



U.S. Department of Housing and Urban Development
District Office of the Inspector General
Office of Audit
Richard B. Russell Federal Building
75 Spring Street, SW, Room 330
Atlanta, GA 30303-3388
(404) 331-3369

January 16, 2003

Memorandum No:
2003-AT-1802

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

FROM: *for* *James D. McKay*
Nancy H. Cooper
Regional Inspector General for Audit, Region 4, 4AGA

SUBJECT: Housing Authority of the City of Key West
Key West, Florida

INTRODUCTION

We completed a review of selected activities of the Housing Authority of the City of Key West, Florida (KWH). Our objectives were to determine whether KWH conducted its procurement activities and administered its Section 8 Program in an efficient, effective, and economical manner.

We found that the KWH needed to improve administration over its procurement process and its Section 8 Program. We discussed the draft memorandum and recommendations with your staff and received your proposed management decisions.

We have accepted your proposed management decisions for each recommendation. Please furnish us copies of any correspondence or directives issued because of the review. We have provided the KWH a copy of this memorandum.

Should you or your staff have any questions, please contact James D. McKay, Assistant Regional Inspector General for Audit, at (404) 331-3369, or Barry Shulman, Senior Auditor, at 305-536-5387.

SUMMARY

The KWH's procurement activities needed improvement. Management did not ensure that procurement activities complied with the Department of Housing and Urban Development (HUD) or local procurement policies and procedures. Our review found that: (1) cost estimates and cost/price analyses were not conducted, (2) the contract register was inaccurate, (3) records

lacked sufficient documentation of procurement histories, and (4) contracts had conflict of interest relationships. These deficiencies occurred because there was no clear responsibility for the management, oversight, and review of procurement activities. As a result, the KWHHA failed to maintain organized contract files that provided a complete record of its procurements. Additionally, KWHHA procured services in a manner that created the appearance of favoritism, thereby increasing the likelihood of protests and litigation.

The KWHHA needed to improve the administration of its Section 8 Program. Specifically, KWHHA: (1) did not recognize conflict of interest situations, (2) did not establish reasonable contract rents and incorrectly calculated Housing Assistance Program (HAP) payments to landlords, and (3) did not conduct proper Housing Quality Standards (HQS) inspections. These weaknesses occurred because the KWHHA staff lacked knowledge of HUD requirements and had not established adequate or effective controls to administer the program. The lack of effective controls resulted in overpayments to landlords, and lack of assurance that tenants are living in safe and sanitary conditions.

We provided our draft memorandum to the KWHHA for their comments on December 4, 2002. The KWHHA provided their written comments on December 18, 2002. The KWHHA agreed with our findings and indicated they have taken a number of corrective actions to address the findings. The KWHHA's comments are summarized in each of the findings and included in Appendix A.

METHODOLOGY AND SCOPE

In conducting the review, we interviewed HUD and KWHHA staff, and tested various financial records. Specifically, we evaluated KWHHA's: (1) controls over cash management (disbursements and credit card usage), (2) compliance with procurement policies and procedures, (3) calculation of Section 8 housing assistance payments, and (4) controls over payroll.

The review generally covered the period from January 1, 2000, to December 31, 2001, although we reviewed other periods to better develop an issue. We conducted the review from February through July 2002.

BACKGROUND

KWHHA is a nonprofit governmental entity organized by the City of Key West in 1938 for the acquisition, development, modernization, operation, and administration of public housing programs. The primary purpose of KWHHA is to provide safe, decent, sanitary, and affordable housing to low income and elderly families in Key West, Florida, and to operate the housing programs in accordance with Federal legislation. KWHHA's programs are administered through HUD under the provisions of the U.S. Housing Act of 1937 as amended. Its offices are located at 1400 Kennedy Drive in Key West, Florida.

KWHHA operates under a five-member Board of Commissioners (Board) appointed by the Mayor and approved by the City Commission of Key West, Florida, for a term of 4 years. The Board appoints an executive director to administer the affairs of KWHHA and oversee approximately 130 KWHHA employees. The executive director and directors are responsible for the operations of the KWHHA and the Monroe County Housing Authority. The Executive Director (ED),

Henry V. Haskins, retired effective May 14, 2002, and Manuel Castillo was appointed ED on October 15, 2002.

KWHA operates 5 (4 family and 1 elderly) Low Income Housing properties with a total of 589 units. In addition, it administers a Section 8 Program and in 2001, the KWHA administered 233 Section 8 vouchers.

KWHA also owns two affordable housing projects, Key Plaza A and B. Plaza A is a 28-unit elderly project, and Plaza B is a 44-unit family project. KWHA is also in the process of obtaining financing for the construction of an affordable housing project on a site transferred to them in January 12, 2000.

Furthermore, KWHA manages the day-to-day operations and maintains the books and records for one affordable housing project for the City of Key West and will manage five affordable housing projects for the Monroe County Housing Authority. At the time of our review, three of the five projects for the Monroe County Housing Authority were in various stages of completion.

The Miami HUD Office conducted a Limited Management Review of the KWHA's Low Income Public Housing Program from December 4-8, 2000. Among other issues, HUD reported that several professional service contracts (i.e., auditors and consultants) had not been obtained competitively or were obtained through direct solicitation. HUD recommended that the KWHA adopt a local procurement policy, conduct cost and/or price analysis on each procurement, and provide documentary evidence that the KWHA had prepared adequate solicitations. In September 2001 the Board adopted a revised procurement policy. As of November 30, 2002, this finding remained unresolved.

RESULTS OF REVIEW

FINDING 1 – PROCUREMENT REQUIREMENTS WERE NOT FOLLOWED

The KWA's procurement activities needed improvement. Management did not ensure that procurement activities complied with HUD or local procurement policies and procedures. Our review found that: (1) cost estimates and cost/price analyses were not conducted, (2) the contract register was inaccurate, (3) records lacked sufficient documentation of procurement histories, and (4) contracts had conflict of interest relationships. These deficiencies occurred because there was no clear responsibility for the management, oversight, and review of procurement activities. As a result, the KWA failed to maintain organized contract files that provided a complete record of its procurements. Additionally, KWA procured services in a manner that created the appearance of favoritism, thereby increasing the likelihood of protests and litigation.

Title 24 Code of Federal Regulations (CFR) Part 85.36 (b)(1) allows a housing authority to use its own procurement policies, which reflect State and local laws and conform to applicable Federal regulations. The Board of Commissioners is responsible for designating the person responsible for carrying out the procurement policy. Such appointment should not be considered unless the employee has received formal training in procurement/public contracts. The Contracting Officer bears responsibility at the operating level to perform the required tasks from procurement planning through contract administration and closeout. (Handbook 7460.8, Chapter 3). The KWA's procurement policy designated the ED as the Contracting Officer, who was responsible for administering all procurement transactions.

For the period January 2000 through December 2001 KWA's contract register listed 121 contracts valued at over \$3.5 million. The KWA procurement policy dated January 1998 established a \$25,000 small purchase threshold. This was increased to \$50,000 in the September 2001 revision. Since the 1998 policy was in effect during most of our review period, we used it to select a sample of five contracts valued at \$144,741. Due to the variety and large number of contracts, we did not select a statistical sample. Instead, we selected contracts based on large dollar value or length of contract. Our review of the five procurement contracts identified one or more deficiencies with each of them as summarized in the following table:

	A	B	C	D	E
Date of Contract	2/11/00	5/15/98 ¹	2/1/00	3/26/01	11/14/01
Amount of Contract	\$36,000 (annual)	up to \$70,000	\$2,500	\$26,064	\$10,177
<i>Deficiencies:</i>					
Cost estimates and cost/price analysis were not conducted	X	X	X	X	X
Inaccurate contract register	X	X	X	X	X
Inadequate contract file maintenance	X	X	X	X	X
Conflict of interest relationship					X

¹ This was a 2-year contract. Subsequently, a 1-year contract may be executed after approval from HUD.

Cost Estimates and Cost/Price Analyses Were Not Conducted

HUD requires an independent cost estimate of every procurement be made before soliciting bids or proposals. This exercise forces the housing authority (HA) to analyze its needs fully and anticipate the type of work that contractors will likely have to perform to do the job (Handbook 7460.8, Chapter 3-15). Also, KWA's procurement policy required an independent cost estimate be prepared for each procurement above the small purchase limit and a cost or price analysis be conducted of the responses received for all procurements.

Cost estimates and cost/price analyses were not conducted for the five contracts reviewed. When asked about the cost estimates and cost/price analyses, KWA staff said that the scope of services for one contract did not change from the previous year, thus a cost estimate was not prepared and a cost/price analysis was not performed. The ED stated that they may have been conducted for the other contracts, but staff may have filed them in the department that requested the contract work. Since the KWA could not provide them, it was unable to demonstrate it estimated the cost of the procurement before soliciting for the bids and conducted a reasonableness analysis of each contractor proposal before the award.

Inaccurate Contract Register

HUD requires the HA to maintain a contract administration system which ensures that contractors perform in accordance with the terms, conditions, and specifications of their contracts (24 CFR 85.36 (b)(2)). KWA policy reiterated this requirement. This system should include guidelines for inspection of supplies, services, or construction, as well as monitoring contractor performance, status reporting on construction contracts, and similar matters.

KWA staff stated that neither an automated nor manual contract administration system was maintained. They did prepare a contract register. However, the contract register provided to us was neither complete nor current. We reviewed the contract register for calendar years 2000 and 2001. Of 79 vendors that provided contractual services to the KWA, 38 vendors (or 48 percent) listed in the contract register had incorrect or missing contract dates or contract amounts. The contract register showed contract dates without corresponding contract amounts and, conversely, contract amounts without corresponding contract dates. KWA officials explained that their original contract register did not contain contract amounts. They only added the information when we requested a contract register with the contract amounts. The contract amount added to the contract register was a total of the disbursements made to the vendor rather than the actual contracted amount. We compared their totals with the check register they provided. Three of the five totals did not reconcile.

We also compared the contract register against the contracts awarded per the Board minutes. Three contracts from the contract register had different beginning dates than what the Board approved. One other contract that was approved by the Board was not listed on the contract register.

KWA officials explained they only used the contract register to monitor the expiration dates of contracts, and not the progress or the performance of the contracts. Officials recognized they were not using the contract register to fulfill management purposes, as stipulated in the KWA procurement policy. Without an accurate and complete contract register, the KWA lacks

information to assure contractors adhered to contract terms, services or products were actually delivered, and work was completed timely.

Inadequate Contract File Maintenance

HUD requires the HA to maintain records sufficient to detail the significant history of a procurement. Such records should include, but not be limited to, the rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price (24 CFR 85.36 (b)(9)).

The KWHA did not maintain organized contract files that provided a history of the procurements. Contract files lacked key documents such as the (1) solicitation for services, (2) selection of contract type, (3) notice to proceed, (4) rationale for method of procurement, and (5) status and completion of contract work. In addition, for one contract, change orders were not approved.

Contracts should be awarded only in accordance with the terms of the solicitation. Solicitations are necessary to notify the prospective contractors about the procurement and explain how to submit a proposal. Depending on the procurement method used, HUD requires different solicitations to be prepared. Of the five procurements, three files had missing solicitations and one had the wrong solicitation type.

- One procurement file contained only a copy of the Board minutes describing that requests for qualifications were sent to all three contractors on file.
- One file contained only a summary of the results of the bid opening.
- Another file contained only a copy of the contract.
- For one, a request for competitive proposal was prepared instead of an invitation for bid (for sealed bidding).

KWHA officials explained that documents were filed with the department that initiated the contract and not centrally maintained. In essence, there was no one staff responsible for the oversight and management of the procurement activities. Accordingly, the KWHA had no assurance that key documentation was completed.

Conflicts of Interest

According to 24 CFR 85.36 (b)(3), and KWHA's procurement policy, no officer or agent of the grantee or subgrantee shall participate in selection, or in the award or administration of a contract supported by Federal funds if a conflict of interest, real or apparent, would be involved.

Our review showed that KWHA awarded a contract to the sister of the former ED. KWHA staff stated that they did not want to pay \$4,000 more to another vendor to avoid a conflicting relationship. When we asked whether the Board was aware of this relationship, KWHA staff replied that everyone knew of the relationship and that it was not a secret. In addition, we found the KWHA made disbursements to two other vendors who were relatives of the ED and one vendor owned by the Board Chairman. KWHA officials explained that these contracts were awarded to the relatives because other contractors called either did not respond or were not available to do the work. In the case of the Chairman, his company was the only supplier of the

needed material in the local area. The KWAH had not documented the justification for using related vendors and had not requested a waiver from HUD for these situations.

The ED acknowledged that both HUD and KWAH policies were not followed. He reasoned that due to the City's small size, it is not uncommon to find that a vendor is related to KWAH personnel. The former ED agreed that related parties did some of the contract work, but he emphasized that there was no pattern and no intention by staff or him to favor these related parties.

We believe the violations of HUD requirements and KWAH's own procurement policy occurred because there was not a single person or persons designated and responsible for the maintenance and administration of the procurement activities. Although KWAH had the policies and procedures in place, staff disregarded them. As a result, there was no assurance that KWAH received services and products at the most advantageous cost or from the most qualified source. These violations produced an appearance of favoritism, thereby increasing the likelihood of protests and litigation. Additionally, they created an environment conducive to fraud, waste, and abuse. Although we did not detect such occurrences, as an entity serving the public, KWAH's procurement controls and methods must be improved to maintain public confidence.

KWAH COMMENTS

KWAH officials agreed with the finding and believed the decentralization of construction documents resulted from the resignation of the Manager for Construction Management. To rectify the situation, KWAH has begun implementing a centralized procurement system as well as establishing a clear path of responsibility for the management, oversight, and review of procurement activities.

OIG EVALUATION OF KWAH COMMENTS

The KWAH's corrective measures, if fully implemented in accordance with Federal regulations, should improve the procurement process and contract administration.

HUD MANAGEMENT DECISIONS

Your office agreed to:

- 1A. Assure KWAH designates a trained contracting officer(s) with the responsibility to oversee and administer all procurement activities in accordance with Federal regulations.
- 1B. Instruct KWAH to request a waiver if situations warrant the use of related contractors, and to document the justification for use of the related contractor in its files.

FINDING 2 - ADMINISTRATION OF SECTION 8 PROGRAM NEEDED IMPROVEMENT

The KWHHA needed to improve the administration of its Section 8 Program. Specifically, KWHHA: (1) did not recognize conflict of interest situations, (2) did not establish reasonable contract rents and incorrectly calculated HAP payments to landlords, and (3) did not conduct proper HQS inspections. These weaknesses occurred because the KWHHA staff lacked knowledge of HUD requirements and had not established adequate or effective controls to administer the program. The lack of effective controls resulted in overpayments to landlords, and lack of assurance that tenants are living in safe and sanitary conditions.

Conflicts of Interest Not Recognized

According to 24 CFR 982.161 (a), neither the HA nor any of its contractors or subcontractors may enter into any contract or arrangement in connection with the tenant-based programs in which any employee of the PHA, or any contractor, subcontractor or agent of the PHA, who formulates policy, or who influences decisions with respect to the program has any interest, direct or indirect, during tenure or for one year thereafter.

The KWHHA did not recognize potential conflict of interest situations with its landlords.

- In August 1996, the KWHHA hired a consulting firm to seek out private and public funding as well as conduct feasibility studies for its affordable housing projects and other major works. The principal owner of the consulting firm was also a property owner who received Section 8 HAP payments from KWHHA. The landlord sold the property in April 2001. From January 1997 to April 2001 the KWHHA made housing assistance payments totaling \$909,782 to the landlord/consultant. Though officials knew that the consultant was also a Section 8 landlord, they did not identify such as a conflicting relationship.
- In July 2001, HUD advised the KWHHA, that a conflict of interest existed with a landlord who was also the Executive Director's sister. Again, KWHHA had not recognized the conflicting relationship.

Conflict of interest situations may result in preferential treatment to a particular owner by steering tenants to a particular owner, setting higher initial rents or granting higher annual increases, or passing units that do not meet basic housing quality standards.

Incorrect Rent Calculations

HUD requires a determination of annual or adjusted income of families who apply for or receive Section 8 assistance (24 CFR 5.601 (a)). The family's income is used to calculate the total tenant payment (24 CFR 5.628 (a)(1)), which in turn is used to calculate the housing assistance payments (24 CFR 982.505 (b)). However, prior to calculating the HAP to an owner, the HA must determine whether the rent to owner is reasonable in comparison to rent for other comparable unassisted units. HUD provides certain factors a HA must consider when determining comparability (24 CFR 982.507).

KWHA staff informed us that a consultant gathered rent comparability data for non-subsidized units and assigned point values for various amenities. KWHA staff said they compared the proposed rent amount and the amenities of a subject unit with the rent amount and amenities of non-subsidized units to determine whether a subject unit's proposed rent was reasonable.

During the period October to December 2001, KWHA processed 43 Section 8 tenant files for initial move-ins, and interim and annual recertifications. We reviewed nine tenant files to determine whether the KWHA properly established rent reasonableness. We noted errors in two files. In one case, the owner had requested a rent of \$1,350 for a three-bedroom unit with one bath. KWHA staff said there were no non-subsidized units with three bedrooms and one bath from the comparability data, so they used comparables from the three-bedroom two-bath category. We selected units with the closest point value to the subject unit, which resulted in a maximum rent of \$1,215. In the other case, the owner requested a rent of \$700 for a one-bedroom unit with one bath. KWHA staff selected one-bedroom one-bath comparables to support the requested rent, but not comparables with the closest point value to the subject unit. We selected units with the closest point value to the subject unit, which resulted in a maximum rent of \$683.

KWHA staff did not seem to be familiar with the rent comparability database to make the correct selections of the non-subsidized units. In two incidences, the staff used two-bedroom one-bath non-subsidized units to compare with a two-bedroom two-bath subject unit. The staff responded that they did not realize the database had comparables for a two-bedroom two-bath unit. In another instance, KWHA staff could not provide a rationale for the comparable selections.

We also reviewed the nine tenant files to determine whether KWHA staff properly calculated the tenant's income which impacted the rent calculation. We noted mistakes for two tenants. In one case, the staff misread the tenant's dollar per hour earned. In the other case, the staff erroneously calculated the tenant's annual adjusted income.

The cumulative errors resulted in incorrect HAP payments to owners and incorrect tenant payments to owners. The effect of the errors for the four tenant files follows:

Section 8 Client #	HAP to Owner Over Paid	Tenant Rent to Owner Over (Under) Paid
6267	\$32 per month	\$103 per month
6490	\$7 per month	(\$7) per month
2059	None	\$17 per month
3217	\$24 per month	(\$24) per month

As shown above, the errors caused the KWHA to overpay the landlords for three cases. Furthermore, the errors caused two tenants to overpay their rent to the owners, and two tenants to underpay their rent to the owners.

We attributed the errors to lack of knowledge in Section 8 Program requirements. Prior to 2002, staff said training was provided by on-the-job training and information provided by predecessors. At the time of our review, KWHHA staff was putting together a Housing Department Operations Manual.

KWHHA management was aware it had problems with its Section 8 Program. In late 2001, KWHHA hired a consultant to review the Section 8 Program, including the tenant files. In a report dated January 2002, the consultant found a number of problems including incomplete files, rent reasonableness not done properly, incorrect payment standards, and incorrect calculations. In a March 2002 follow-up report the consultant stated the condition of the tenant files had not improved. He reported that KWHHA still had a 41 percent error rate.

Some Units Did Not Meet Housing Quality Standards

Title 24 CFR 882.404 (a) and 5.703 states that housing in the [Section 8 moderate rehabilitation] program must be decent, safe, sanitary, and in good repair. Further, 24 CFR 882.516 (b) and (c) states that the HA must inspect or cause to be inspected each dwelling unit under contract at least annually and at such other times as may be necessary to assure that the Owner is meeting the obligation to maintain the unit in decent, safe, and sanitary condition and to provide the agreed upon utilities and other services.

Title 24 CFR 982.352 (b) requires that a unit owned by the HA administering the assistance under the consolidated Annual Contributions Contract **must** obtain the services of an independent entity to inspect the unit for compliance with HQS.

KWHHA acquired a 44-unit project from a Section 8 landlord in 2001. Prior to the acquisition, a consultant advised the KWHHA that it needed an independent inspection of the units and rent reasonableness. In an April 26, 2001, letter, HUD approved KWHHA's request to use another housing authority to perform the inspections. The KWHHA made arrangements with another housing authority to conduct independent HQS inspections and rent reasonableness prior to the acquisition. The independent inspector advised KWHHA officials that of the 27 units he inspected, all units failed HQS. Three of the units were in deplorable condition and two were considered uninhabitable. One unit was so cluttered that it posed a fire hazard. The KWHHA withheld the final May 2001 HAP payment from the landlord. We could not assess how long the landlord allowed Section 8 tenants to live in indecent, unsafe, and unsanitary conditions and improperly collected the housing assistance payments. Prior to the independent inspection, KWHHA staff performed the HQS inspections.

Even after KWHHA acquired the property, it failed to follow the requirements and conducted the inspections in-house. It used internal staff to conduct the inspections for move-in, move-out, and re-certifications. KWHHA staff stated that they were not aware of the HUD criteria that required the HA to use an independent third party to conduct HQS inspections for HA-owned units receiving Section 8 assistance. We reminded KWHHA staff of the independent inspection requirements. KWHHA sought clarification from HUD and a HUD letter dated June 7, 2002, reiterated the independent inspection requirements.

KWHA staff acknowledged they were not familiar with HUD inspection requirements. They said that most of their knowledge was obtained from on-the-job training and the information passed down to the staff depended on the knowledge of the predecessors. They said two staff members became HQS certified in January 2002.

KWHA COMMENTS

KWHA officials agreed with our finding and have implemented short-term measures to address the deficiencies, such as hiring a consultant to advise them of needed improvements. KWHA is also preparing and will implement a long-term plan to include staff reorganization to accomplish the needed improvements.

OIG EVALUATION OF KWHA COMMENTS

KWHA's corrective measures, if fully implemented, should improve the administration of the Section 8 Program.

HUD MANAGEMENT DECISIONS

Your office agreed to require the KWHA to:

- 2A. Establish and use effective controls and procedures to prevent future conflict of interest situations with its landlords.
- 2B. Establish and use effective controls and procedures to establish reasonable rents and correctly calculate HAP payments.
- 2C. Establish effective controls and procedures to conduct proper HQS inspections, specifically for HA-owned units receiving housing assistance payments.

Auditee Comments

**Housing Authority of the City of Key West, Florida****Board of Commissioners****Frank Toppino****Juanita Mingo****Bob Dean****Jack T. Murray****Roosevelt Sands, Jr.**

P.O. Box 2476
Key West, Florida 33045
Phone: 305-296-5621
FAX: 305-296-0932

Executive Director**J. Manuel Castillo, Sr.**

December 18, 2002

Nancy H. Cooper
Regional Inspector General for Audit, Region IV
Richard B. Russell Federal Building
75 Spring Street, S. W. , Room 330
Atlanta, GA 30303-3388

Dear Ms. Cooper:

I am in receipt of your letter of 12/4/02 including the draft report of the recent audit conducted at the Key West Housing Authority February through July of this year.

We have reviewed the results of your evaluation and will take action consistent with your recommendations to assure that the authority is in compliance with its Annual Contribution Contract for Public Housing and our Section 8 voucher program.

Per your request we are providing the following response to your evaluation and recommendations.

FINDING 1 – PROCUREMENT REQUIREMENTS WERE NOT FOLLOWED

The Key West Housing Authority has reviewed your evaluation of the administration of its procurement process. We agree with your recommendation and have taken action to address the issues by improving and strengthening our management controls.

The decentralization of Housing Authority construction documents were primarily a result of the unexpected resignation of the Manager for Construction Management responsibilities. This void created the fragmentation of contract documents, which resulted in a very difficult audit trail. We recognize the need for formal training in procurement matters and will prioritize training in our plan to implement improvements to our procurement policy management system.

The Authority has implemented immediate corrective measures, focused on a centralized procurement system with emphasis on contract management to assure detailed and complete

construction documents in accordance with procurement policies and procedures. Current contracts now provide a complete record of its procurement, and are centrally organized and documented in a contract register to assure compliance with an accessible audit trail. An initial effort has been implemented establishing a clear path of responsibility for the management, oversight and review of procurement activities.

The Key West Housing Authority will prepare a timely report to the HUD office in Miami on the corrective action taken and the proposed corrective action and dates that it will be completed.

FINDING 2 – ADMINISTRATION OF SECTION 8 PROGRAM NEEDED IMPROVEMENT

The Authority experienced numerous administrative difficulties when the Section 8 Representative unexpectedly gave notice of his resignation. The two-week notice was not sufficient time to replace and properly train a person for this position.

The process of hiring and sufficiently training a new Section 8 Representative to assume the duties and responsibilities of the program took several months

It became immediately apparent that the former Section 8 Representative had created significant compliance issues. Cornwell and Associates, a Consultant specializing in HUD programs assisted in conducting an in-house audit, which confirmed our concerns revealing deficiencies with the majority of the 254 Section 8 client files and with the lack of proper and sufficient supervision. In addition, he recommended the need for each client file to be reviewed. The initial audit was followed by several additional audits until all issues were addressed and compliance issues were corrected. The new Section 8 Representative and Housing Director completed Section 8 training courses and received certificates of completion. Additional training is on going and scheduled to continue in an effort to provide staff with adequate knowledge and skills to perform their duties.

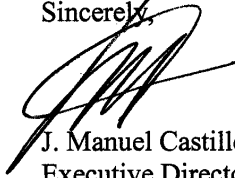
The consultant employed to assist staff with correcting deficiencies reported during his most recent visit (November 2002) significant improvements in individual client files and percentage of vouchers issued and housed.

The Housing Authority has implemented short term measures to address these issues, is currently applicants for the position of Director of Operations and is preparing and will implement a long term plan to include staff reorganization to accomplish the needed improvements. The Key West Housing Authority acknowledges your recommendations and will provide the HUD office in Miami with progress reports on a timely basis.

The Key West Housing Authority agrees with the comments in Finding #2 pertaining to conflict of interest situations, but is of the understanding that although these situations may occur this audit did not detect any occurrences of preferential treatment, therefore request that verbiage indicating such be included in Finding #2 as it does in Finding #1.

We appreciate your efforts and recommendations, which will be used in assisting the Authority with administrative improvements. Please contact me if you have any further questions.

Sincerely,

A handwritten signature in black ink, appearing to be 'JMC', written over the word 'Sincerely,'.

J. Manuel Castillo, Sr.
Executive Director

CC: Frank Toppino, Chairman

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