



U.S. Department of Housing and Urban Development
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District Inspector General for Audit

August 14, 1998

**Audit Related Memorandum
No. 98-PH-201-1804**

MEMORANDUM FOR: Edward J. Palombizio, Director, Multifamily Division,
Pittsburgh Area Office, 3EHM

FROM: Edward F. Momorella, District Inspector General for Audit, Mid-Atlantic
District, 3AGA

SUBJECT: Northside Tenants Reorganization (NTR)
Resident Management Corporation - Security Funding
Pittsburgh, Pennsylvania

Based on a request from the Office of Inspector General for Investigations, we reviewed the security funding received by NTR to determine whether the expenditures were necessary, eligible, and properly supported.

We found NTR did not maintain records evidencing project security was provided and at least \$360,00 of security funds were misspent. The owners of Northside Properties and the Housing Authority of the City of Pittsburgh (Authority) each suggested security funds were misspent, indicating it was each other's responsibility to monitor the funding. Your attention is required to ensure scarce Section-8 funding is not abused while responsible parties argue over monitoring responsibility.

We interviewed Multifamily Housing Division (HUD) staff, reviewed field office files and NTR's latest IPA report. We visited the Housing Authority of the City of Pittsburgh (Contract Administrator) interviewed the staff, and reviewed records. We visited North Side Associates (Owners) and interviewed their staff. We also interviewed staff and reviewed records at NTR.

Background

Northside Tenants Reorganization (NTR) was formed for the purpose of improving the living conditions of residents of Northside Properties by implementing a program of tenant management to achieve a decent, safe, and wholesome environment. Specific objectives of NTR included establishing a security program that provided protection for Northside Properties tenants. In October, 1992, the project owners entered into an agreement with NTR for dual management of the project. However, the agreement did not mention a security program.

Northside Properties is a 333-unit HUD Section-8 scattered site project in Pittsburgh, Pennsylvania. The project owners have entered into a HUD Section-8 contract with the Housing Authority of the City of Pittsburgh (Authority). The Authority's role as Contract Administrator is to execute an Annual Contributions Contract (ACC) with the project owners and oversee the administrative requirements to include remitting rents to the owners, and ensuring units meet HUD's housing quality standards. HUD reviews the project operating budget and authorizes project rent increases.

In July 1992, at the urging of NTR, HUD approved a substantial rent increase which required the owners of Northside Properties to provide security. According to the HUD Field Office, Northside Properties was in an area where security needed to be provided in order to protect the project. At the request of NTR, Northside Properties entered into a contract with the Nation of Islam (NOI) to provide security. However, Northside Properties threatened to terminate the NOI security contract since the rent increase was not sufficient to adequately maintain the project and implement the NOI security contract. In order to maintain the security NTR made arrangements with the Authority to receive the security funds directly.

The Owners stated that they were required by HUD and the Authority to include security in their 1992 budget and the HUD Field Office files seem to support this position. Specifically, Pittsburgh field office documents show that the Owners were in jeopardy of rent reductions if they tried to eliminate security. The Chief of Pittsburgh's HUD Multifamily Housing Division stated that requiring the owners to include security as part of their budget "may have been a stretch" according to HUD's Section-8 Housing Assistance Program Guidelines. In our opinion, NTR's ability to effectively provide and account for a security program for a scattered site property with over 300 units spread over a four mile radius should have been considered before committing scarce Section-8 funding.

Results of Review

Our review disclosed the Housing Authority of the City of Pittsburgh provided NTR over \$1 million without any assurance that funds were used to provide security to Northside Properties as required. Contrary to the terms of its ACC and concerns expressed by the owners of Northside Properties, the Authority incorporated NTR's funding as part of Northside Properties overall Section-8 operating budget, and then provided the security funds directly to NTR. NTR was not required to provide the Authority with any documentation evidencing security services were provided and funds were used as intended. As a result, there is no assurance project security was actually provided, and much of the funding was misappropriated.

Paragraph 1.2 of Part I of the Annual Contributions Contract (ACC) authorizes the Authority to (a) enter into an Agreement, (b) enter into a Contract, (c) make housing assistance payments on behalf of the families, and (d) take other necessary actions, all in accordance with the forms, conditions, regulations, and requirements prescribed or approved by HUD.

Paragraph 1.8 states: "The PHA as Contract Administrator (CA) is primarily responsible for administration of the Contract in accordance with this ACC and HUD regulations and requirements, subject to the review and audit by HUD.

Between August 1993 and January 1997 the Authority has provided security funds of \$1,034,584 directly to NTR. The Authority did not require NTR to sign a contract designating how the security funds were spent and did not monitor the activities of NTR in a timely manner. Funds were provided directly to NTR when the owners of Northside Properties expressed concerns over the accountability of funds and the level of service provided. Furthermore, the project owner signed an authorization that stated "all accounting and responsibility for the administration of these payments and services shall be solely that of the Housing Authority of the City of Pittsburgh" (Contract Administrator).

The Authority stated that it was the responsibility of the project owners to monitor NTR's use of the funding. However, the project owners clearly indicated they had concerns over the funding provided to NTR and would not accept responsibility for the payment or accountability of funds provided to NTR. Furthermore, the Authority did eventually exercise their control over the funds when they discontinued funding NTR based on their September 1996 audit.

Our review disclosed NTR did not use its security funding for the intended purpose. Specifically, NTR submitted budgets indicating funding would be used to provide for security personnel and related expenses at North Side Properties. However, it appears the level of security provided continued to decrease as funds were used to support NTR's overall administrative costs, which were largely comprised of salary and related expenses for NTR's Executive Director and family members. Furthermore, the Executive Director and her son and daughter (employees of NTR) were not residents of the project.

Reduction in Security Personnel

NTR went from contracting security services with an outside vendor to providing its own security force. Between January 1996 and January 1997 NTR continued to receive \$24,609 per month even though their security payroll was only \$4,717. NTR employed as many as 25 security employees in fiscal year 1994. In 1996 and 1997 NTR only employed four and two security employees, respectively. One of the two remaining security guards was the Executive Director's son who was himself reported to be involved in two separate arrest incidents. Subsequently, NTR continued to employ and pay the related legal costs for this individual.

NTR can not document that security was performed or that it was effective because they did not keep security logs, vehicle logs, or shift duty reports. NTR also claimed that time cards were destroyed by water damage.

Salary Increases/ Employee Advances

The Executive Director's salary increased from \$43,000 to \$56,000 between 1994 and 1996. Additionally, the Executive Director employed her sister and daughter in administrative positions and her son as head of security. As of June 1997 the Executive Director had outstanding employee advances of \$12,223. As stated earlier the Executive Director's commitment to the prosperity of the tenant association is questionable since she is not even a resident of the project.

Excessive Per Diem

NTR paid their employees per diem of \$95 or more then twice the federal government maximum rate of \$42. This was in addition to NTR paying the hotel and registration costs, and other travel related expenses. Between June 1993 and July 1997, NTR paid per diem of \$10,259.

* * * *

In summary, the Authority's failure to require NTR to spend funds for project security and lack of timely monitoring resulted in the misuse of Section-8 operating funds. Based on the Authority's own audit, NTR misappropriated \$360,521 that was earmarked for project security.

Recommendations

We recommend you require the Authority:

- 1A. Repay HUD the \$360,521 which NTR received but did not use for security related purposes.
- 1B. Implement procedures to ensure funds disbursed to grantees are supported by contracts detailing contract requirements and timely monitoring.

The results of the survey were discussed with NTR's staff and your staff.

If you have any questions, please contact Allen Leftwich, Assistant District Inspector General for Audit at (215) 656-3401.

Attachment - Distribution

Attachment

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