ST. PETERSBURG HOUSING AUTHORITY
ST. PETERSBURG, FLORIDA

00-AT-202-1007

MAY 24, 2000

OFFICE OF AUDIT
SOUTHEAST/CARIBBEAN DISTRICT

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audit report
Office of Inspector General

Issue Date May 24, 2000	
Audit Case Number 00-AT-202-1007	

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

for James D. McKay

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

SUBJECT: St. Petersburg Housing Authority
St. Petersburg, Florida

We have completed a review of the St. Petersburg Housing Authority (Authority). The purpose of our review was to evaluate the efficiency and effectiveness of the Authority's operations. Specifically, we evaluated the Authority's (1) procurement policies and practices, (2) administration of its Section 8 Program, (3) controls over and uses of funds received from a refinancing transaction, and (4) use of a master fund.

Our report includes four findings requiring follow-up action by your office. We will provide a copy of this report to the Authority.

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 Auditor Leigh Holm at (305) 536-5387.

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Executive Summary

HUD received a complaint of irregularities in the Authority's procurement practices and requested us to perform an audit. Our overall objective was to determine whether the Authority followed HUD's and its own procurement policies and procedures in awarding and administering contracts. During the audit, we expanded the audit scope to include administration of the Section 8 Program, controls over and uses of funds received from a refinancing transaction, and use of a master fund.

The Authority's procurement methods and contract administration needed improvement. Management did not ensure that procurement was conducted in compliance with HUD and local requirements. As a result, contract solicitations and awards did not meet related guidelines; records lacked sufficient documentation of procurement histories; and, procurements did not always promote fair and open competition. The Authority had no assurance that it received services under non-competitive contracts at the most advantageous cost or from the most qualified source. Furthermore, the Authority did not always follow its contract administration procedures. Contract administrators did not always monitor contracts or approve payments based on contractor performance.

We recommend your office assure the Authority establishes detailed written procedures and assigns responsibility to: (1) ensure contract solicitations and awards meet HUD requirements as well as its own procurement policy, (2) monitor contractor performance and payments, and (3) implement a quality control system to monitor the contracting process. We also recommend your office monitor the Authority's procurement and contract administration process during your next review to ensure the Authority's procedures meet HUD requirements.

The Authority had not effectively administered its Section 8 Program for many years. It had not established financial and management controls to monitor its budget, cash reserves, or leasing rates. The problems appeared to stem, at least in part, from a lack of coordination between the finance and program staff. Consequently, the Authority's Section 8 bank accounts were in a deficit position and its operating reserves were depleted. Furthermore, in fiscal year 1999, the Authority lost an opportunity to house an additional 181 families and to earn additional income of $93,346. Instead, the Authority accumulated excess funds of $857,585 which it had to return to HUD. The Authority was already in debt to HUD for $173,683 for its 1997 and 1998 Moderate Rehabilitation Program, and had overspent its 1999 Moderate Rehabilitation (MOD Rehab) Program by $131,857 and its 2000 Section 8 Program by $188,849.

We recommend your office assure the Authority implements a new accounting system or establishes additional controls to monitor the number of units leased to the amount of funds available. We also recommend your office require a quarterly accounting for the amount of funds drawn, the number of units leased, and the amount of funds on hand to assure the Authority does not overdraw funds. Your office should also review the Authority's allocation plan to assure the administrative costs to the Section 8 and other programs are applicable and supported.

The Authority did not establish adequate controls over funds received from refinancing Rogall Congregate. As a result, the Authority did not fully document how it spent $558,262 of $670,880 received from the refinancing transaction, and lacked controls to ensure an additional $400,000 to $900,000 it will realize over the next several years will be spent as approved by its Board. Also, the Authority did not provide HUD an accounting for the funds as required by its Memorandum of Understanding (MOU) with HUD, and needed to reimburse HUD for funds due.

We recommend you review the Authority's documentation supporting $363,230 transferred to another project and the master fund. The documentation should show that the funds were used in accordance with Board resolution. We also recommend your office establish a format for reporting use of the ongoing savings and assure the Authority uses the ongoing savings in accordance with HUD and Board requirements.

The Authority's master fund did not meet HUD requirements, did not provide a clear accounting for cash transactions, and allowed improper use of funds. We identified misuse of the fund in a 1992 audit. HUD instructed the Authority to discontinue its use and the Authority agreed to do so. Despite such agreement, the fund was still in use and transfers of public housing funds had continued to be made for another 7 years with virtually no accountability. At September 30, 1999, the Authority had misused at least $410,000 that we could identify.

We recommend your office assure the Authority reconciles the receivables and payables in the interfund accounts, makes appropriate adjustments, and closes the master fund. We also recommend you assure the Authority establishes a revolving fund accounting system to process joint costs only. The system should have its own general ledger and be reconciled each month. Furthermore, we recommend the Authority establishes additional controls to ensure the Authority pays only specific program costs from funds provided for the specific program.

Exit Conference

We held an exit conference with the Authority on April 17, 2000. The Authority provided written comments to our findings on May 2, 2000, which we considered in preparing our final report. The Authority generally agreed with the finding issues, but took exception to some of our statements regarding finding 1. The comments are summarized within each finding and included in their entirety in Appendix C.

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Abbreviations

ACC	Annual Contributions Contract
CFR	Code of Federal Regulations
HUD	U.S. Department of Housing and Urban Development
MIS	Management Information Systems Department
MOD REHAB	Moderate Rehabilitation Program
MOU	Memorandum of Understanding
PILOT	Payment in Lieu of Taxes

Introduction

Background

The St. Petersburg Housing Authority (Authority) was organized under the laws of the State of Florida in 1937. Its purposes include development, acquisition, leasing, operation and administration of Low Income Housing Programs according to the rules and regulations prescribed by the U.S. Department of Housing and Urban Development (HUD). Its mission is to provide decent, safe, sanitary, accessible, and affordable housing to the citizens of the City of St. Petersburg and promote resident self-sufficiency.

The Authority is involved in various housing initiatives. It owns 4 conventional projects with a total of 891 units. It manages one of the projects, a 336-unit development for disabled/elderly residents. The remaining three are privately managed by H.J. Russell & Company. The Authority also administers approximately 2,000 Section 8 certificates and vouchers. The Authority owns and manages Rogall Congregate, a 150-unit Section 8 New Construction Project. The buildings and equipment were acquired through the issuance of mortgage revenue refunding bonds in June 1994. The Authority prepares separate financial statements and keeps separate records for Rogall Congregate. The Authority is also contract administrator for a 52-unit Section 8 project. The Board of Commissioners formed the George F. Mehan Community Affordable Housing Investment Corporation (Mehan). Through an Annual Contributions Contract (ACC) with HUD, Mehan administers a Section 8 Housing Assistance Payment Contract with Greenview Manor, LTD (Owner). The purpose is to provide housing for elderly and handicapped families.

A seven member Board of Commissioners oversees the Authority. The Chairman during our audit period was J.W. Cate. The Board is responsible for setting policies on administrative matters and reviewing and approving the Executive Director's actions.

The Board hired Darrell J. Irions as Executive Director on November 13, 1995, and appointed him as the Secretary of the Board and Contracting Officer for the Authority. The Executive Director is responsible for overall planning, and management of the Authority, subject to approval of the Board. He is the principal advisor to the Board on all matters of management, making recommendations on improving methods and procedures, and analyzing records and reports by staff to determine the effectiveness of the overall operations. As Contracting Officer, he is also responsible to ensure that: 1) procurement is conducted in the most economical and efficient manner; 2) sufficient procurement records are maintained; and 3) procedures are in compliance with HUD and Authority procurement policies.

The Authority has experienced high staff turnover in the past several years. For example, it has employed five Directors of Finance since 1995. Currently, the Internal Auditor is Acting Director of Finance. A Contract Administrator was terminated in October 1998 after only 4 months. The next Contract Administrator was hired in May 1999, and terminated in November 1999. The Executive Director appointed various staff to act as contract administrators during the interim periods.

The Authority maintained its records at 3250 5th Avenue North, St. Petersburg, Florida.

Funding

The Authority's fiscal year is April 1 through March 31. Over the last 4 fiscal years, it received an average of $1.5 million annually in HUD operating subsidy. It also received about $3.1 million in Comprehensive Grant Program funds during fiscal years 1996 through 1998 and about $533,000 in Drug Elimination Grant funds during fiscal years 1996 through 1997. HUD awarded a $27 million HOPE VI grant in 1997 for revitalization of Jordan Park. After receiving the grant, the Authority hired a firm to write its Revitalization Plan which HUD accepted. The Authority then hired HOPE VI staff and began community involvement and relocation efforts. By August 1999, only about 118 of the 446 units at Jordan Park were available for occupancy due to implementation of the grant. The Authority began full scale demolition in February 2000.

Audit objectives, scope and methodology

HUD requested us to perform an audit of this Authority after it received a complaint of irregularities in procurement practices. Our overall objective was to determine whether the Authority followed HUD's and its own procurement policies and procedures in awarding and administering its contracts. The Authority's contract register listed 91 contracts valued at over $4 million. We reviewed a judgmental sample of 12 contracts having a contract value of $3.5 million and contract payments totaling $1.7 million. We selected the contracts based on complaint issues and large dollar values. During the audit, we expanded the audit scope to include administration of the Section 8 Program, controls over and uses of funds received from a refinancing transaction, and use of a master fund.

To accomplish our audit objectives, we:

- compared Authority procurement policies to HUD requirements and guidance;
- interviewed HUD and Authority officials, current and former staff, contractors and unsuccessful bidders;
- examined specific procurement and financial records;
- reviewed the financial management over the Section 8 Program;
- reviewed the Authority's use of its master fund to determine compliance with HUD requirements;
- followed up on prior OIG and Independent Public Accountant's audit reports and findings; and,
- assessed related management controls.

Our review generally covered the period April 1, 1997, through July 31, 1999. We conducted field work from April 1999 through October 1999.

HUD conducted a Public Housing Management Assessment Program review in 1996; however, there were no findings. This was the latest HUD review.

We conducted our audit according to generally accepted government audit standards.

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Procurement Needed Improvement

The Authority's procurement methods and contract administration needed improvement. Management did not ensure that procurement was conducted in compliance with HUD and local requirements. As a result, contract solicitations and awards did not meet related guidelines; records lacked sufficient documentation of procurement histories; and, procurements did not always promote fair and open competition. The Authority had no assurance that it received services under non-competitive contracts at the most advantageous cost or from the most qualified source. Furthermore, the Authority did not always follow its contract administration procedures. Contract administrators did not always monitor contracts or approve payments based on contractor performance.

Criteria

Title 24 of the Code of Federal Regulations (CFR), part 85.36 allows agencies to use their own procurement procedures if they conform to applicable HUD requirements and do not restrict full and open competition. The Authority's procurement policy dated April 15, 1997, complied with HUD requirements and, in some cases, was more stringent. The Authority established a $25,000 small purchase threshold. Procurements between the range of $10,000 and $25,000 required three written quotes. All contracts above $25,000 required Board approval.

The Authority's procurement policy required all transactions to be supported by sufficient documentation of the history of the procurement, a cost or price analysis, and an independent cost estimate for procurements above the small purchase limit ($25,000). The Board designated the Executive Director as the Contracting Officer, who was responsible for ensuring that procedures were in compliance with HUD and Authority policies.

The Authority's contract register listed 91 contracts valued at over $4 million. We reviewed a judgmental sample of 12 contracts having a contract value of $3.5 million and contract payments totaling $1.7 million. We selected the contracts based on complaint issues and large dollar values. We found one or more deficiencies for 10 contracts. Appendix B summarizes the deficiencies by contract. Generally, we noted that: many procurements lacked competition, adequate procurement records were not maintained, contract administration procedures were not followed, performance and payments were not administered properly, and the contract register needed revision.

Procurements lacked competition

Procurement guidelines allow non-competitive procedures only when the award of a contract is not feasible using alternative procedures and one of the following applies: (1) the item is available only from a single source; (2) an emergency exists and the need cannot be met through any other procurement methods; (3) HUD authorizes non-competitive proposals; or, (4) competition is determined inadequate. HUD Handbook 7460.8 Rev 1 describes an emergency as a situation that would otherwise cause injury to the PHA, as may arise by reason of a flood, earthquake, epidemic, riot, equipment failure, or similar event. Non-competitive procurements require written justification and the Contracting Officer's approval. A cost analysis is required since there is no price competition in noncompetitive proposals.

The following examples summarize the Authority's procurement actions that hindered competition.

Appearance of Favoritism

MIS Contract - In April 1998, the Executive Director declared an emergency in the Management Information Systems (MIS) Department. He fired the Information Systems Analyst, who was the only MIS employee at that time. The Authority issued a $22,000 purchase order[1] for a MIS system analysis from April 3, 1998 to June 2, 1998. The Authority's records provided minimal support for the emergency conditions. According to Authority staff, the emergency was a result of MIS security issues, lack of documentation for operations, and software conversion problems.

The Authority did not obtain three written quotes or perform a cost analysis. The Executive Director told us he discussed the MIS problems with other Housing Authorities, Commissioners, and City of St. Petersburg officials, and selected the contractor based on qualifications

1 The Authority considered this purchase order a contract.

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and availability to conduct an assessment of the MIS Department. However, the Authority's records contained no written basis for contractor selection or justification for the non-competitive procurement. The contractor told us that he met the Executive Director at a business function. He said he later contacted the Executive Director and presented an overview of his company and his qualifications. He said that during their second meeting, the Executive Director asked if his firm could do an assessment of the Authority's MIS Department.

On April 22, 1998, the contractor provided his preliminary findings and solutions to the Finance Committee of the Board of Commissioners. The deficiencies required 2 additional months to stabilize, analyze and develop documentation for the Authority's MIS system. The Board adopted a resolution approving the additional two months' work and increasing the contract amount to $45,000.

After the 4 month period expired, the contractor continued to work for another 4 months. No written extensions existed for this additional period. In total, the contractor received $63,768.

We concluded the condition of the MIS Department did not meet the requirements for an emergency, non-competitive procurement. The Authority staff prepared a chronology of the MIS history for the Board after we began our review. The information showed problems occurred as early as January 1997. Therefore, it was not a situation that caused unexpected and unforeseen needs. There was no threat to life, health, or public safety which required immediate action. The Authority should have followed competitive procedures.

Management Contract - On August 1, 1998, the Authority entered into a non-competitive interim agreement for management of James Park, Clearview Park, and the scattered sites. According to Authority staff, this was done because the Authority's property managers had resigned and the selected firm was already managing Jordan Park. They saw an opportunity to privatize management of these sites. No written justification for the non-competitive procurement or contractor selection existed in the contract files. In addition, the Authority did not perform a cost analysis or obtain Board approval for the $83,332 contract. The contractor provided services from August through November 1998.

Again, this situation did not warrant non-competitive award. The Authority should have followed competitive procedures to obtain the services at the most advantageous cost and from the most qualified source.

Canceled Solicitations

If changes are required to a solicitation after issuance but before proposals are due, a written amendment to all potential offerors who were sent the original solicitation is required. A solicitation may be canceled and all bids rejected if: (1) the solicitation did not provide for consideration of all significant factors; or (2) for good cause when it is in the best interest of the Authority. The Authority should document the reason for cancellation. Also, the Authority must send notice of cancellation to all offerors solicited and, if appropriate, explain that they will be given an opportunity to compete on any re-solicitation or future procurement of similar items.

MIS Contract - The Authority issued a solicitation for MIS services in July 1998. During the pre-proposal conference, potential bidders asked questions for clarification on several issues. The Authority did not issue an amendment or immediately cancel the solicitation.

The solicitation stated, "Any proposal received after the specified time and date will not be considered…THERE WILL BE NO EXCEPTIONS." The Authority received four timely proposals. However, the purchasing staff would not accept a late and unsealed proposal from the interim contractor, who had been providing onsite MIS services under a non-competitive contract.

The interim contractor petitioned the Executive Director to accept his proposal. Instead, the Executive Director notified the contractor in writing that he canceled the solicitation and would re-bid the work. However, the Authority did not notify all bidders or properly document the reason for the cancellation in the contract file. According to Authority staff, the Authority canceled the solicitation because it did not address the bidders' questions.

The Authority issued a revised solicitation in October 1998. The interim contractor submitted the lowest bid and was awarded the contract.

Excessive Bond and Insurance Requirements

Title 24 CFR 85.36 addresses situations considered to be restrictive of competition. They include placing unreasonable requirements on firms in order for them to qualify to do business and requiring excessive bonding.

Management Contract - The Authority issued a solicitation in August 1998 for private management of James Park, Clearview Park, and the scattered sites. The interim contractor, who was managing the sites under a non-competitive agreement, submitted the only proposal. The Authority sent potential bidders a survey to determine why no proposals were submitted. Several bidders, including the interim contractor, objected to the bond and insurance requirements and stated they were not necessary for a management contract. Two firms responded in writing that they would submit bids if the Authority changed the requirements and specifically requested notification of future solicitations.

The Authority drafted an amendment that lessened the insurance and bonding requirements but did not issue it to bidders. Instead, the Authority canceled the solicitation and re-bid the work. However, the Authority did not properly notify all bidders or explain that the bond and insurance requirements would be revised in a new solicitation. We contacted the two firms mentioned above, and they were not aware that the solicitation was canceled and a new one issued. Also, the Authority did not respond to their letters which clearly showed interest in the contract.

Procurement records not adequate

The Authority's procurement policy states that contracts and modifications should be sufficiently documented to show the history of the procurement, the method of procurement, the selection of the contract type, the rationale for selecting or rejecting offers, and the basis for the contract price. Additionally, the documentation should summarize the results of negotiations and explain the basis of the award decision.

We found that the Authority did not document complete procurement histories in six cases. In four cases, the Authority did not document the basis for contractor selection. Additionally, contract files were missing bid evaluation sheets for one contract and the bid packages for another.

Performance and payments were not administered properly

Although the Authority's procurement policy provides proper guidance, Authority staff did not always follow contract administration procedures. Contract administrators did not always monitor contracts or approve payments based on contractor performance. Six of the 12 contracts reviewed had deficiencies.

The following examples highlight some of the contract administration problems.

Contract Administrators did not monitor performance

The contract administrators did not always approve payments based on contractor performance. The files did not document that the Authority monitored the contracts and ensured that performance was complete. In some cases, the Authority did not require monthly invoices, and contract administrators did not approve contract payments or provide guidance to the accounting department regarding payments. As a result, the Authority made payments without reviewing and/or approving contractor performance.

One contract, awarded December 1, 1998 for $89,706, required invoices be supported by a monthly report "detailing activity … project status and any other information as required." The Authority had not received any of the required progress reports. Since the contractor did not submit the required monthly reports, there was no documentation of the Authority's evaluation of the contractor's performance or that deliverables were met. We discussed the lack of progress reports with the designated contract administrator, who explained that the contractor provided oral updates to the Authority and the Board of Commissioners.

In another case, the Authority held private management contracts totaling over $1 million with one contractor. The contracts did not require invoices but did require monthly progress reports. The contractor submitted the monthly reports, but there was no documentation that payments were based on the information contained in these reports. The contract administrator did not approve payments or provide the accounting department any guidance for making the payments. The accounting manager told us she paid the contractor based on her interpretation of the contract requirements. There was no evidence that the Authority monitored the contractor's performance or approved/disapproved payments totaling over $625,000 to this contractor in accordance with the contract terms. We discussed the lack of invoices with the designated contract administrator. She told us that the contractor had a verbal agreement with the former Director of Finance for payments. She said that future contracts would require invoices.

Contract Payments Exceeded Contract Amounts

The Authority's contract administrators did not always review and approve contract payments. This resulted in inaccurate payments and overpayments to contractors.

The Authority overpaid one contractor approximately $45,000 under an interim contract that ran from August through November 1998. The overpayment resulted because the contract did not require invoices and the contract administrator did not oversee payments. The contract required that any unearned funds at the end of the contract term be refunded to the Authority within 15 days. The Authority was not aware of the overpayment and did not request a refund at the end of the contract term. After awarding this firm another contract on December 1, 1998, the Authority continued to overpay the contractor. After we discussed the overpayment with Authority staff, the interim Director of Finance discontinued payments to recoup the overpaid amount.

In another case, the Authority had a $45,000 interim agreement with a contractor from April through July 1998. The Authority continued to receive services and pay the contractor through November 1998, yet no contract extension existed. On December 1, 1998, the Authority awarded the firm a 1 year contract. Although the contractor submitted invoices to the Director of Finance, the Authority made payments without the designated contract administrator's approval and documentation that work was performed in accordance with the contract.

For another contract, the contract administrator did not take previous amounts paid into account when he approved invoices. This resulted in an overpayment of $5,817. We brought the matter to the attention of the newly hired contract administrator who took appropriate action.

Contract Continued Despite Unacceptable Performance

The Authority awarded a roofing contract for $130,680 without obtaining proper background information and reviewing the contractor's past performance. The lowest bidder was awarded the contract based on price. The required work was to be completed in 150 days.

An undisclosed, unapproved subcontractor performed the majority of the work, who the contractor misrepresented as an employee of its firm. The appointed contract administrator noted numerous performance problems:

- roofing related leaks and ceiling damage;
- punctured refrigerant lines to the a/c units;
- roofers fell through ceilings;
- fraternization with female residents;
- consumption of alcoholic beverages on Authority property;
- slow response or failure to make repairs; and,
- no workers onsite for several days at the time.

The contract file contained documentation showing the Authority's interest in terminating the contract early on due to these problems. However, the Authority did not terminate the contract until just before the scheduled date of completion. We discussed this with the Executive

Director, who said he was responsible for allowing the contract to continue because the Authority was trying to promote a minority firm.

The contractor submitted three Applications and Certificates for Payment. The contractor certified that the work had been completed in accordance with the contract and that all debts had been paid for work for which previous Certificates for Payment were issued and payments received. After the contract was terminated, the Authority found that the contractor did not pay two vendors and the subcontractor. The subcontractor is currently suing the contractor for nonpayment.

The Authority was responsible for reviewing the contractor's payroll reports to ensure that the correct wage rates were paid and for resolving any discrepancies. The Authority withheld $15,000 from the last contract payment due to potential Davis Bacon Act violations. We discussed this with Authority officials and neither they nor the contract file provided further documentation on whether the issue was resolved.

Failure to Use Labor and Material Payment/Performance Bonds

The roofing contract required a Labor and Material Payment Bond and a Performance Bond. A payment bond is to assure payment of all persons supplying labor and material in the execution of the work provided for in the contract. A performance bond is to secure fulfillment of all the contractor's obligations under a contract.

The contract file documented that the contractor did not pay a vendor for materials. However, the Authority did not use the Labor and Material Payment Bond. Instead, the Authority paid the vendor and reduced the contract amount by $21,925. We discussed the issue with Authority officials. The current Contract Administrator told us that the Authority was not entitled to use the Labor and Material Payment Bond after paying the vendor. In addition, the Authority did not use the Performance Bond when the contractor failed to complete the required work. Instead, the Authority awarded another roofing contractor

$97,680 for completion of the outstanding work. Authority officials told us that the former Contract Administrator decided to proceed in this manner. There is no documentation in the contract files that indicates that the Authority consulted its attorney regarding its bond rights.

The Authority spent over 18 months and $244,884 on the roofing project that was estimated to take 150 days and cost $140,870.

Contract register needed revision

Housing authorities must have a system to periodically monitor and assess the performance of procurement operations. The Authority had a contract register; however, it was not complete or current. Authority staff acknowledged the deficiencies and said they were implementing controls for updating and maintaining the contract register.

Authority comments

Authority officials took exception to the statements of favoritism and hindered competition. However, they agreed procurement methods and contract administration needed improvement. They stated they have taken several steps to strengthen their process. They have developed a checklist to better document the procurement process, updated the contract register, and are in the process of compiling detailed written procedures.

OIG evaluation of Authority comments

The Authority's actions, if timely and fully implemented, should improve the procurement methods and contract administration.

Recommendations

We recommend you:

1A. Assure the Authority establishes detailed written procedures and assigns responsibility to: (1) ensure contract solicitations and awards meet HUD requirements as well as its own procurement policy, (2) monitor contractor performance and payments, and (3) implement a quality control system to monitor the contracting process.

1B. Monitor the Authority's procurement and contract administration process during your next monitoring visit to ensure the Authority's procedures meet HUD requirements.

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Management of Section 8 Program Needed Improvement

The Authority had not effectively administered its Section 8 Program for many years. It had not established financial and management controls to monitor its budget, cash reserves, or leasing rates. The problems appeared to stem, at least in part, from a lack of coordination between the finance and program staff. Consequently, the Authority's Section 8 bank accounts were in a deficit position and its operating reserves were depleted. Furthermore, in fiscal year 1999, the Authority lost an opportunity to house an additional 181 families and to earn additional income of $93,346. Instead, the Authority accumulated excess funds of $857,585 which it had to return to HUD. The Authority was already in debt to HUD for $173,683 for its 1997 and 1998 Moderate Rehabilitation Program, and had overspent its 1999 Moderate Rehabilitation (MOD Rehab) Program by $131,857 and its 2000 Section 8 Program by $188,849.

Criteria

Directive Number 94-64, Revised Submission Requirements for Requisition for Partial Payment of HUD Annual Contributions, Paragraph IV, B, 2 provides that revised budgets and requisitions must be completed and submitted to the HUD Field Office if the housing authority determines that the amount of funding reflected in the initial budget submission and the amount of annual contributions requested on the annual requisition will cause it to receive advances in excess of 5 percent of the actual annual contributions required for the year.

Paragraph 8-2d(1) of HUD's Administrative Practices Handbook for Section 8, Directive Number 7420.7, provides that a housing authority must ensure that projected administrative fees and the Operating Reserve will cover all projected costs of efficient and effective program administration through remaining ACC terms.

Paragraph 8-6d of HUD's Administrative Practices Handbook for Section 8, Directive Number 7420.7, provides that housing authorities must estimate their minimum requirements for annual contributions accurately to achieve the highest level of cash management. They must limit the amounts requisitioned to funds absolutely needed to minimize interest costs to the Government.

Leasing goals for 1999 were not met

The Authority received $10,433,022 during fiscal year 1999 to operate its Section 8 Program - $10,059,292 from HUD's Certificate, Voucher and MOD Rehab Programs; $337,463 from other public housing authorities to house residents from their jurisdictions (portables); and $36,267 from income earned from investments. The Authority was to use these funds to lease an average of 1,968 units per month, pay portables expenses, and pay administrative and audit fees. However, it fell short of its leasing goals during the fiscal year. The lease rate averaged about 90 percent for the first 8 months of the fiscal year and 96 percent for the remainder of the year. Although the leasing rate was down by about 10 percent, the Authority took no action to revise its budgets to reduce the amount of funds it would receive from HUD. Thus, it continued to receive monthly allotments of Section 8 funds from HUD based on the obsolete budgets, and began accumulating excess funds. By the end of the fiscal year, it had accumulated $857,585 in Federal funds it did not need.

The Authority could not show that it did any analysis comparing the number of units it was leasing with the funds it had available or how much it was costing to lease a unit. Without this information, it could not effectively manage the program. According to the Section 8 Manager, who worked under the Director of Finance, he was not aware of any analysis or controls and he never discussed the availability of the excess funds with the Finance Director. By not monitoring its availability of funds, the Authority was not aware it had available funds of $71,466 per month to house additional families. Since the average cost to lease a unit during 1999 was $396, an additional 181 families could have been served. At March 31, 1999, the Authority had over 900 applicants seeking housing assistance.

The Authority lost income of $93,346.

The Authority also lost an opportunity to earn administrative fees of $93,346 by not leasing the additional 181 units. This is based on an average fee of $43 per unit per month. Had the Authority earned the additional administrative fees, it would have realized a net income from operations for the year, instead of a loss of $58,744.

Section 8 funds were in a deficit position

The Authority's inability to fully utilize its Section 8 funds has been long standing. It has had to repay HUD $760,515 for under utilization of its 1995, 1996, and 1997 MOD Rehab Program. As of our audit, it owed HUD $173,683 for its 1997 and 1998 MOD Rehab program and $857,585 for its 1999 programs. The Authority also made MOD Rehab payments of $131,857 during 1999 that exceeded the HUD approved budget, and overspent the first five months of its current certificate and voucher program budgets by $188,849. At March 31, 1999, the Authority had $836,932 in its Section 8 bank accounts which was not enough to pay its current debt to HUD.

The Authority did not support its allocation of administrative costs

The Authority did not have a documented system to support its allocation of costs to the Section 8 Program. Although the allocations were made by journal vouchers, we could not determine the basis for the entries. The interim Finance Director said there was no basis for the allocations, but only instructions provided by the former director. He said the former Finance Director made the allocations to suit his needs.

The Section 8 Certificate and Voucher Programs incurred a $58,744 loss in fiscal year 1999. The losses resulted from a significant increase of $278,870 in administrative expenses during fiscal year 1999 while income increased by only $4,646. According to the accounting manager, the increase in expenses occurred primarily when the Authority privatized three of its conventional developments and prorated the overhead of those developments to the Section 8 and other remaining programs. Salary increases to its Section 8 employees also contributed to the increase.

Although administrative expenses increased significantly, there was no appreciable increase in the Section 8 activities. For example, administrative salaries increased from $440,019 in 1998 to $590,479 without any significant increase in the number of units leased. Office rent charged to the Section 8 Program increased from $63,129 in 1998 to $94,489 in 1999. The space occupied by the Section 8 staff did not change.

The combination of missed leasing goals, unrealized income from fees, budget overruns, and overcharging administrative costs have devastated the Section 8 operating reserves. Consequently, at March 31, 1999, the Authority's Section 8 operating reserves for its voucher and certificate programs were $0. This deficit was the result of a long standing negative reserve in the certificate program and losses from operations of $58,744 for both programs during fiscal year 1999.

The problems in this program can be attributed, at least in part, to the lack of coordination between the prior Section 8 manager and the former Finance Director. According to the manager, the Finance Director, to whom he reported, did not keep him apprised of the status of the Section 8 funds nor make him aware when the Authority had excess funds available to lease additional units. In June 1999, the Authority hired a Director for its Section 8 Program. The new Section 8 Director and the interim Finance Director are currently working together to improve the program.

Authority comments

Authority officials agreed with the finding and said they had taken several steps to improve management of the Section 8 program. They reorganized the management structure to permit greater coordination between the Section 8 and Finance Departments, contracted with a fee accountant to prepare accurate budgets using leased unit data, implemented a new spreadsheet to monitor units leased and dollars spent, and are converting to a new software program. They converted families in the Moderate Rehabilitation Program to the Section 8 Certificate Program. They also submitted year end settlement statements which resolved the overpayments due HUD. They will review the allocation plan to assure it reflects the costs applicable to the various programs.

OIG evaluation of Authority comments

The Authority's actions, if timely and thoroughly implemented, should improve management of the Section 8 program. Although a new accounting system is currently being installed, the portion that supports program tracking and monitoring has not been fully implemented. The Authority had not developed a cost allocation plan.

Recommendations

We recommend you:

2A. Assure the Authority implements the new accounting system or establishes additional controls to monitor the number of units leased to the amount of funds available.

2B. Require a quarterly accounting for the amount of funds drawn, the number of units leased, and the amount of funds on hand to assure the Authority is not overdrawing funds.

2C. Assure the Authority implements an allocation plan and assure that the costs charged to the Section 8 and other programs are applicable and supported.

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Inadequate Controls Over Rogall Funds

The Authority did not establish adequate controls over funds received from refinancing Rogall Congregate. As a result, the Authority did not fully document how it spent $558,262 of $670,880 received from the refinancing transaction, and lacked controls to ensure an additional $400,000 to $900,000 it will realize over the next several years will be spent as approved by its Board. Also, the Authority did not provide HUD an accounting for the funds as required by its Memorandum of Understanding (MOU) with HUD, and needed to reimburse HUD for funds due.

Background

The Authority issued bonds in 1977 to finance the construction of Rogall Congregate, a 150 unit elderly low-income housing project with a Section 8 contract. In June 1994, the Authority refinanced the existing bond issue as a means of generating additional funds. The Authority received $670,880 from the refinancing transaction. Also, it will realize additional ongoing savings for several years as a result of the reduced interest rate.

HUD approved the refinancing on March 29,1994. On June 22, 1994, HUD and the Authority executed a Memorandum of Understanding (MOU) covering among other things the use of the proceeds from the refinancing. The MOU required the Authority to use the funds in accordance with a proposal dated August 10, 1993, and to obtain HUD approval to use the funds in any other manner.

The August 10, 1993, proposal indicated that $307,650 received at closing would be deposited with the Trustee and allocated as capital improvements for qualifying low-income and elderly projects. Any additional amount received at closing would be used for other housing purposes. By resolution dated June 16, 1994, the Board decided to use $200,000 of the additional funds to be received for improvements to its computer system and the balance for low rent housing purposes at the Board's discretion.

$209,630 used for operations

In accordance with the proposal, the Trustee received $307,650 at closing and deposited the funds to the replacement reserve account. The Trust Indenture specified that this fund would be used to pay the cost of extraordinary maintenance and replacements to keep the project in sound condition.

In June 1995, the Authority requested the Trustee to send funds to cover Rogall's operating expenses for the year ended March 31, 1995. The Trustee disbursed $209,630 from the replacement reserve account. There was nothing in the Authority's files to justify the use of the $209,630 for operating costs.

Use of $363,230 not documented

The Authority received $363,230 from the closing and deposited the funds in an existing non-profit account. The Authority then transferred the $363,230, in two installments, to another account called "General Reserve Account" (GRA) on July 21 and September 29, 1994. The GRA also received funds from other sources which increased the account to $689,400.

In October 1994, the Authority used the other funds and $14,598 of the $363,230 to purchase 3 certificates of deposit and transfer funds to another project account. There was no evidence of Board approval to transfer the $14,598 to the other project. The purchases and transfers reduced the balance to $348,632. Subsequently, the Authority disbursed the $348,632 balance to its master fund account. As discussed in Finding 4, the Authority did not have good accountability of master fund receipts and disbursements.

The June 16, 1994 Board resolution stated that the funds would be used to fund a $200,000 computer upgrade and the balance would be used for low rent housing as designated by the Board.

We attempted to review the propriety of the disbursements to the master fund. However, the documentation supporting the transactions was not sufficient to provide a description of the use of the funds. We asked the accounting manager to see if she could explain the purpose of the disbursements. She reviewed the journal entries but could not give a specific explanation. The accounting manager said she would continue to try to determine what the transfers to the master fund represented. She said that the way the system was set up, it would take a substantial amount of time to trace the entries. Since we could not determine what the transfers represented, we could not determine if the funds had been used properly and if Board approval had been obtained.

No control over ongoing savings

The proposal indicated the refunding program was structured with a debt coverage ratio of 1.10. As a result, the Authority would realize additional savings throughout the life of the refunding program. The proposal estimated the Authority would realize savings of $422,473 from the date of refinancing to January 1, 2007, and indicated the savings would be allocated to capital improvements. The June 16, 1994, Board Resolution estimated the ongoing savings would amount to $919,752. The resolution showed that $401,704 would be used to repay HUD for prior OIG audit findings, and $518,048 was designated by the Board for low income housing. The resolution also said the Board designated amounts were subject to final approval by the Board prior to their expenditure.

We could not find any more information about the ongoing savings. We asked the Executive Director and other employees if they knew about the ongoing savings and how the Authority used the savings. None of the current employees, including the Executive Director, were employed at the Authority when the project was refinanced and none of them were aware of the ongoing savings. Since the Authority was not aware of the ongoing savings, it did not establish controls to assure the funds were spent in accordance with the Board resolution.

Based on the proposal, we concluded and the Executive Director agreed, that the ongoing savings represented the net profit the Authority earns from the operation of Rogall. The audit report for Rogall at March 31, 1998, showed a net income of $210,351.86. The net included depreciation of $164,465.04, thus, the actual cash realized was over $374,000 for the year. These funds were deposited by the trustee in the surplus account after all other funds had been funded. The balance in the surplus account at March 31, 1999, was $631,031.98 and all other funds were fully funded.

Funds not paid to HUD

According to the Board resolution, the Authority was to use a portion of the savings to pay HUD the money it owed from the 1992 HUD OIG audit report. The Authority owed HUD $389,216 because it over drew its operating subsidy for 1991 and 1992. The Authority executed a repayment plan with HUD to pay the $389,216 back to HUD. HUD agreed to the repayment plan because at the time the Authority did not have the funds to repay HUD the full amount. The Authority made payments in accordance with the repayment plan except for its last 2 payments. The Authority was late making its April 1, 1998 payment and had not paid its April 1, 1999 payment. At July 31, 1999, the balance due was $243,260.

Reports not provided to HUD

The MOU required the Authority to provide annual reports to HUD (beginning July 1, 1994), showing the amount and description of the expenditures until the funds had been spent. Furthermore, the MOU required the Authority to arrange for the inclusion of such funds in the annual audit reports.

There was nothing in the Authority's files to show it had provided HUD annual reports providing descriptions and amounts of expenditures of the refinancing proceeds. Also, the annual audit reports did not separately account for the receipt and expenditure of the funds.

Authority comments

The Authority provided documentation which showed the $209,630 was used for extraordinary maintenance, replacement of non expendable equipment and property betterments. Authority officials stated they were in the process of gathering documentation and information supporting the use of $363,230. They agreed the ongoing savings would be spent in accordance with HUD requirements and Board resolution. They repaid HUD the remaining balance for the prior OIG finding concerning overdrawn operating subsidy. They agreed to provide HUD a separate annual report of the use of the ongoing savings.

OIG evaluation of Authority comments

The Authority's actions should resolve the issues.

Recommendations

We recommend you:

3A. Review the Authority's documentation supporting the $363,230 transferred to the other project and master fund. The documentation should show that the funds were used in accordance with the Board resolution.

3B. Establish a report format for use of the ongoing savings.

3C. Assure the Authority uses the ongoing savings in accordance with HUD and Board requirements.

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Inappropriate Transfers of Public Housing Funds From Master Fund

The Authority's master fund did not meet HUD requirements, did not provide a clear accounting for cash transactions, and allowed improper use of funds. We identified misuse of the fund in a 1992 audit. HUD instructed the Authority to discontinue its use and the Authority agreed to do so. Despite such agreement, the fund was still in use and transfers of public housing funds had continued to be made for another 7 years with virtually no accountability. At September 30, 1999, the Authority had misused at least $410,000 that we could identify.

Criteria

Section 9 (C) of the Annual Contributions Contract (ACC), Depository Agreement and General Fund, provides that the Authority shall maintain records that identify the source and application of funds in such a manner as to allow HUD to determine that all funds are and have been expended in accordance with each specific program regulation and requirement. Funds may be withdrawn from the general fund only for: (1) the payment of costs of development and operation of the projects under the ACC; (2) the purchase of investment securities approved by HUD; and (3) such other purposes as may be specifically approved by HUD. Program funds are not fungible; withdrawals shall not be made for a specific program in excess of the funds available for that program.

Section 10 (B) of the ACC, Pooling of Funds, allows the Authority to deposit funds from Public Housing operations and other projects or enterprises into an account to pay joint expenses. Section 10 (C) provides, however, that the Authority shall not withdraw from any of the funds or accounts authorized under Section 10 amounts for projects under the ACC or for other projects or enterprises, in excess of the amount on deposit in respect thereto.

Section 13 of the Consolidated Annual Contributions Contract for the Section 8 program provides that the Authority may only withdraw deposited program receipts for use in connection with the program in accordance with HUD requirements.

Prior finding not resolved

Our prior audit report, issued December 9, 1992, cited the Authority for using a revolving fund to conceal the misuse of housing authority funds. We demonstrated how the Authority's action violated the ACC, the Section 8 contracts, and HUD's Low-Rent Housing Accounting Handbook. We recommended closing the master fund, transferring the assets to appropriate program accounts, and establishing and operating an account for payment of joint expenses in accordance with HUD requirements. OIG closed the finding in April 1993 based on the Authority's promise to close the fund and open another account for payment of joint expenses only in accordance with regulatory requirements. Our current audit revealed that, in fact, neither of these actions occurred. The Authority went only so far as to establish a separate bank account for receipt and disbursement of its Section 8 program funds, but continued to pay its Section 8 administrative costs, as well as all other expenditures, through the master fund.

Inappropriate payments from the master fund

The master fund is part of the Authority's general ledger and receives all public housing operating subsidies from HUD. The fund also receives all rents from the Authority's public housing developments and from Rogall Congregate, a private apartment complex owned by the Authority. All payments the Authority makes, either public or private, are made from the master fund The rents from Rogall are accumulated and paid to a bond trustee at the end of the month. All other programs, for which payments are made, replenish the master fund generally on a reimbursable basis. Therefore, any inappropriate payments made from the master fund would generally come from the operating subsidy provided for public housing. We identified inappropriate expenditures of over $410,000 as follows:

Taxpayers subsidize over $300,000 for a private enterprise

According to the trust indenture for Rogall Congregate, the trustee is entitled to receive Section 8 operating subsidies directly from HUD and all the rents the Authority collects from Rogall residents. The trustee reimburses the Authority for the Authority's expenses associated with managing Rogall.

In April 1999, HUD stopped providing monthly Section 8 subsidies to the trustee because the Authority failed to provide HUD with required Section 8 tenant data. The problem appeared to be a software glitch that the Authority still had not resolved as of September 30, 1999. When HUD stopped paying the trustee, the trustee stopped reimbursing the Authority for its expenses. The Authority continued to incur the operating expenses associated with Rogall, but inappropriately paid for them from the master fund. The costs of operating Rogall for the period from April to September, 1999 were approximately $300,000.

Authority improperly used $58,744 to fund Section 8 operating deficit

As noted in Finding 2, the Authority did not earn enough administrative fees to cover its cost to operate the Section 8 Program during fiscal year 1999. According to the financial statements, the Authority spent $1,048,224 to run the program. The Authority earned administrative fees of only $989,480, resulting in a deficit of $58,744 which was improperly absorbed by other housing programs.

Authority misspent $52,174 for recreation program activities

The Authority paid $52,174 from the master fund for administrative costs of its recreational program for fiscal year 1998. These costs were to have been paid from donations from the City of St. Petersburg. The donations were contingent upon the Authority paying its obligations to the City (Payments in lieu of taxes or PILOT). At March 31, 1999, the Authority had not made its PILOT payment to the City and therefore was not in a position to receive the donation.

Master fund account balances were not auditable

We reviewed various accounts making up the master fund at March 31, 1999. We limited our review because the accounting system was cumbersome and the Authority had not reconciled the accounts. Tracking historic data was very time consuming because the audit trail was virtually non-existent. We noted that the master fund accounts included receivables and payables for other programs and that the balances in some of the accounts appeared erroneous. Two accounts had unusually large balances:

Account	Balance in Master Fund
Interfund with General Fund	$2,749,533 (Payable)
Interfund with Rogall (Receivable)	$2,510,452

Interfund with General Fund

The General Fund has owned the Authority's administration building since June 1995, and has charged rent to the various programs on a prorated basis. Although the rent is charged, the programs have not paid the rent and the payable has continued to accumulate at a rate of $144,000 per year for a total of $684,000 as of March 31, 1999. We were unable to readily determine the propriety of the remaining payable balance of $2,065,533 as this payable had accumulated over many years.

Interfund with Rogall

Most of the $2,510,452 receivable had been on the Authority's books for several years. We attempted to compare the $2.5 million receivable to payables on Rogall's records. Rogall's records, however, did not show any payable to the interfund account.

If the Authority continues to use the master fund as it has in the past, HUD will be unable to assure that public funds are being spent properly.

Authority comments

Authority officials agreed with the finding, and stated they are in the process of reconciling the receivables and payables. In addition, the Authority has replaced the master fund with a revolving fund, and is in the process of converting to a new computer system. Also, the Authority has reimbursed $410,000 to the public housing program.

OIG evaluation of Authority comments

The Authority's actions, if timely and adequately implemented, should resolve the issues.

Recommendations

We recommend you:

4A. Assure the Authority reconciles the receivables and payables in the interfund accounts, makes appropriate adjustments, and closes the master fund.

4B. Assure the Authority establishes a revolving fund accounting system to process joint costs only. The system should have its own general ledger and be reconciled each month.

4C. Assure the Authority establishes controls to ensure the Authority pays only specific program costs from funds provided for the specific program.

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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 the Authority'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 control categories were relevant to our audit objectives:

- Procurement and contracting
- Accounts payable for PILOT
- Accounts payable to HUD
- Section 8 funds requisitioned
- Use of funds restricted by ACC

We obtained an understanding of the Authority's procedures and HUD requirements, assessed control risk, and performed various substantive tests of the controls.

A significant weakness exists if management controls do not give reasonable assurance that the entity's goals and objectives are met; 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

Based on our review, we believe significant weaknesses exist in all areas reviewed. These weaknesses are discussed in the Findings of this report.

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Follow-Up On Prior Audits

The Independent Auditor's report for the year ended March 31, 1998, had no findings directly related to our audit objective or results. We reviewed the status of the 1998 findings as of March 31, 1999. Two findings remained open. One finding noted deficiencies in maintenance of low income and Section 8 tenant files. The other finding showed that the Authority did not submit the required HUD report for tenant accounts receivable.

An Office of Inspector General audit report issued December 9, 1992, addressed deficiencies in 13 findings. Recommendations for three of the findings had extended repayment dates and remained open. The Authority was current with its repayment plan for two of the findings. For the third finding, it was late making its April 1, 1998, payment and had not made its April 1, 1999, payment. The results of our review of the late repayment are addressed in Finding 3 of this report.

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Schedule Of Unsupported Costs

Recommendation	Unsupported[2]
3B	$363,230

2 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.

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Summary of Procurement Deficiencies

Contract Number	Vendor	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R
	Miracle Workers Computers	X	X	X	X				X	X			X						
98-040	Miracle Workers Computers		X		X				X	X				X	X				
97-003	Renker, Eich, Parks Architect										X								
96-017	Salem, Saxon,Nielsen, P.A.																		
98-021	Tab Glass					X													
	H.J. Russell-James Clearview	X	X	X	X	X			X	X				X		X	X		
98-037	H.J. Russell-James Clearview				X				X					X			X		
98-019	H.J. Russell- Jordan Park				X				X					X			X		
97-110	Priede-Mal					X	X											X	X
98-101	Sylla Inc.				X			X	X	X									
98-027	Greater Miami Neighborhoods																		
97-107	Montgomery Kone											X							
	TOTAL	***2***	***3***	***2***	***6***	***3***	***1***	***1***	***6***	***4***	***1***	***1***	***1***	***4***	***1***	***1***	***3***	***1***	***1***

Solicitation and Award Deficiencies

- A Inappropriate procurement method.
- B Inadequate competition.
- C Sole-source contract not justified.
- D No independent cost and/or price analysis.
- E Contract not approved by Board before executed.
- F No review of contractor's past performance before award
- G Contract did not include all required clauses.

Inadequate Procurement Records

- H File did not show complete procurement history.
- I File did not document the basis for contractor selection.
- J File did not include all the bid evaluation sheets.
- K File did not include all the bid packages received.

Inadequate Payment/Contract Administration

- L Payment made without contract.
- M Payment made without proper PHA authorization.
- N Payment made without receipt/review of required monthly reports.
- O Payment made above the contract amount.
- P Payment made without invoice.
- Q Contract not terminated timely when contract requirements were not met.
- R Performance/Payment bonds not utilized by PHA.

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Authority Comments

THE HOUSING AUTHORITY
OF THE CITY OF ST. PETERSBURG, FLORIDA

May 2, 2000

Mr. James McKay
Assistant District Inspector General for Audit
U.S. Department of Housing and Urban Development
Office of Audit, Box 42
Richard B. Russell Federal Building
75 spring Street, SW, Room 330
Atlanta, GA 30303-3388

Dear Mr. McKay:

Attached please find our responses to the draft audit report of the St. Petersburg Housing Authority issued on April 3, 2000.

On behalf of the Board of Commissioners let me commend the auditors for their professionalism and program knowledge. We are also grateful that they were able to follow up on the improvements prior to our response being submitted.

Sincerely,

Darrell J. Irions
Executive Director

Cc: Leigh Holm

3250 FIFTH AVENUE NORTH • ST. PETERSBURG, FLORIDA 33713
(727) 323-3171 • FAX (727) 323-3226
PLEASE REPLY TO: P.O. BOX 12849 • ST. PETERSBURG, FLORIDA 33733-2849

Audit of the St. Petersburg Housing Authority (SPHA)

DRAFT RESPONSE

The auditors' comments, time and effort are very much appreciated. All comments will be used constructively to strengthen the procedures and systems used to monitor procurement and contracting activities. However, SPHA takes exception with the statements of favoritism and of hindering competition. No favoritism was ever shown, and competition was not hindered, deliberately or otherwise.

Finding 1 – PROCUREMENT NEEDS IMPROVEMENT

The Authority is in agreement that its procurement methods and contract administration needed improvement and refinement. A system has been put in place to assure proper documentation is included in each procurement and contract file, and that proper contract administration is carried out. The Contract Register has been updated, and is in use to assist in procurement planning and proper contract administration. The General Services Department is in the process of compiling detailed written procedures that describe how the requirements of the Procurement Policy will be carried out.

Additionally, the Authority has taken steps to ensure that sufficient documentation of the history of the procurement is maintained through the Procurement Checklist.

Procurements Lacked Competition

Although SPHA is not in agreement that its procurements lacked or hindered competition we acknowledge the Auditors' finding and have taken steps to avoid this appearance in the future. SPHA follows sole-source procurement procedures when applicable and will provide better documentation of these procurements in the future.

Favoritism

SPHA is not in agreement that favoritism was ever shown in any procurement. To avoid the appearance of this in the future we will provide better documentation of our procurements. The Executive Director has documented that no prior relationship of a business or personal nature existed between him and any of the principals of Miracle Workers, specifically the firm's president.

Declaration of Emergency: SPHA maintains that the declaration of an emergency in the MIS department was justified and met HUD requirements. Records do exist documenting the declaration of an emergency by the Executive Director, however, a memo should have been included in the procurement file for the emergency contract. Attached is a memo dated April 2, 1998 to the Information Systems Analyst outlining the conditions that constituted a declaration of an emergency. Quotes were obtained for a systems analysis of the MIS department, but were not included in the interim MIS contract file. Based on these quotes the quote of $22,000 for the initial 2-month period was determined to be reasonable. The Executive Director did not make a unilateral decision without benefit of cost comparison.

MIS Contract: A purchase order was issued for emergency MIS Consulting services in an amount not-to-exceed $22,000. Per SPHA's Procurement Policy, the threshold required for formal Board approval is $25,000, and the purchase order did not exceed that amount. Later in the month of April, the MIS consultant advised from his analysis of the department, that another 2 months of services would be required to bring the department to an acceptable level of operation. At the April, 1998 Finance Committee meeting and the April 23, 1998 regular Board meeting, the severity of the situation was discussed, and Resolution #1633 was passed, authorizing an additional 2 month period for a total price not to exceed $45,000. SPHA did formally bid the work.

Management Contract: It was the intent of SPHA in 1998 to privatize all property management functions. After the resignation of the manager for James Park, Clearview Park and the Scattered Sites, the Authority was managing the properties with in-house staff, while attempting to hire a manager. The timing was right to continue to privatize the property management function. The Executive Director contacted the HUD Miami office to obtain permission to award a noncompetitive contract for James/Clearview/Scattered Sites, to H. J. Russell and Company, as they were already competitively procured to manage the Jordan Park development. While a difference of opinion exists as to whether or not approval was granted, SPHA maintains that verbal approval was received. The Housing Authority has taken steps to ensure that all required documentation is included in all contract and procurement files, i.e. contract and procurement checklists.

Canceled Solicitations

SPHA contends that all cancelled solicitations were necessary and justified. We agree better documentation is needed. The Authority now complies with the requirements for cancellation of solicitations.

MIS Contract: The Authority agrees that RFP 99-022 should have been amended to respond to questions and issues brought up by potential bidders at the pre-proposal conference. However, as an amendment was not drafted for this solicitation, a reissued solicitation was advertised which was substantially modified from the original version, but included clarification to questions raised earlier by bidders.

Excessive Bond and Insurance Requirements

The Housing Authority maintains that it did not place unreasonable requirements on firms in order for them to qualify to do business. In only one instance, RFP 98-024, Private Management of James/Clearview/Scattered Sites, the bonding requirement in was included in error, but was corrected in the subsequent solicitation. Therefore, it should not be said that SPHA routinely restricts competition by placing unreasonable requirements on firms in order for them to qualify to do business and requiring excessive bonding.

We request that this reference be removed.

Procurement Records Not Adequate

The General Service Department has developed a Contract Checklist, a Procurement Checklist, and an approval process, which is now being followed for all procurements and contracts, to ensure that proper and complete documentation is included in every file. See Recommendation 1A.

Performance and Payments Were Not Administered Properly

The Director of General Services appreciates the OIG Auditor's analysis of this function and will use it as a basis to provide the best possible administration of SPHA's contracts. We are more than willing to make any adjustments and corrections in our operations that will improve our performance and our ability to better serve our residents. See Recommendation 1B.

Contract Continued Despite Unacceptable Performance

SPHA acknowledges that it did work with one contractor extensively to complete the scope of work for a roofing project. Priede-Mal Constructors were given several chances to correct deficiencies in their work. These actions were taken to assist this minority contractor in establishing capacity. HUD encourages, and the Board of Commissioners supports the award of contracts to minority or women owned businesses. The Housing Authority attempted to work with this minority contractor in the hope that the firm would be able to complete the work. Despite SPHA's commitment to provide contracting opportunities to minority firms whenever possible, this contract was terminated once it became apparent that the contractor could not perform the work required.

Contract Register Needed Revision

SPHA acknowledges that the contract register is an important document and compliance tool, and that it was not up to date at the time of the audit. The contract register has been updated, and is in the process of being fine-tuned. The General Services department has assigned one employee to continuously update this important document.

All overpayments to contractors have been corrected, and reimbursements have been received.

Recommendations:

1A. Establish controls to conduct and document procurement actions in full compliance with HUD requirements as well as its own procurement policy.

We are in agreement with this recommendation. The General Service Department has developed and implemented a checklist system to ensure proper documentation is included in each procurement and contract file, and that proper contract administration is carried out. This system includes:

1) Procurement Checklist: to assist in setting up and maintaining the procurement files in compliance with 24 CFR 85.36, HUD Handbook 7460.8 REV.1, and SPHA's Procurement Policy.
2) Submission Checklist for RFP's and IFB's: this document will ensure that each proposal received in response to a solicitation includes all required documentation.
3) Contract Checklist(s): designed for both construction and non-construction type contracts, this list briefly discusses the terms of the contract, required HUD and SPHA forms, including Davis-Bacon compliance, if applicable, and the process for approving invoices and change orders. The Contract Checklist is discussed with the contractor after contract award and prior to the contract signing. The contractor must sign the document and it is included in the contract file.
4) Sections 3 Checklist – used to ensure complete understanding of SPHA's Section 3 policy and contractor's obligations for compliance. The contractor must sign this document and it is included in the contract file.
5) An approval process for the payment of invoices and submission and approval of change orders: This process is in the form of a memorandum, and is presented and discussed in detail at contract signing and/ or at the pre-construction conference for both construction and non-construction contracts. The approval process will greatly enhance SPHA's ability to monitor and administer contracts.

This checklist system will ensure all required documentation is included in proposals, that the contractor understands what is required per the terms of the contract, and that procurement and contract files are complete. The Contract Register has been updated, and is in use to assist in procurement planning and proper contract administration. The General Services Department is in the process of compiling detailed written procedures that describe how the requirements of the Procurement Policy will be carried out.

1B. Establish a contract administration system that monitors and assures contractor performance under the terms of their contract.

We are in agreement with this recommendation. The Director of General Services appreciates the OIG Auditor's analysis of this function and will use it as a basis to provide the best possible administration of SPHA's contracts. The systems listed above have been implemented, and the Contract Register is being used as a tool to ensure better contract administration. The Housing Authority will use performance-based contracts with deliverables, and will require monthly reporting, when applicable, in all non-construction contracts. The contract administrator will approve invoices based on the deliverables due, and will perform a payment analysis on the amount invoiced by the contractor. The entire approval process has a check and balance of final review by the General Services department to ensure that proper documentation and approvals are in place before forwarding the invoice to the Finance department for payment.

1C. Implement a quality control system to monitor the contracting process for conformance with policies and procedures.

We are in agreement with this recommendation, and submit that it has been implemented with the systems listed in 1A and 1B above.

1D. Ensure the Board of Commissioners oversees the procurement process.

The Board of Commissioners is required to approve all purchases and contracts that exceed $25,000. When a request is received for a good or service by the General Services department, a determination is made on whether three (3) bids, or a formal solicitation is required. Purchases under $25,000 require three (3) bids, a cost analysis, and are monitored through the Purchasing Agent, the Director of General Services, the Deputy Executive Director and the Executive Director. In the case of a formal solicitation requiring Board approval, an evaluation committee makes a recommendation to the Executive Director, and the Executive Director makes a recommendation to the Board. The Board makes the final decision on the award of the contract. In general, it is the duty of the Board to set policy, which is carried out by the Executive Director. The SPHA Procurement Policy has been approved by the Board and meets all HUD requirements.

Finding 2- THE AUTHORITY NEEDS TO IMPROVE MANAGEMENT OF ITS SECTION 8 PROGRAM

2A. Establish controls to monitor the number of units leased to the amount of funds available.

This recommendation is being implemented. The SPHA has reorganized its management structure to permit greater coordination between the Section 8 and Finance departments. The SPHA has contracted with a Fee Accountant who has experience in HUD programs and regulations. Section 8 budgets are accurately prepared using leased unit data. A spreadsheet has recently been implemented which allows for the monthly monitoring of units leased and dollars spent. In addition, SPHA has recently converted to a new software program that supports program tracking and monitoring.

2B. Provide a quarterly accounting for the number of funds drawn, the number of units leased, and the number of funds on hand to assure the Authority is not overdrawing funds.

The SPHA will monitor this information on a monthly basis and will provide the information as requested. We will prepare and submit budget revisions to HUD as necessary.

2C. Provide justification and documentation to support the $131,000 overspent in the Moderate Rehabilitation Program.

Upon termination of the Moderate Rehabilitation program contracts, families in the Moderate Rehabilitation program were converted to the Section 8 Certificate program. The Moderate Rehabilitation program Year End Settlements for fiscal year ending March 31, 1998 were revised and approved by HUD on March 6, 2000.

2D. Review its allocation of administrative costs to the Section 8 and other programs and demonstrate that costs charged are applicable and supported.

The SPHA has reviewed the allocation to assure it reflects the costs applicable to the various programs.

Finding 3- INADEQUATE CONTROLS OVER ROGALL FUNDS

3A. Refund the replacement reserve account $209,630 for the funds used for operations.

This has been corrected. The SPHA has provided backup and documentation to the auditor to justify the $209,630 used for extraordinary maintenance, replacement of non-expendable equipment and property betterment's, not operating costs. Therefore, no refund to the replacement reserve account is necessary.

3B. Provide documentation supporting the $363,230 transferred to the other project and Master Fund. The documentation should show that the funds were used in accordance with the Board resolution.

The SPHA is currently in the process of gathering the documentation and information supporting the $363,230.

3C. Pay HUD the balance it owes for over draws of the operating subsidy ($243,260 at March 31, 1999).

This balance has been paid to HUD and a copy of the check was provided to the auditor.

3D. Establish controls to assure expenditures of the ongoing savings are spent in accordance with HUD and Board requirements.

All expenditures will be in accordance with HUD requirements and will be supported by Board resolution.

3E. Provide the annual reports required by the MOU.

The SPHA has sent, on an annual basis, the Report on Audit of Financial Statements to the HUD office. In the future, we will also include a breakdown of the expenditure description, amount and period as a separate report, if necessary.

Finding 4- THE AUTHORITY MADE INAPPROPRIATE TRANSFERS OF PUBLIC HOUSING FUNDS USING ITS MASTER FUND.

4A. Require the Authority to reconcile the receivables and payables in the interfund accounts, make appropriate adjustments, and then close the master fund.

This recommendation is being implemented. The SPHA is in the process of reconciling the receivables and payables in the interfund accounts. The master fund is no longer in use and has been replaced by a revolving fund. The SPHA has requested direct deposit of all public housing funds into our conventional bank account and has been verbally advised by our local HUD office that this will be effective May 1, 2000. We have contacted our bank to remove the name 'master fund' from the account. In addition, SPHA is in the process of converting to a new computer system and all accounts are in accordance with HUD requirements and are appropriately titled.

4B. Require the Authority to establish a revolving fund accounting system to process joint costs only. The system should have its own general ledger and be reconciled each month.

A revolving fund has been established and is the operating account, in which each program pays it's respective portion of expenses. The revolving fund has a separate general ledger, and is reconciled on a monthly basis.

4C,D. Require the Authority to make program payments from program accounts. Obtain assurance that controls exist to ensure the Authority pays only specific program costs from funds provided for the specific program.

The SPHA is in the process of converting to a new software program. Funds will be advanced at the beginning of the month and will be reconciled at the end of the month for all program costs.

4E. Require the Authority to return $410,000 to the Low Income Housing Program from non-HUD sources.

This has been corrected. All dollars used from public housing have been reimbursed to public housing. The SPHA has made the transfer of the $410,000 as follows:

-Upon receipt from HUD of the approximately $300,000 for Rogall Congregate, the funds were transferred to public housing.

-The deficit in Section 8 administrative fees ($52,839) has been transferred to public housing.

-The SPHA has paid all PILOT due and thus have received reimbursement from the City

Finding 5- ALTERNATIVE FUNDING SOURCES NEEDED TO CONTINUE RECREATION PROGRAMS*

This finding has been corrected. The SPHA has paid all PILOT due to the City of St. Petersburg and thus have received reimbursement. Funds donated have been reimbursed to the appropriate programs and the SPHA will make payment of PILOT upon closing of the books at our year end. In accordance with the OIG recommendation, the SPHA will continue to seek additional funding opportunities and will assure that no restricted funds are used.

* We considered the Authority's actions satisfactory and deleted this finding.

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