property without a required deed restriction*". The actual audit report states that (page 7, last paragraph) "*The deed restriction may not meet HUD's intent to ensure that units are reserved for occupancy for 15 years to low-income families*".

The statements as quoted from the Executive Summary are, in our opinion, deceiving in nature to the reality of this agency's performance. Although we agree that the statements have not originated in malignance, nevertheless the Executive Summary must be a snap shot of the actual review.

Page 1 of 4

**1. PCHA DID NOT OBTAIN HUD APPROVAL OR USE RESIDUAL SECTION 23 BASED HOUSING PROGRAM FUNDS FOR REBUILDING CRYSTAL LAKES MANOR.**

There were three housing developments in the leased housing program of the PCHA. Lakeside Terrace (LT) was not in need of significant repair, nor replacement. LT then became a public housing owned property. The ACC was amended and the Leased Housing accounts, assets, liabilities and surplus were closed to the public housing general ledger, including the LT Maintenance Trust Fund (MTF). Palm Lake Village (PLV) and Crystal Lakes Manor (CLM) needed replacement because the units were severely deteriorated. The Executive Director, at that time, went to Washington D.C. with an application and plans to replace and reconstruct both PLV and CLM. These plans did not require any additional federal funds. The PCHA received HUD approval to dispose of CLM to Palm Lake Village Housing Corporation (PLVHC) through a transfer of assets at no cost (see attached letter dated July 26, 1994). PLV and CLM's portion in the Leased Housing books were closed and transferred to the PLVHC, a non-profit corporation organized to be an instrumentality of the PCHA with the objective being for both projects to remain affordable housing for the benefit of low income people residing in Pinellas County. The assets transferred included the MTF and residual Section 23 housing program funds.

**2. PCHA LACKED ASSURANCE THE PROJECT WILL REMAIN AFFORDABLE TO LOW INCOME FAMILIES BECAUSE:**

**a. DONATED CLM WITHOUT REQUIRED RESTRICTION.**

The HUD-approved disposition plan was followed. CLM was rebuilt without use of federal funds. PCHA is committed to serve the low income elderly of Pinellas County.

The deed restriction will be revised as required to contain a covenant that states units have a fifteen (15) year occupancy restriction in favor of low-income families whose rental assessments shall be no more than rent required of families in the Section 8 program.

**b. DID NOT PLAN TO USE \$2,000,000 ESCROW FUND.**

Municipal bonds were issued on May 1, 1989 to reconstruct PLV. These bonds were refunded on April 15, 1994 and included Two Million Dollars (\$2,000,000) for an escrow fund to assure that units at CLM have a fifteen (15) year occupancy restriction in favor of low-income families whose rental assessments shall be no more than rent required of families. To date, the project has been completed, but leasing to low income elderly has been slow due to restrictive occupancy rules. The PCHA remains committed to serving the low income elderly more than 15 years. The funds are maintained in a separate trustee bank account, available for use as needed.

There are currently One Hundred Thirty-three (133) Section 8 certificates/vouchers issued at CLM. Fifteen (15) tenant assessments will be paid from the Two Million Dollar (\$2,000,000) escrow. The PCHA shall continue to use the Two Million-Dollar (\$2,000,000) escrow funds to assist low-income tenants. The PCHA will make sure that low-income tenants will not pay more than 30% of the adjusted monthly income retroactive to the date of admission.

c. DID NOT HAVE ADEQUATE CONTROL OVER \$3,200,000 DONATED SECTION 8 FEES.

HUD, when the first application for disposition was submitted, knew and agreed that additional funds would be needed and required from other sources. Public Housing Authorities (PHAs) are allowed to use Section 8 operating reserves for housing purposes as long as such use does not violate state and local law. The required additional funds were donated to the Palm Lake Village Housing Corporation (PLVHC), a not for profit corporation. PLVHC was created as a vehicle to issue bonds and rebuilt PLV and CLM expeditiously, rather than waiting for HUD to provide federal funds for the reconstruction program. The Three Million Two Hundred Thousand Dollar (\$3,200,000) fund was used for the reconstruction of CLM, which cost more than Six Million Five Hundred Thousand Dollars (\$6,500,000) to reconstruct. At the time of application and early planning, the idea of the creation of a not-for-profit corporation was acceptable to HUD and considered the best alternative to make the reconstruction feasible. HUD's August 27, 1986 legal opinion that the non-profit corporation is a separate legal entity helped in the payment of Section 8 subsidies to qualified elderly tenants of the non-profit corporation. With the rule changes, now allowing housing authorities to make Section 8 payments to owned units, the PCHA will not oppose any suggestion for better control. If an interlocking board is desirable, this can be accomplished to potentially assure that the non-profit corporation relationship with PCHA will be perpetual.

3. INCORRECT CALCULATION OF SECTION 8 ADMINISTRATIVE FEE.

This audit finding appears to be contradictory. An earlier finding treated this non-profit corporation as a separate legal entity, whereas this section seems to consider CLM as owned units and, therefore, only entitled to earn a three percent (3%) administrative fee. PCHA also is the Section 8 contract administrator for two Section 8 new construction projects, namely Oceanside Estates (OE) and Cypress Courts (CC), both of which currently earn a three percent (3%) administrative fee. PCHA does not maintain the waiting list, does not do the leasing and does not perform HQS inspections of units leased at OE and CC. PCHA is doing all of the above for Section 8 tenants who

Page 3 of 4

elect to move to PLV and CLM, similar to PCHA's responsibilities with other private Section 8 landlords. The PCHA should, therefore, be entitled to the regular rates applicable to a private Section 8 landlord.

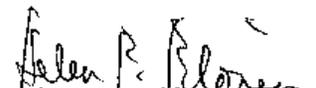
**4. PROCUREMENT ACTIVITIES DID NOT COMPLY WITH POLICIES AND PROCEDURES.**

PCHA admits to using hybrid procurement methods. PCHA agrees with the IG finding that favoritism was not apparent in any of the six procurements audited. The current Executive Director had only a few months experience at the time, was acting as both the Executive Director and Finance Director (the new replacement Assistant Executive Director for Finance was hired on May 11, 1999) and as a result some records were not easily available. The brand name used (Ford 150) was a subsequent procurement for Dunedin Housing Authority (a 50-unit development managed by PCHA) immediately following procurement by Pinellas County Housing Authority at which time the Ford 150 was the low bid. No favoritism and/or fraud occurred, but only saving the taxpayer's money. The new Modernization Coordinator was hired on July 9, 1999 and a construction log is now being maintained.

The Procurement Policy is under revision by Abt. Associates.

Sincerely,

PINELLAS COUNTY HOUSING AUTHORITY

  
Helen P. Piloneo  
Executive Director

HPP:mo

Attachment

---

# Distribution

Executive Director, Pinellas County Housing Authority, Clearwater, Florida  
Deputy Secretary, SD (Room 10100)  
Chief of Staff, S (Room 10000)  
Special Assistant to the Deputy Secretary for Project Management, SD (Room 10100)  
Acting Assistant Secretary for Administration, S (Room 10110)  
Assistant Secretary for Congressional and Intergovernmental Relations, J (Room 10120)  
Senior Advisor to the Secretary, Office of Public Affairs, S, (Room 10132)  
Deputy Assistant Secretary of Administrative Services/Director of Executive Secretariat, AX  
(Room 10139)  
Director of Scheduling and Advance, AL (Room 10158)  
Counselor to the Secretary, S (Room 10234)  
Deputy Chief of Staff, S (Room 10226)  
Deputy Chief of Staff for Operations, S (Room 10226)  
Deputy Chief of Staff for Programs and Policy, S (Room 10226)  
Director, Office of Special Actions, AK (Room 10226)  
Deputy Assistant Secretary for Public Affairs, W (Room 10222)  
Special Assistant for Inter-Faith Community Outreach, S (Room 10222)  
Executive Officer for Administrative Operations and Management, S (Room 10220)  
Senior Advisor to the Secretary for Pine Ridge Project, W, (Room 10216)  
General Counsel, C (Room 10214)  
Director, Office of Federal Housing Enterprise Oversight, O (9<sup>th</sup> Floor Mailroom)  
Assistant Secretary for Housing/Federal Housing Commissioner, H (Room 9100)  
Office of Policy Development and Research, R (Room 8100)  
Inspector General, G (Room 8256)  
Assistant Secretary for Community Planning and Development, D (Room 7100)  
Assistant Deputy Secretary for Field Policy and Management, SDF (Room 7108)  
Government National Mortgage Association, T (Room 6100)  
Assistant Secretary for Fair Housing and Equal Opportunity, E (Room 5100)  
Chief Procurement Officer, N (Room 5184)  
Assistant Secretary for Public and Indian Housing, P (Room 4100)  
Chief Information Officer, Q (Room 3152)  
Director, Office of Departmental Equal Employment Opportunity, U (Room 5128)  
Director, Office of Departmental Operations and Coordination, I (Room 2124)  
Chief Financial Officer, F (Room 2202)  
Director, HUD Enforcement Center, 451 Portals Bldg, Suite 200, Washington, DC 20140  
Director, Real Estate Assessment Center, X, 1280 Maryland Avenue, SW, Suite 800  
Director, Office of Multifamily Assistance Restructuring, Y, 4000 Portals Building

Deputy Chief Financial Officer for Finance, FF (Room 2202) (2)  
Director, Office of Budget, FO (Room 3270)  
Secretary's Representative, 4AS  
State Coordinator, Florida State Office, 4DS  
Director, Office of Public Housing, 4DPH  
Senior Community Builder, Tampa Area Office, 4OS  
Audit Liaison Officer, 3AFI  
Audit Liaison Officer, Office of Public and Indian Housing, PF (Room P8202)  
Departmental Audit Liaison Officer, FM (Room 2206)  
Acquisitions Librarian, Library, AS (Room 8141)  
Counsel to the IG, GC (Room 8260)  
HUD OIG Webmanager-Electronic Format Via Notes Mail (Cliff Jones@hud.gov)  
Public Affairs Officer, G (Room 8256)  
Director, Housing and Community Development Issue Area, U.S. GAO, 441 G Street N.W.,  
Room 2474, Washington DC 20548 ATTN: Judy England-Joseph  
The Honorable Fred Thompson, Chairman, Committee on Governmental Affairs,  
United States Senate, Washington DC 20510-6250  
The Honorable Joseph Lieberman, Ranking Member, Committee on Governmental Affairs,  
United States Senate, Washington DC 20510-6250  
The Honorable Dan Burton, Chairman, Committee on Government Reform,  
United States House of Representatives, Washington DC 20515-6143  
The Honorable Henry A. Waxman, Ranking Member, Committee on Government Reform,  
United States House of Representatives, Washington, DC 20515-4305  
Ms. Cindy Fogleman, Subcommittee on Oversight and Investigations, Room 212,  
O'Neil House Office Building, Washington, DC 20515-6143  
Steve Redburn, Chief, Housing Branch, Office of Management and Budget, 725 17<sup>th</sup> Street, NW,  
Room 9226, New Executive Office Bldg., Washington, DC 20503  
Sharon Pinkerton, Deputy Staff Director, Counsel, Subcommittee on Criminal Justice, Drug  
Policy and Human Resources, B373 Rayburn House Office Bldg., Washington, DC 20515

