



HOUSING AUTHORITY OF THE
CITY OF MIAMI BEACH
MIAMI BEACH, FLORIDA

01-AT-202-1001
OCTOBER 20, 2000

OFFICE OF AUDIT
SOUTHEAST/CARIBBEAN DISTRICT



Issue Date	October 20, 2000
Audit Case Number	01-AT-202-1001

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

A handwritten signature in black ink, appearing to read "N. H. Cooper".

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

SUBJECT: Housing Authority of the City of Miami Beach
Miami Beach, Florida

We completed an audit of the Housing Authority of the City of Miami Beach, Florida (HACMB). We conducted the audit pursuant to a request by your office dated July 9, 1999. This report contains four findings that require follow-up action by your office to ensure HACMB implements appropriate corrective action.

Within 60 days please give us a status report, for each recommendation in this report, 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 because of the audit.

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

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Executive Summary

We conducted the audit in response to a request by the Department of Housing and Urban Development (HUD), Office of Public Housing. We reviewed selected aspects of the HACMB's Section 8 and public housing operations. Our primary objectives were to determine if the HACMB complied with HUD and/or State of Florida requirements for: (1) Section 8 expenditures for inter-local projects with the City of Miami Beach (City); (2) Section 8 expenditures for construction of a single parent family housing and resource center; (3) Section 8 rent reasonableness and rent increases; and (4) procurement and general disbursements of public housing funds.

The audit disclosed violations of HUD requirements with regard to each audit objective and over \$1 million in questioned costs and \$9,267 ineligible costs. These conditions resulted from the HACMB's mismanagement of its Section 8 and public housing programs and its financial affairs. Specifically, the HACMB:

- Spent \$795,178 of its Section 8 reserves for questionable activities provided through contracts with the City. The HACMB paid the City for police protection, recreation, and code enforcement. We questioned the reasonableness and necessity of the \$795,178 paid for police protection, code enforcement and recreation. The costs were for public services the City should have provided from its local tax revenues.
- Spent over \$2 million in a failed effort to provide housing and social services. In 1995 HUD waived regulations to allow HACMB to refund bonds to refinance Rebecca Towers North on the condition that HACMB use a portion of the bond proceeds to construct a women and children housing and resource center. The HACMB spent over \$2 million for site acquisition, site improvements, architect fees, City fees and various preliminary costs for the planned project. However, the project had been delayed for over 5 years and the HACMB had lost or was at risk of losing almost all of the \$5.8 million originally committed to fund the project. Also, HACMB's failure to complete the project deprived the City's low-income community of the needed housing and social services. We questioned \$209,570 paid to the City for fees and permits because the fees were excessive considering the joint venture project was not constructed.
- Did not adhere to HUD requirements designed to assure the reasonableness of Section 8 rents. The HACMB also did not timely execute new leases for tenants who moved from one assisted unit to another, and did not pay tenants the amounts by which their utility allowances exceeded the family's contribution for rent. As a result, there was inadequate assurance that HUD subsidized reasonable Section 8 rents and that tenants received the full benefit of their utility allowances. We noted some cases where the HACMB and owners provided false representations concerning rent reasonableness. These conditions caused HUD to pay \$9,267 in excessive subsidy.

- Had not implemented corrective actions recommended by past reviewers of its operations to comply with procurement requirements. For instance, subsequent to being put on notice concerning violations of procurement requirements, the HACMB acquired legal services and small purchases without adequate assurance that they obtained the most advantageous cost from the most qualified sources.

We recommend that you require HACMB to: (1) obtain additional supporting documentation or recover the \$1,004,748 paid to the City, (2) reimburse HUD \$9,267 for excessive housing assistance payments (HAP) to owners, (3) submit evidence that it has the financial capability and commitment to complete construction of the center within a reasonable time, and (4) establish the necessary controls to improve its operations. Although various reviews have identified noncompliance and systemic problems, the HACMB has shown a disregard for HUD requirements and associated management controls. If improvements are not made within a reasonable period of time, we recommend you consider declaring HACMB in substantial default, and identify other entities that can effectively carry out the programs. We also recommend that you restrict the use of all Section 8 administrative fee reserves until you determine and provide written notice to the HACMB that it has substantially resolved the systemic problems in its Section 8 Program, and the issues identified in the findings.

We provided copies of the draft report to the HACMB and HUD's Florida State Office. We also discussed the draft report with HACMB officials at an exit conference on August 5, 2000, and with HUD officials on August 6, 2000. The HACMB provided its written response to the draft report on September 27, 2000. The HACMB disagreed with findings 1 and 2 but they basically agreed with findings 3 and 4. We considered HACMB and HUD responses in finalizing the report. The HACMB's comments are summarized within each finding and included in their entirety in Appendix B.

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Abbreviations

CFR	Code of Federal Regulations
ED	Executive Director
HA	Housing Authority
HACMB	Housing Authority of the City of Miami Beach
HAP	Housing Assistance Payments
HQS	Housing Quality Standards
HUD	U.S. Department of Housing and Urban Development
IPA	Independent Public Accountant
RFP	Request for Proposal

Introduction

Background

The Housing Authority of the City of Miami Beach (HACMB) is a public body organized under Section 421 of the Florida State Statutes. As of July 2000, the HACMB administered 2,943 housing units for low to moderate-income families. The HACMB owned and operated a 200-unit conventional public housing project for the elderly, a 200 unit Section 8 new construction project, and a 16 unit affordable housing project. The HACMB also administered 1,856 Section 8 vouchers, 346 Section 8 certificates, and 131 Section 8 moderate rehabilitation units. In addition, the HACMB was the contract administrator for 3 Section 8 substantial rehabilitation projects that consisted of approximately 194 units.

A five-member Board of Commissioners, who were appointed and served pursuant to Florida State Law, governed the HACMB. The Board of Commissioners was primarily responsible for ensuring the integrity of the HACMB's programs and operations, fiscal management, and hiring the Executive Director (ED). The ED was responsible for the day-to-day management of the HACMB, implementation of Board policies and procedures, and overseeing HACMB staff that consisted of approximately 44 employees.

History

Prior to and during our fieldwork, several independent entities reviewed the HACMB operations and detected serious problems related to its administration of programs and its financial affairs. The different reviewers reported similar deficiencies in the HACMB's operations. Specifically:

- In 1999, the HACMB hired a consultant to conduct a review of its financial operations, accounting department, and Section 8 department. The consultant reported several financial management deficiencies and gross inadequacies in determining rent reasonableness and lack of procedures in its Section 8 department.
- In February 2000, HACMB's independent public accountant (IPA) issued a report on the results of an audit of the HACMB's operations for the fiscal year ended June 30, 1999. The report contained 37 findings that included issues concerning Section 8 and financial management. HACMB's IPA audit for the fiscal year ended June 30, 1998, contained a finding on procurement issues.

- In February 2000, HUD’s Office of Public Housing conducted an In-depth Consolidated Management Review of HACMB’s operations (report issued June 22, 2000). The report contained 30 findings, including several related to Section 8 issues. Due to the seriousness of the Section 8 issues, HUD placed the HACMB’s Section 8 Program on a 1 year probation.

The following table shows the similarity of findings cited by the various reports:

Findings / Concerns	Consultant’s August 1999 Report	1998 and 1999 IPA Audits	HUD’s June 2000 Report
<i>Section 8</i>			
Rent Reasonableness / Rent Increase	✓	✓	✓
Utility Allowance / Reimbursement		✓	✓
HQS / Abatement of HAP		✓	✓
Incomplete files / Waiting List		✓	✓
<i>Financial Management</i>			
Cash Controls / Lack of Safeguards	✓	✓	
Cost Allocation / Budgeting / Monitoring	✓	✓	✓
Accounting and Recording of Expenses, Assets, and Individual Funds	✓	✓	✓
Segregation of Duties	✓	✓	
Procurement		✓	✓
Lack of Policies and Procedures	✓	✓	

HACMB recently developed an action plan to address findings and concerns cited in the HUD report. However, it had not prepared a written plan with target dates to address the IPA findings. Following these reviews, the HACMB initiated some organizational and operational changes in an effort to improve performance. During our audit, the HACMB hired a new ED (who reported on July 17, 2000) and Finance Director, and initiated measures to address problems within its Section 8 department. For instance, the HACMB assigned its Executive Secretary to oversee both the Section 8 leasing and inspection departments. The HACMB also retained the services of a consultant to help the new Section 8 manager address the issues raised by HUD. However, as cited in our findings, we observed a need for continued improvement.

Audit objectives, scope, and methodology

We conducted the review based on an audit request from HUD concerning the reasonableness of Section 8 contract rents. In planning the audit, we considered the findings and concerns cited in past reviews of HACMB's operations by HUD, independent auditors, and consultants. We developed our audit objectives to further examine certain issues, in addition to rent reasonableness, that were subject to waste and abuse and to determine if such conditions had occurred.

Our primary objectives were to determine if the HACMB complied with HUD and/or State of Florida requirements for: (1) Section 8 expenditures for inter-local projects with the City of Miami Beach; (2) Section 8 expenditures for construction of a single parent and family housing resource center; (3) Section 8 rent reasonableness and rent increases; and (4) procurement and general disbursements of public housing funds.

To accomplish the audit objectives, we examined records maintained by the HACMB, City of Miami Beach, landlords, HUD, and HACMB's independent auditor. We also interviewed HACMB (past and present), City, and HUD officials as well as landlords, tenants, and consultants. We visited housing units to determine their condition but we did not conduct a detailed review for housing quality standards (HQS) because the conditions we observed were similar to those included in recent reports by HUD and a consultant. Those reports contained appropriate recommendations for corrective action. While conducting the review, we used judgmental sampling methods. Specifically, we:

- Examined 20 tenant files for rent comparability and/or rent increases.

- Visited the offices of five landlords and reviewed records related to assisted and unassisted rents charged at 11 projects that consisted of 163 units.
- Interviewed 27 tenants. We asked questions to determine the propriety of the tenant selection for Section 8 assistance, amount of subsidized rent, tenant's rent payments to landlords, and payments to landlords for extra services (e.g., furniture or other fees). Regarding fees for extra services, we also asked the tenants to confirm whether or not they received anything of value in return for the fees.
- Walked through 40 units to determine their general condition and/or to determine if the unit bedroom size agreed with what the files showed.
- Examined 78 percent of the \$938,872 paid to the City for activities funded through inter-local agreements and assessed the progress of HACMB's efforts to construct the single parent family housing and resource center.
- Tested disbursements from the low-income housing program that equaled or exceeded \$1,000 for the period December 1999 through May 2000.

We performed the on-site review in September 1999 and January through July 2000. The audit generally covered the period July 1, 1997, through December 31, 1999. However, we extended coverage to other periods when needed to ensure full development of the issues cited in the findings. We conducted the audit in accordance with generally accepted government auditing standards

Section 8 Reserve Funds Used to Pay for Questionable Activities

The HACMB spent \$795,178 in Section 8 reserve funds for questionable projects implemented by the City of Miami Beach. HACMB's records indicated that the City might have pressured it to execute contracts for the projects. However, the HACMB was responsible for ensuring proper use of the Section 8 funds. Specifically, the HACMB funded the projects without adequate consideration of an opinion from its attorney that some of the projects did not represent an allowed use of funds and that other projects required attention to certain details during implementation to ensure their eligibility. As a result, the HACMB paid the City \$795,178 for three projects which were for activities the City should have provided and paid from local tax revenues. The expenditures occurred because the HACMB's Board of Commissioners and Executive Director mismanaged Section 8 resources.

Housing authorities may use administrative fee reserves for other housing purposes permitted by state and local law (24 Code of Federal Regulations (CFR), 982.155 (b)(1)). Florida's Housing Statute states that no housing authority shall construct or operate any housing project as a source of revenue to the City (Section 421.09).

Origin of funding arrangement

On June 11, 1992, HACMB and City officials met and agreed to a mission statement designed to utilize portions of the HACMB's large Section 8 reserves for community development activities. The mission statement provided that the projects must meet HUD's criteria and receive annual HUD approval. On June 24, 1992, the HACMB's Board adopted a resolution that approved the mission statement. The HACMB's attorney prepared a memorandum, dated October 13, 1992, which indicated that the City used some pressure to persuade the HACMB to enter into contracts for project services. The memorandum, addressed to the Executive Director and the HACMB's Board, commented that:

"...A perceived threat that the City administration will 'take over' the Housing Authority if it does not acquiesce is not sufficient consideration for the Authority to contractually obligate itself to relinquish control over a substantial portion of its cash reserves."

Finding 1

During the October 13, 1992, HACMB Board meeting a City official stated that the City never threatened to take over the housing authority.

Funded activities

On November 10, 1992, HACMB's Board of Commissioners voted to fund projects for police, recreation, childcare, and code enforcement to be implemented by the City. HACMB's attorney attended the Board meeting and voiced his objections and reservations to the proposed projects in an oral presentation before the Board and in a memorandum, also dated November 10, addressed to the HACMB Board Chairman, Executive Director, and Board. The memorandum provided a legal opinion which opposed funding for the police and code enforcement projects and provided conditional approval of the recreation and childcare projects. However, the Board approved the police and code enforcement projects despite the valid concerns raised by the attorney. Also, the HACMB did not heed the attorney's advice to ensure that the recreation program was implemented to benefit the targeted group of residents. The HACMB heeded the attorney's advice in the way it implemented the childcare project. The contracts between the HACMB and City contained provisions that required the City to reimburse the HACMB should HUD take exception to contract costs.

Project implementation

From inception through February 2000, the HACMB expended \$938,619 of its Section 8 administrative fee reserves to fund projects with the City through inter-local agreements. We used judgmental tests during our review of HACMB and City cost records and performance measures associated with the projects. The costs incurred for the childcare program were supported and reasonable. However, we identified questions concerning the police, recreation, and code enforcement activities that paralleled the concerns expressed by HACMB's attorney prior to the projects' initial approval for funding:

<u>Activity</u>	<u>Total Costs</u>	<u>Allowed</u>	<u>Questioned</u>
Police Protection	\$425,842		\$425,842
Recreation	335,736		335,736
Childcare	143,441	\$143,441	
Code Enforcement	<u>33,600</u>		<u>33,600</u>
Total	<u>\$938,619</u>	<u>\$143,441</u>	<u>\$795,178</u>

The HACMB inappropriately paid the City \$795,178 for projects that the City should have funded with local tax revenues. We identified the following issues that caused us to question the amounts the HACMB paid to the City for police protection, recreation, and code enforcement projects:

Police protection - The HACMB funded the project over the objections of its attorney who advised the HACMB that the activity did not represent an allowed use of funds. The attorney's November 10, 1992, memorandum stated:

“This proposal, for the HACMB to fund two new CMB [City of Miami Beach] police officers, in my opinion, does **not** set forth a permitted or lawful use of housing assistance funds. If we had massive, self-contained housing projects in Miami Beach, requiring special police services on a regular basis, the Housing Authority might be permitted to purchase police services from the City. It should be noted that the Miami Beach Housing Authority already employs private security guards for the protection of its public housing tenants.”

The Board minutes showed that HACMB commissioners voted to approve the project despite the attorney's objections. The HACMB continued to fund the project from November 1992 through the period covered by our audit at a cost of \$425,842.

We examined 100 percent of the costs. The agreements called for police to patrol areas at and in the vicinity of where Section 8 tenants lived and to provide other services related to investigations and community relations. The services were of the type normally expected from a police force as routine services paid from local tax revenues. The HACMB owned only two large projects (200 units each) joined by a common

walkway for which it employed a firm to provide security. The other 2,600 privately owned Section 8 units were not in concentrated areas, but were scattered throughout the Miami Beach area.

On September 9, 1992, the Assistant City Manager informed the HACMB's Board that the police department had divided the City into 26 sectors. He stated that an officer is responsible for patrolling each sector and identifying areas within the sector they are going to pay more attention to. This comment further indicated that the City's normal police patrol covered or should have covered the areas and vicinity where Section 8 tenants lived in privately owned housing.

We agree with the attorney's determination that the activity did not represent an allowable use of funds.

Recreation - The inter-local agreements stipulated or implied that the recreation program would provide top priority to tenants of Section 8 units and other subsidized housing. The agreements did not limit the level of assistance the program may provide to individuals who were not in the target group. The later agreements stated that the City would continue to provide all transportation and related services for participants.

The HACMB paid the City \$335,736 for this activity which we considered questionable. We examined costs totaling \$254,542 (76 percent) and determined that the payments amounted to an operating subsidy for City parks. To illustrate, the City claimed reimbursement for general park operating expenditures such as salaries, bus services, instructor fees, trophies, baseball supplies/uniforms, picnic supplies, recreational supplies, etc. The costs appeared to represent general local government parks and recreation costs. Vendor invoices did not support some of the payments. We also noted that the City requested and received reimbursement for \$12,439 incurred for bus services. The inter-local agreement stipulated that the City would provide all transportation and related services for participants in the program.

Furthermore, the HACMB and City did not maintain records to demonstrate whether any of the \$335,736 benefited the target group. The HACMB did not heed the advice of its legal counsel during its implementation of the recreation activity to employ strict controls to ensure that the program served those for whom it was intended. The attorney stressed that the HACMB funds must be utilized for the benefit of qualified housing assistance recipients. We questioned the full \$335,736 paid for this project because HACMB lacked any documentation that the activity provided any measurable benefit.

Code enforcement - The costs paid for this activity appeared to be a supplement to the City's code enforcement division and it was not a reasonable and necessary HACMB expense. We examined 100 percent of the \$33,600 the HACMB paid the City for the code enforcement project. The agreement provided that the activity was for one City code enforcement officer to annually inspect 1,000 Section 8 units or units that affect those living in subsidized housing. The documentation provided to support the payments did not show how many units the City inspected.

On November 10, 1992, the day the Board voted to approve the project, HACMB's attorney advised the Board of Commissioners and Executive Director that the code enforcement project did not meet the legal requirements for funding because the HACMB employed its own inspectors. The Board did not heed the attorney's advice and approved funding for the project. We agreed with the attorney's rationale and assessment that the project did not meet the requirements for HACMB funding. The activity appeared to be a supplement to the City's inspection division for work that it was required to do anyway.

For instance, during the November 10 Board meeting, the Assistant City Manager stated that the City was behind on conducting preventive inspections and that the HACMB funding would close the gap. HACMB's inspections supervisor stated he did not see a benefit to

paying the City for code enforcement. The HACMB funded the project for only 1 year (1992/93) at a cost of \$33,600.

Inadequate monitoring

The HACMB basically paid what the City billed for inter-local activities without adequately monitoring project costs and services. For instance:

- **Services were not provided at contract levels.** The HACMB did not establish adequate general ledger expense accounts to track costs paid under the inter-local agreements. Until November 1999, the HACMB charged contract disbursements directly to the 2826 reserve account. The only payment charged to an expense account was check number 25303, dated November 15, 1999, for \$163,330.15. The payment was charged to one account; however, the check included \$90,106 for recreation, \$63,754 for police protection, and \$9,470 for childcare. The HACMB had not established accounts to track costs for each separate activity. Separate accounts were needed to assure that the City provided services at the contracted level and price.

To illustrate, from inception of the inter-local agreements through February 2000, the HACMB paid the City \$58,585 in excess of the contract amount for police services (costs questioned above) and \$129,559 less than the contract amount for childcare services. HACMB and City officials were not aware of these conditions until we brought them to their attention. The HACMB should have been aware of contract payment trends and it should have initiated timely actions to prevent the overpayment and to assure that the City provided the contracted level of childcare services.

- **The HACMB disbursed funds in advance of its need to pay for contract activities.** In March 1993, the HACMB advanced \$245,667 to the joint benefit fund used to pay the City for inter-local project activities. HACMB and City officials had

to sign checks issued from the benefit account. Large portions of the \$245,667 remained in the account for over a year without being utilized. For instance, following the payment, the account balance remained at over \$200,000 for seven months and over \$100,000 for an additional four months. We noted other similar periods of delayed spending. As of February 29, 2000, the account had a balance of \$46,562. Interest earned on the funds was charged back to the benefit account.

The above issues resulted from mismanagement of financial affairs by the HACMB's Board of Commissioners and Executive Directors. The former HACMB attorney put the Board on notice prior to their approval of the projects that the police and code enforcement activities were not allowable and that the recreation activity required special considerations to ensure its eligibility. The Board virtually ignored the attorney's advice and approved the projects. Furthermore, the Board did not obtain HUD approval for use of the funds. The HACMB's September 9, 1992, Board minutes showed that HUD had reminded the HACMB of its responsibility to ensure that each activity conform to the statutes, regulations, and the obligations of the housing commission.

HUD's concerns

On June 22, 2000, HUD issued a report stemming from its February review of HACMB's operations, which contained an observation concerning the inter-local agreement. HUD questioned the reasonableness of the cost and directed the HACMB to cancel the contracts with the City and not to award future contracts of this type to the City.

HACMB comments

HACMB officials did not concur with our opinion that the Authority and City did not realize services in excess of baseline services for police, recreation, and code enforcement services. HACMB officials believed the City had provided services for police, code enforcement, and recreation in excess of City baseline services to the benefit of the population to and around the agency's service area.

Finding 1

HACMB officials stated they currently did not have an inter-local agreement with the City for services. In the event the Authority contemplated revisiting such relationships with the City again in the future, the Authority would 1) obtain proper authorization for the use of funds from HUD, and 2) provide a clear audit trail of proper acceptable documentation to support the exchange of services for compensation.

OIG evaluation of HACMB comments

The Authority provided no support to justify its claims that the police, code enforcement, and recreation activities provided benefit in excess of City baseline services to individuals the inter-local agreements were designed to serve. As mentioned in the finding, the Authority ignored the advice of its attorney by funding the police and code enforcement projects and in the way it implemented the recreation activity. The Authority's assertion that the activities provided benefit in excess of City baseline services was not supported during the audit or by the Authority's written response to this finding.

Recommendations

We recommend you require the HACMB to:

- 1A. Obtain additional supporting documentation or recover from the City the \$795,178 paid for police protection, recreation and code enforcement activities.
- 1B. Establish proper general ledger accounts for inter-local projects and properly monitor expenditures for future activities funded with Section 8 reserves.

Housing And Social Services Not Provided

The HACMB spent over \$2 million in a failed effort to provide housing and social services due to inadequate planning and management of human and financial resources. The HACMB had not broken ground or developed final plans to fund, construct, and operate the project. The project had been delayed for over 5 years and the HACMB had lost or was at risk of losing almost all of the \$5.8 million originally committed to fund the project. Furthermore, the City was considering a road construction project that may prevent the HACMB from constructing the center on the planned site or recovering its full investment in the site. HACMB's failure to complete the project deprived the City's low-income community of the needed housing and social services. We questioned \$209,570 paid to the City for fees and permits because the fees were excessive considering the joint venture project was not constructed.

HUD's waiver to
allow for the project

In November 1994, HACMB requested HUD's approval to refund the bonds originally issued in 1978 to finance Rebecca Towers North, a 200 unit Section 8 new construction project. The 1978 bonds were issued pursuant to 24 CFR 811 which prohibited the issuance of obligations to refund the bonds. However, the HACMB's request for waiver stated that they wanted to refund the bonds to generate over \$2 million to finance the construction of a single parent family housing and resource center. The project would provide shelter for battered women and children. On April 17, 1995, HUD approved the waiver request on condition that the funds be expended to provide housing for the purposes described.

Project funding and
delays

On April 26, 1995, the HACMB refunded the bonds, which provided \$2.3 million to fund the center. At the time of our review, 5 years had passed since the bond refund. The HACMB still had not constructed the center nor had it developed final plans to construct and operate the center.

In June 1999, the HACMB's Board met to discuss the failed project. The Board minutes showed the project had not succeeded because of mismanagement. During the meeting various members of the Board and/or the Executive Director expressed concerns such as:

- The project did not succeed due to mismanagement.

Finding 2

- The HACMB returned \$525,000 in state funding for the project.
- The project's cost estimates were incomplete.
- HACMB does not have the money nor plans to construct the project.
- Despite controversy from the start, the Board always voted to move forward with the project.

We agree with the Board's belated but accurate assessment as to why the project was not completed. However, the Board and HACMB had a responsibility to assure proper management of staff and financial resources to complete the project. The poor planning and management prevented the HACMB from providing the needed housing and social services to residents of the City's low-income community.

For instance, the HACMB's June 1994 application to the state for \$525,000 to assist with financing the project stated that the target population was homeless women and children, battered women and children who become homeless when removed from abusive situations, and families on HACMB's waiting list. The application stated that the HACMB identified the need for the housing and social services through needs assessment performed by a university.

HACMB's mismanagement of staff and financial resources associated with the project resulted in its:

- Loss or risk of losing almost all of the \$5.8 million initially committed to the project.
- Expenditures of over \$2 million for site acquisition; site improvements; and predevelopment costs that may not be recovered.
- Lack of a final project design and financial plan needed to complete and to operate the project.

Funding lost or at risk of being lost

The HACMB obtained the following funding commitments for the project which it had lost or was at risk of losing:

<u>Sources of Funds</u>	<u>Per 1994 State Loan Application</u>	<u>Per 1995 HOME Agreement</u>
Private loan	\$2,039,000	\$1,598,943
State loan	500,000	0
State grant	25,000	0
Federal Home loan	0	500,000
HOME loan	380,000	760,000
Bond proceeds	2,287,313	2,300,000
Other - HACMB Equity	<u>559,200</u>	<u>1,500,000</u>
Total	<u>\$5,790,513</u>	<u>\$6,658,943</u>

The HACMB lost or was at risk of losing all except the HACMB equity portion of funding due to project delays and redesign. For instance:

- HACMB’s latest redesign of the project resulted in a facility that cannot take on any of the private debt anticipated by the above projections. In October 1996, HACMB reduced the number of proposed housing units in the project from 52 to 40. The HACMB stated that they made the revision due to costs, community pressure, and special needs that arose. HACMB’s estimated cash flows for the 40-unit project, which excluded debt service, showed it would operate at a negative cash flow. Thus, the project could not take on any of the private debt anticipated by the initial plans to construct 52 housing units.

In addition, HACMB’s board chairman and board minutes from the June 1999 board meeting indicated that prior cost estimates for the project were flawed because they did not anticipate certain construction (e.g., water and sewer) and operating costs for the center.

- The HACMB returned the \$525,000 state funding which it applied for and needed to assist with construction of the project.

- The HACMB did not meet the HOME agreement requirement that the project be completed and ready for occupancy by December 1997 or no longer than 60 days thereafter. On June 9, 2000, the City of Miami Beach requested confirmation of HACMB’s plans and time frame regarding whether it would pursue the project or an alternative project. The City made this request in response to HUD’s identifying the project as “slow moving” and an effort to expedite the expenditure of the HOME funds. On August 8, 2000, the HACMB wrote the City and informed them that they were committed to constructing the project using the HOME funds.
- The HACMB did not meet the 2 year deadline required by bond certifications to complete the project. This may result in the loss of the remaining \$2 million bond proceeds held by the trustee (Section 3(d) of the Non-Arbitrage Certification).

Expenditures

The HACMB had spent over \$2 million but still had not broken ground to construct the project. The expenditures included the following amounts recorded in HACMB’s general ledger, which we did not audit, and for bond issue costs:

<u>Description</u>	<u>Total</u>	<u>Bonds</u>	<u>Section 8 Reserves</u>
Bond issue costs	\$203,175	\$203,175	
Land acquisition	980,000		\$ 980,000
Architectural services	340,322	340,322	
Seawall Construction	183,251	183,251	
City fees and permits	209,570		209,570
Other	<u>125,018</u>	<u> </u>	<u>125,018</u>
Total	<u>\$2,041,336</u>	<u>\$726,748</u>	<u>\$1,314,588</u>

The \$2,041,336 was a poor use of funds considering that the HACMB never constructed the project. For instance, the HACMB incurred \$203,175 in bond issue cost specifically for the purpose of obtaining funds to help

finance the project that after 5 years is still not underway. The high architectural fees (\$340,322) primarily resulted from years of HACMB mismanagement and indecisiveness concerning the project design and approach. We question the fees paid to the City of Miami Beach (\$209,570) because they were excessive considering the project was not constructed. The project was a joint venture between the City and the HACMB pursuant to an affordable housing joint venture agreement. The HACMB should seek relief by recovery of fees paid to the City in anticipation of construction that never occurred.

Incomplete plans to
construct and operate
the project

At the time of our review, the HACMB and its Board had not developed plans and financial arrangements needed to construct and operate the project. The HACMB's board had discussed the possibility of a revised project design and use of an alternative site if they proceeded with the project. The Board Chairman and others also expressed concern that the existing site has an irregular shape for such a project and was not safe for children because a canal borders one side. These concerns should have been considered prior to site acquisition.

In 1999, the HACMB obtained a consultant's assessment of the project's status. The consultant reported an estimated cost of \$9,662,145 to construct the project. The consultant also projected annual operating deficits of over \$100,000. The consultant further stated that HACMB's prior cost estimates for the project omitted certain capital costs valued at approximately \$1 million (e.g., water and sewer).

The HACMB paid \$980,000 for the site. HACMB officials stated that the property was appraised for \$2.1 million. However, the City recently informed the HACMB that it was considering a road construction project that may impact the site planned for the center. The City's plans may prevent the HACMB from constructing the project on the planned site. Considering this development, the HACMB may not be able to recover the \$2 million it spent on the project by selling the project.

HACMB comments

HACMB officials did not believe that the Housing Authority “wasted” over \$2 million expended on the Single Parent Family Resource Center. They contended the Housing Authority owns the 17th Street site in fee simple and the expenditures on the site have added marketable value to the site. Based upon an appraisal of market value as of April 15, 1999 of \$2,100,000, they believed that the authority would recoup its expenditures on the site whether by sale to a private owner or through an eminent domain process initiated by the City of Miami Beach.

At their September 26, 2000, regular meeting, the Authority Board decided to:

- a) Declare the site neither financially feasible nor appropriate for center development.
- b) Remain committed to the continuation of the project.
- c) Agree to move the project to another location.

The Authority Board directed the Executive Director to formally notify the City of this recent action and request the HOME funds currently committed for the project remain available to support an alternative site. The HACMB also engaged the services of a consultant, with extensive experience in these types of development projects, to assist the agency in seeing the project is completed, within budget, at another location.

OIG evaluation of
HACMB response

We considered HACMB’s objection and eliminated the reference that the funds had been wasted. However, the HACMB’s ability to sell the site at a price sufficient to recover the costs paid for the failed project is not definite.

Recommendations

We recommend you require the HACMB to:

- 2A. Submit evidence that it has the financial capability and commitment to complete construction of the center within a reasonable time, as determined by your office.
- 2B. Immediately complete its planned sale of the existing site for its fair market value. The HACMB should use the proceeds to reimburse Section 8 and the bond construction funds in proportion to the share of costs paid from each fund.
- 2C. Obtain additional justification or recover from the City the \$209,570 paid for fees associated with the failed joint venture project.
- 2D. Submit a plan (for your approval) regarding the use of the remaining bond funds obtained or accumulated (e.g., interest earned) for construction of the center.

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Mismanagement of Section 8 Program

The HACMB did not adhere to HUD requirements designed to assure the reasonableness of Section 8 rents. The HACMB also did not timely execute new leases for tenants who moved from one assisted unit to another, and pay tenants for the amounts by which their utility allowances exceeded the family's contribution for rent. As a result, there was inadequate assurance that HUD subsidized reasonable Section 8 rents and that tenants received the full benefit of their utility allowances. We also noted some cases where the HACMB and owners provided false representations concerning rent reasonableness. These conditions caused HUD to pay \$9,267 in excessive subsidy. The noncompliances occurred because HACMB employees failed to carry out the duties they were employed and entrusted to perform.

Findings from past reviews

Reviews conducted by HUD and a consultant contracted by the HACMB disclosed serious problems with the HACMB's administration of its Section 8 Programs. For instance, HUD's June 22, 2000, review reported violations of requirements for occupancy (including waiting lists), inspections, abatements, utility allowances, rent comparability, and the approval of rent increases. Due to the recent reviews, we primarily limited our examination to the determination of rent amounts and utility allowances.

Additional problems

We observed problems similar to those noted in the HUD review for inadequate approval of rent increases. HUD's review adequately addressed the problem and recommended appropriate corrective action. However, we observed the following additional matters:

- Excessive rents charged for assisted units
- Leases not timely executed when tenants changed units
- Excess utility allowance not paid to tenants

Excessive Rents Charged for Assisted Units - The housing authority may not approve a lease and any rent increase until it determines that the rent to owner is reasonable in comparison to rent for other comparable unassisted units. By accepting each monthly housing assistance payment from the HA, the owner certifies

that the rent to owner is not more than rent charged by the owner for comparable unassisted units in the premises. The owner must give the HA information requested on rents charged by the owner for other units in the premises or elsewhere (24 CFR §982.503).

We examined HACMB and owner records for rents charged at 11 projects. The projects contained 72 assisted and 91 unassisted units. The rents charged by three owners for seven assisted units (10 percent) exceeded the rents charged within the same projects for comparable unassisted units. The HACMB did not obtain and evaluate the rents owners charged for unassisted units located at the same properties.

The Housing Assistance Coordinator stated that they generally provided landlords whatever rents they requested as long as the rents did not exceed the published fair market rent for the unit size. The coordinator further stated they justified the owners' rent by selecting as comparables other assisted units that rented for the same amount requested by the owner.

The violations resulted in false representation by HACMB officials and the affected owners concerning the determination of rents for the seven units. The three owners did not maintain all the leases and rent rolls we needed to calculate the dollar impact of the violations during the audit period. However, from the available records, we calculated excessive subsidies of \$6,667. The matter is significant considering that the HACMB administered over 2,700 Section 8 units in an environment of disregard for HUD's requirements for determining rent reasonableness.

The owners provided various explanations to justify why they charged more for assisted units than they did for the unassisted units located in the same projects. However, the HACMB did not determine what the owners charged for unassisted units. Thus, they conducted no follow-up concerning the differences.

In July 1999, the HACMB designated an employee to conduct rent reasonableness determinations for all initial leases. We noted improved performance for rent reasonableness determinations for initial leases following this action. However, the change only affected initial leases and did not include rent reasonableness determinations for lease renewals. The HACMB continued to violate HUD's requirements for rent reasonableness determinations for lease renewals.

Leases Not Timely Executed when Tenants Changed Units – The HAP Contract only applies to the family and the contract unit. If the family moves out of the unit, the HAP contract terminates automatically (Part B of HAP Contract, Sections 4 and 6). Since both the HAP contract and the lease are tied to the specific unit address, a new contract and lease should be executed when the tenant moves from the unit.

The HACMB did not require and execute new leases for two tenants who moved from one assisted unit to another (same owner) prior to the expiration of their leases on the prior units. The HACMB allowed the owners to continue charging rents stipulated in the old leases at the new locations until the expiration dates for the old leases. This was significant because the contract rent for the old units exceeded the applicable fair market rent at the time of the moves.

The HACMB's failure to execute new leases and appropriately establish initial gross rent (at or below fair market rent) resulted in excessive subsidy payments of \$2,600. The Housing Assistance Coordinator said they stopped this practice in mid 1999 based on clarification from HUD. We reviewed documentation that supported HACMB's corrective action.

Utility Payments Not Made to Tenants Utility reimbursement, the amount by which any utility allowance exceeds the tenant's portion of rent, shall be paid to the family (24 CFR §5.615).

Prior to January 2000, the HACMB did not pay tenants the amounts due when their utility allowances exceeded their required contribution for rent. The HACMB should have written checks to those tenants whose utility allowance exceeded their portion of rent. We could not determine the amount of utility reimbursements due tenants because the HACMB did not keep records needed to make that determination. Utility reimbursements for January to June 2000 amounted to \$3,565.

The above matters occurred due to mismanagement associated with HACMB staff not performing the duties for which they were employed and entrusted to perform. For instance, the Housing Assistance Coordinator stated that no one showed her and other staff what to do to meet HUD requirements and that the HACMB administration did not provide needed training. The HUD regulations and handbooks are readily available to housing authorities from HUD. At a minimum, the Housing Assistance Coordinator was responsible for ensuring that she and her staff had and were aware of the basic requirements associated with the violations discussed in this finding.

By the time we completed our review, the HACMB had initiated some changes designed to improve its administration of Section 8 Programs. HUD placed the HACMB's Section 8 Program on probation for 1 year and required the HACMB to contract out administration of the Section 8 Program. We observed that the HACMB assigned another employee to oversee the Section 8 leasing and inspection departments and had hired a consultant to assist with managing and training Section 8 staff. The new Section 8 manager and consultant stated that their priority would be to implement procedures to address HUD's findings and to bring the Section 8 department into compliance with HUD regulations.

HACMB comments

HACMB officials stated it had worked to improve its management practices. The agency acquired the EmPHAsys software package, which has drastically changed the manner the rents are calculated, leases are

tracked, and utility payments are paid. Emphasis is being placed on training the staff to work in compliance with the HUD regulations.

The new Executive Director will undertake and implement sweeping changes. The rent reasonableness program was implemented to eliminate errors in overpayments and a database collection method is in place allowing tracking of comparables for further assistance in rent reasonableness determination. Written processes are in place outlining the Rent Reasonableness determination method. Overpayments of rents will be repaid to HUD. Leases are now executed in a timely manner. As of February 2000, excess utility payments have been paid to the tenants; further, an independent verification of utility amounts will be concluded on September 21, 2000. Any changes will be immediately implemented and adjustments will be made in the form of reimbursement to the tenant where warranted from January 2000 to current date.

OIG response to
HACMB comments

The HACMB basically agreed with the finding and will initiate corrective action.

Recommendations

We recommend you require the HACMB to:

- 3A. Reimburse HUD \$9,267 for the excess HAP payments disbursed to Section 8 owners and any additional amounts identified during its rent reasonableness reviews.
- 3B. Procure the services of an independent contractor to calculate the amount of utility reimbursements due tenants for past periods and to make the required payments due tenants. Your office should instruct the HACMB as to the calculation period for inclusion in the request for proposal used to procure the contract.

- 3C. Resolve its administrative deficiencies in the Section 8 Program identified by this audit and other reviews within 1 year of the issuance of this report (including the Section 8 cost issues discussed in findings 1 and 2).

- 3D. Submit a written request for planned uses of Section 8 reserves and obtain your written approval before obligating and spending any of its Section 8 reserves. Your office should review and approve uses of all Section 8 administrative fee reserves until you determine and provide written notice to the HACMB that it has substantially resolved the systemic problems in its Section 8 Program, and the issues identified in findings 1 and 2.

We also recommend your office:

- 3E. Assess within 1 year, the HACMB's improvement in administering its Section 8 Program. If the HACMB fails to improve to acceptable limits, you should consider declaring the authority in substantial default and identify other entities that can effectively administer the program. You should also identify and refer the responsible officials to HUD's Enforcement Center for consideration of administrative sanctions.

Need To Improve Procurement Administration

The HACMB had not implemented corrective actions recommended by past reviewers of its operations to comply with procurement requirements. For instance, the HACMB subsequently acquired legal services and small purchases without adequate assurance that they obtained the most advantageous cost from the most qualified sources. These conditions occurred because the HACMB and its Board mismanaged the administration of procurements.

Inadequate attention to past procurement findings

The HACMB had not implemented adequate steps to correct weaknesses in its administration of procurements identified by its independent auditor and HUD:

- Independent Auditor's Report - The independent auditor's report for the fiscal year ended June 30, 1998 (report dated January 26, 1999) stated that the HACMB did not properly advertise and seek competition for consulting services. The report stated that the HACMB split the work into two contracts to avoid having to advertise and seek competitive bids.
- HUD Monitoring Review - In February 2000, HUD reviewed the HACMB's operations and determined that it had violated procurement requirements in its purchase of accounting and program software, audit services, consulting services, and air conditioners. At least one of these procurements occurred after the HACMB received its independent auditor's report that notified it of the need to follow procurement requirements. For instance, HUD reviewed a request for proposal (RFP) dated March 1999 to purchase accounting and computer software. HUD determined that the HACMB did not follow required procedures for competition.

We performed additional tests to determine whether the HACMB initiated improvements in its procurement practices following the above reviews. We observed that on March 4, 1999, the Board approved HACMB's revised

procurement policy. However, we determined that the HACMB had not implemented effective measures to follow the policy and HUD requirements for legal services and small purchases.

Procurement of legal services

All procurement transactions will be conducted in a manner providing full and open competition (24 CFR 85.36(c)(1)). The HACMB's procurement policy required use of the competitive proposal method of procurement to acquire legal services (Section D).

We reviewed HACMB's in-process procurement of legal services initiated by a board resolution passed on March 14, 2000, and identified numerous problems with the procurement:

- The HACMB board authorized its general counsel to handle the procurement versus the HACMB's administrative staff. The attorney prepared and mailed the RFPs, advertised for bids, obtained and evaluated bids, and recommended contractor selection. The attorney had exclusive control over the procurement process that should have been handled by HACMB staff.
- The attorney did not obtain proper competition to allow award of the contracts. The attorney stated that he received three bids, one for each of three different types of legal services, and proposed to award a contract to each firm. We discussed our concerns with HACMB's Board chairman and acting Executive Director on April 27, 2000, and with HUD on May 4, 2000. On May 8, 2000, HUD instructed the HACMB not to execute either of the contracts until HUD conducted a pre-award review of the proposed procurements.
- At the May 9, 2000, board meeting, the board voted to award two of the three proposed legal service contracts despite our concerns. We notified HUD of this action and on May 24, 2000, HUD wrote another letter to the HACMB that stated that if they

awarded the contracts despite HUD's expressed concerns, then no federal funds may be used to pay for the services. The HACMB decided to re-do the procurement only after it received this notice from HUD.

- The HACMB halted the procurement and subsequent to our review prepared another RFP and re-advertised for the legal services. We did not review the subsequent procurement. However, our limited follow-up revealed that the HACMB received bids from eight firms in response to the RFP from which the Board voted to approve four legal service contracts. No Authority staff, including the interim ED, reviewed the proposals.

We also observed several procurement concerns related to the HACMB's purchase of other legal services. For example, the HACMB contracted with its current legal counsel without following proper competitive procurement procedures. The HACMB also made payments to two law firms, which the HACMB hired based on the recommendation of its legal counsel, without following competitive requirements. Between July 1999 and May 2000, the HACMB paid the firms \$44,690 that was charged in part to public housing and in part to Section 8. One firm was among the three mentioned above that the attorney proposed awarding a recent contract for labor services without proper competition.

Small purchase procedures not followed

When small purchase procedures are used, an adequate number of price or rate quotations shall be obtained from an adequate number of qualified sources (24 CFR 85.36(d)(1)). The Authority's procurement policy required price quotes from no less than three offers for purchases between \$1,000 and \$10,000. Purchases greater than \$10,000 required competitive procurement methods (Section B).

We examined small purchases charged to the HACMB's low-income housing program (Rebecca Towers South) for the period December 1999 through May 2000. Through April 2000, we noted numerous payments for small

Finding 4

purchases which the HACMB did not obtain or document bids or price quotes. The costs included \$22,012 for office and communication supplies and services, ADP and accounting services and equipment, insurance, landscaping, repairs and maintenance, trash removal, consulting costs, and cleaning and laundry. We noted sporadic instances where the HACMB did obtain bids or price quotes, but for the most part they did not.

Starting in May 2000, the HACMB demonstrated efforts to correct its past inconsistent compliance with requirements to obtain and to document bids or price quotes for small purchases. We tested six small purchases during the month. The HACMB properly obtained and documented bids or price quotes for each purchase.

We attributed these conditions to the HACMB's failure to properly administer the procurement of goods and services after it was alerted to the need for corrective actions. The Board and the HACMB had a duty and responsibility to assure compliance with procurement requirements, especially considering past findings related to this issue. The Board's lack of consideration for requirements was demonstrated by its direct involvement in the most recent procurement of legal services and its reluctance to assure compliance with competitive procurement procedures.

HACMB comments

HACMB officials stated a new Executive Director would undertake and implement sweeping changes to bring the agency into regulatory compliance. The Authority Board, in recognition of the need to document the basis for legal service selection, re-advertised and selected the legal firms based on qualifications and cost. The Board has scheduled the process of documenting their selection basis for their next Board meeting of October 4, 2000. A copy of the results of that process will be forwarded to HUD for authorization when completed. Authority Management is also presently developing a written action plan with target dates to address each finding identified in the 1999 IPA Audit Report. The response will be forwarded to HUD not later than October 6, 2000.

HACMB Management staff has been provided a copy of the agency Procurement Policy. The Authority Board has instructed HACMB Management to strictly adhere to the procurement policy. A procurement committee has been set up and in operation to ensure procurement processes adhere to policy. The new Executive Director (Contracting Officer) will be responsible for ensuring staff and agency compliance.

OIG response to
HACMB comments

The HACMB basically agreed with the finding and will initiate corrective action.

Recommendations

We recommend you:

- 4A. Review and determine if the HACMB properly procured its legal services. If the procurement was not handled properly, you should prohibit the HACMB from charging any of the costs to its Public Housing Program.
- 4B. Monitor the HACMB's procurement actions to ensure compliance with HUD procurement policies and procedures. You should also identify and refer the responsible officials to HUD's Enforcement Center for consideration of administrative sanctions.
- 4C. Place the agency on a reimbursement basis for funding, if the HACMB fails to improve to acceptable levels.

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Management Controls

In planning and performing our audit, we considered the management controls of the Housing Authority of the City of Miami Beach only to determine our auditing procedures and not to provide assurance on these controls.

Management controls include the plan of organization, methods and procedures adopted by management to ensure that its goals are met. Management controls include the processes for planning, organizing, directing, and controlling program operations. They also include the systems for measuring, reporting and monitoring program performance.

We determined that the controls most relevant to our audit objectives pertained to the following:

- Management philosophy and operating style;
- Procedures and practices for determining and assessing the reasonableness of Section 8 rents and utility allowances; and
- Procedures and practices for procurement and general disbursements.

We assessed these controls by obtaining an understanding of the HACMB's procedures and HUD requirements. However, based on past review of HACMB's operations by consultants, IPAs, and HUD, the HACMB controls and procedures relevant to our audit objectives were not reliable and we placed no reliance on the controls in designing our audit tests.

A significant weakness exists if controls do not give reasonable assurance that goals and objectives are met; resource use is consistent with laws, regulations and policies; resources are safeguarded against waste, loss, and misuse; and that reliable data are obtained, maintained, and fairly disclosed in reports. Based on our review, significant weaknesses existed in each of the management controls considered relevant to our audit objectives. The specific weaknesses are discussed in the findings.

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Follow-Up on Prior Audits

The OIG issued an audit report on June 7, 1991, regarding the HACMB's Section 8 Project-Based Certificate Assistance Program. The audit contained three findings that have since been resolved.

Independent Public Accountants (IPA's) performed single audits of HACMB's operations for the fiscal years ended June 30, 1998, and 1999 that contained findings on issues that were relevant to our audit objectives. The IPA report for the fiscal year ended June 30, 1998, contained a finding on procurement that involved issues similar to those presented in finding 4 of this report. The IPA report for the fiscal year ended June 30, 1999, contained findings related to purchasing and utility allowances that involved the type of concerns presented in findings 3 and 4 of this report.

At the time of our on-site review, the HACMB had not developed a written action plan with target dates to address all the problems identified by the IPA reports.

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Schedule of Ineligible and Unsupported Costs

<u>Recommendation Number</u>	<u>Type of Questioned Costs</u>	
	<u>Ineligible</u> ¹	<u>Unsupported</u> ²
1A		\$ 795,178
2C		209,570
3A	<u>\$ 9,267</u>	
Total	<u>\$ 9,267</u>	<u>\$1,004,748</u>

¹ **Ineligible** - Costs that are questioned because of an alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other document governing the expenditure.

² **Unsupported** - Costs charged to a HUD-funded or insured program or activity whose eligibility cannot be determined at the time of the audit since costs were not supported by adequate documentation.

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HACMB Comments



BOARD OF COMMISSIONERS

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COMMISSIONER

**THE HOUSING AUTHORITY
OF THE
CITY OF MIAMI BEACH, FLORIDA**

EXECUTIVE OFFICE
200 ALTON ROAD
MIAMI BEACH, FLORIDA 33139-6742
TELEPHONE: 305-532-6401
FAX: 305-674-8001
TDD: 305-672-5501

FROM THE OFFICE OF
EXECUTIVE DIRECTOR

September 27, 2000

Ms. Nancy H. Cooper
District Inspector General for Audit
Southeast/Caribbean
U.S. Department of Housing and Urban Development
District Office of the Inspector General
Office of Audit, Box 42
75 Spring Street, SW, Room 330
Atlanta, GA 30303-3388

**RE: RESPONSE OF THE HOUSING AUTHORITY OF THE CITY OF
MIAMI BEACH (HACOMB) TO THE AUGUST 24, 2000 DRAFT
AUDIT REPORT OF THE U.S. DEPARTMENT OF HOUSING
AND URBAN DEVELOPMENT INSPECTOR GENERAL (HUD)**

Dear Ms. Cooper:

This letter responds to your correspondence of August 24, 2000, which requested comments relating to HUD's August 24, 2000 Draft Audit Report. These comments are being submitted at this time, as your office previously graciously agreed to provide HACOMB with an extension of time through September 27, 2000 within which to provide the same to HUD. HACOMB's comments are set forth below:

**HUD PROPOSED FINDING # 1
SECTION 8 RESERVE FUNDS WERE USED TO PAY
FOR QUESTIONABLE ACTIVITIES**

Letter – Ms. Nancy H. Cooper
September 27, 2000
Page 2

RESPONSE- MBHA Management does not concur with the IG opinion that the Authority and City did not realize services in excess of baseline services for police, recreation, and code enforcement services. The Authority is of the opinion that City services rendered for police, code enforcement, and recreation were provided in excess of City baseline services to the benefit of the population to and around the agency's service area.

Additional Comments- The Authority currently does not have in place an Interlocal Agreement with the City for services. In the event the Authority contemplates revisiting such relationship with the City again in the future, the Authority would 1). Obtain proper authorization for the use of funds from HUD and 2). Provide a clear audit trail of proper acceptable documentation to support the exchange of services for compensation. The Authority values its positive and collaborative relationship with the City and desires to maintain such relationship.

Proposed Resolution- The Authority proposes to follow the process described above for any future Interlocal Agreements contemplated with the City.

**HUD PROPOSED FINDING #2
HOUSING AND SOCIAL SERVICES NOT PROVIDED**

RESPONSE- MBHA Management does not concur that the Housing Authority "wasted" over \$2 million expended on the Single Parent Family Resource Center. The Housing Authority owns the 17th Street site in fee simple and the expenditures on the site have added marketable value to the site.

Additional Comments- Based upon a appraisal of market value as of April 15, 1999 of \$2,100,000, that the Housing Authority will, at the very least, reasonably anticipates that it will recoup its expenditures on the site whether by sale to a private owner or through an eminent domain process initiated by the City of Miami Beach.

Proposed Resolution- The Authority Board has proceeded with recent timely deliberation of the 17th Street site disposition, evidenced by specific action at their September 26, 2000 Regular meeting;

- a). Declare the site neither financially feasible nor appropriate for center development.
- b). Remain committed to the continuation of the project.

Letter – Ms. Nancy H. Cooper
 September 27, 2000
 Page 3

- c). Agree to move the project to another location.

The Authority Board has directed the Executive Director to formally notify the City of this recent action and request the HOME funds currently committed for the project remains available to support an alternative site. The HACMB has also engaged the services of a consultant, with extensive experience in these types of development projects, to assist the agency in seeing the project is completed, within budget, at another location.

**HUD PROPOSED FINDING # 3
 MISMANAGEMENT OF SECTION 8 PROGRAM**

RESPONSE- HACOMB has worked to improve its management practices in light of HUD's proposed findings that the Section 8 Program allowed excessive rents in the amount of \$9,267.00, that leases were not timely executed during the move process, and that excess utility payments were not paid to tenants.

Additional Comments- The agency acquired the EmPHAsys software package, which has drastically changed the manner the rents are calculated, leases are tracked, and utility payments are paid. Emphasis is being placed on training the staff to work in compliance with the HUD regulations.

Resolutions- The Commission has hired a new Executive Director to undertake and implement sweeping changes which include, but are not limited to the following; 1). The Rent Reasonableness program was implemented to eliminate errors in overpayments; a database collection method is in place allowing tracking of comparables for further assistance in rent reasonableness determination. Written processes are in place outlining the Rent Reasonableness determination method. Overpayments of rents are being re-claimed to be re-paid to HUD. 2). Leases are now executed in a timely manner as verified in the IG draft page 18. 3). As of February 2000, excess Utility payments have been paid to the tenants; further an independent verification of utility amounts will be concluded on September 21, 2000. Any changes will be immediately implemented and adjustments will be made in the form of reimbursement to the tenant where warranted from January 2000 to current date.

**HUD PROPOSED FINDING # 4
 NEED TO IMPROVE PROCUREMENT ADMINISTRATION**

Letter – Ms. Nancy H. Cooper
September 27, 2000
Page 4

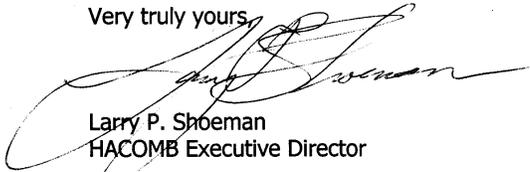
RESPONSE- HACOMB has worked to improve its management practices in light of HUD's proposed findings that HACOMB had failed to properly administer the procurement of goods and services according to regulatory requirements and that recent procurement of legal services was performed in non-compliance.

Additional Comment- the Commission has hired a new Executive Director to undertake and implement sweeping changes to bring the agency into regulatory compliance. The Authority Board, in recognition of the need to document the basis for legal service selection, re-advertised and selected the legal firms based on qualifications and cost. The Board has scheduled the ~~process~~ of documenting their selection basis for their next Board meeting of October 4, 2000. A copy of the results of that process will be forwarded to HUD for Authorization when completed. The Authority Management is also presently developing a written action plan with target dates to address each finding identified in the 1999 IPA Audit Report. The response will be forwarded to HUD not later than October 6, 2000.

Proposed Resolution- MBHA Management staff has been provided a copy of the agency Procurement Policy. The Authority Board has instructed MBHA Management to strictly adhere to the procurement policy. A procurement committee has been set up and in operation to insure procurement processes are adhered according to policy. The new Executive Director (Contracting officer) will be responsible for insuring staff and agency compliance with same.

Should you have any questions regarding the foregoing, please do not hesitate to contact me. Thank you.

Very truly yours,



Larry P. Shoeman
HACOMB Executive Director

cc: HACOMB Board of Commissioners

Distribution

Executive Director, Housing Authority of the City of Miami Beach
 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 (9th 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, X, 1250 Maryland Avenue, SW, Suite 200
 Director, Real Estate Assessment Center, X, 1280 Maryland Avenue, SW, Suite 800
 Director, Office of Multifamily Assistance Restructuring, Y, 1280 Maryland Avenue, SW,
 Suite 4000
 Deputy Chief Financial Officer for Finance, FF (Room 2202) (2)
 Director, Office of Budget, FO (Room 3270)

Distribution

Secretary's Representative, 4AS
State Coordinator, Florida State Office, 4DS
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Director, Office of Multifamily Housing, 4HHM
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Audit Liaison Officer, Office of Public and Indian Housing, PF (Room P8202)
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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,
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Steve Redburn, Chief, Housing Branch, Office of Management and Budget, 725 17th Street,
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