



Audit Report

District Inspector General for Audit **Southeast/Caribbean District**

Report: 98-AT-206-1005

Issued: April 23, 1998

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

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

SUBJECT: Tampa Housing Authority
Tampa, Florida

We have completed a review of the operations of Tampa Housing Authority (THA). The review was initiated under Operation Safe Home, with a primary objective of identifying illegal activities. However, we redirected the review to evaluate the efficiency and effectiveness of THA operations, and this report includes the results of that review. Our report includes eight findings with various recommendations for corrective action. The findings include significant departures from U.S. Department of Housing and Urban Development (HUD) regulations and accepted management practices.

The review generally covered the period April 1995 through October 1997. However, we reviewed activity in other periods, as necessary. The field work was conducted between May and November 1997. The review was conducted at the request of the former Director of Public Housing in the HUD Jacksonville Area Office, which formerly had jurisdiction over THA. Our exit conference in early March, as well as discussions during the review, was conducted with Jacksonville staff; however, they advised us, and you concurred, that effective March 16, 1998, THA came under the jurisdiction of the Florida State Office, and our report should be issued to you.

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

Should you or your staff have questions, please contact Rudy E. McBee, Assistant District Inspector General for Audit, at (423) 545-4368 or Dennis Durick, Senior Auditor, at (404) 331-5001, extension 2406.

We are providing a copy of this report to THA.

Executive Summary

We have completed a review of THA operations. The primary objective of the review initially was to identify contractors, vendors, employees, or other officials who may be involved in corruption, fraudulent activities, conflicts of interest or other illegal activities that detract from the integrity and effectiveness of THA's Low Income Housing (LIH) and Section 8 Programs. Based on survey work, we redirected the major thrust of our review to evaluate the efficiency and effectiveness of THA's administration of its LIH Program, as well as the impact of housing development corporations on THA operations. We limited our review of the Section 8 Program to procedures related to housing quality.

MAJOR RENOVATION CONTRACTS

Between 1994 and 1996, THA awarded contracts totaling \$27 million for major renovation to resident-owned businesses (ROBs). THA awarded the contracts under special procedures aimed at benefiting residents, but THA abused the procedures. It awarded the contracts without competitive bidding and to unqualified resident businesses. The contracts exceeded estimates and program limitations, including a \$1,000,000 lifetime Federal limitation on the amount of contracts residents can receive. THA also split bids on some contracts to avoid formal advertising. We believe prior THA management circumvented HUD procurement rules to select favored contractors. The practices resulted in THA incurring \$1.9 million in ineligible costs, not achieving intended program results, duplicating costs, and favoritism.

We are recommending repayment of \$1.9 in ineligible costs, controls to assure the \$1,000,000 limit on contracts is monitored, and follow-up to assure THA strengthens management controls over its contracting process.

HOUSING DEVELOPMENT CORPORATIONS

THA's relationship with housing development corporations was detrimental to its best interests. In the last 5 years, THA spent over \$1.8 million for activities that primarily benefited the corporations, when THA's LIH Program had serious financial needs. Most of the benefits accrued to one corporation, Tampa Housing Development Corporation (THDC) managed by a former THA Executive Director (ED). The former ED used his position as Director of both entities to acquire assets and establish an income base for THDC, allowing THDC to separate from THA control. The separation may be contrary to the corporate documents and HUD regulations upon which THDC relied for authority.

We are recommending THA recover from THDC all assets acquired while it was under the authority's control, as well as payments on THDC's behalf from THA funds subject to HUD control. We also recommend that THA bring THDC into compliance, organizationally and functionally, with its Articles of Incorporation and HUD regulations, or abolish it, and that THA cease business relationships with the former ED.

HOUSING QUALITY

THA has not maintained its conventional housing in good repair and condition. As a result, THA is not providing decent, safe, and sanitary housing for many of its residents. Based on our review, including inspection of 46 units, housing deficiencies were numerous and serious. THA management did not perform needed oversight and direction to assure its staff was performing routine and preventive maintenance, and may have understaffed maintenance personnel at some projects.

We are recommending THA: (1) develop a maintenance plan for improving its maintenance operation and the quality of its housing, (2) inspect all units and systems and correct housing deficiencies, and (3) evaluate its maintenance staff to determine whether adjustments are necessary.

RESIDENT PROGRAMS

We question whether THA's Resident Enterprise Assistance Program (REAP) is achieving its program goals. The program involves relatively small contracts for routine operations, such as lawn care, with the ultimate objective of resident economic independence. THA was not operating the program in accordance with various HUD and THA rules. Procurement requirements aimed at assuring competition and cost reasonableness were ignored, non-resident contractors were allowed to participate, and training to qualify resident businesses for participation was sometimes overlooked. As a result, program costs were excessive and concentrated in a few resident businesses, and most contractors were dependent on THA contracts rather than achieving the independence envisioned by the program. THA allowed one contractor to exceed the \$1,000,000 lifetime Federal limitation on resident contracts.

THA controls over bank loans to residents through REAP were inadequate. THA was not properly accounting for loan guarantee funds, adequately monitoring the loans, and taking prudent collection actions on defaulted loans. The lack of controls may have contributed to loan defaults, hindered collection efforts on delinquent loans, and resulted in less funding for future participants.

We recommend THA develop a plan and timetable for improving the program to better achieve program goals. The plan should include required competitive procurement procedures, procedures to promote the award of contracts to a greater number of resident businesses, and procedures to promote tenants attaining self sufficiency. We also recommend termination of REAP contracts with former residents, controls to assure the \$1,000,000 limit on contracts is monitored in the future, and repayment of \$613,432 paid in excess of the limitation.

Regarding the loan program, we recommend THA establish and maintain records which account for all loan transactions and adopt procedures which will result in better monitoring of the loans and better collection actions on delinquent and defaulted loans.

PROPERTY MANAGEMENT

THA needs to significantly improve property management to verify tenant income and adjust rents, inspect housing units, track work orders for housing repairs, record amounts collected from and owed by tenants, and monitor resident employees. Inadequate procedures resulted in inaccurate tenant rents with some tenants possibly being ineligible for housing, housing not inspected annually, undue preferences to resident employees, and poorly maintained records. The deficiencies appeared to be caused by a lack of management controls, such as systematic monitoring and follow-up.

THA also allowed some resident employees to pay reduced rents, costing THA needed income. Based on HUD instructions, THA ordered project managers to discontinue the practice in 1996; however, it continued because of a lack of THA management controls.

We recommend that THA document to HUD that it has implemented improved management procedures, including quality control reviews. We also recommend THA discontinue the practice of allowing employees to pay reduced rents.

MANAGEMENT ASSESSMENT PROGRAM

THA's 1997 Public Housing Management Assessment Program (PHMAP) certification, and in some instances prior certifications, contained inaccurate information which likely resulted in higher scores than justified. PHMAP is essentially a self-assessment housing authorities provide to HUD. Categories with erroneous information measured THA performance in collecting rent, completing non-emergency work orders, inspecting units and building systems, and managing resident programs.

We recommend THA establish controls to ensure that all future PHMAP data submitted to HUD is supported and accurate. HUD should perform a site review of THA's next PHMAP certification to confirm the accuracy of the data.

EXIT CONFERENCE

We discussed the results of our review with David L. Livingston, Acting Director, Operations Division, HUD Jacksonville Area Office, on February 25, 1998, and solicited the input of HUD Jacksonville staff into recommended corrective actions. Mr. Livingston and Elaine D. Clark, Acting Director, Office of Public Housing, provided us suggested recommendations on March 2, 1998. Their recommendations are reflected in the final report, with the exception of one issue. Although they agreed certain costs in Findings 1 and 4 were ineligible because they exceeded a \$1 million HUD limitation, they did not recommend repayment because THA received value for the costs.

We also discussed the findings with THA during the course of the review and at an exit conference on March 4, 1998, attended by the following:

Edward A. Johnson, Chairman, THA Board of Commissioners
Kris Warren, Interim THA Executive Director
Megan Glasheen, Attorney, Reno and Cavanaugh

THA provided us written comments on March 17, 1998, which we considered in preparing the final report. THA substantially agreed with the issues stated in the findings, and pointed out several corrective actions already begun. However, they disagreed with several facts in Finding 1 and with draft recommendations to repay funds in Findings 1 and 4. They contended, for Finding 1, HUD had approved their procurement process, that our computations of ineligible costs were inaccurate, and THA should not have to repay ineligible costs in any event because the expenditures were made for eligible items and were fair and reasonable. THA provided additional data for our review.

We considered THA's comments and made appropriate changes to the final report, including a significant reduction in the amount of ineligible costs. However, we continue to believe certain costs incurred in violation of HUD regulations are ineligible. HUD agreed.

THA's comments are included in Appendix F. Voluminous attachments are not included, but we provided a copy to staff at the HUD Florida State Office. We summarized and evaluated the comments following each finding and provided an evaluation of voluminous comments on Finding 1 separately to both THA and the Florida State Office.

Table of Contents

Management Memorandum	i
Executive Summary.....	iii
Table of Contents	vii
Introduction	1
Findings and Recommendations	
1. Program to Benefit Residents was used to Circumvent Procurement Requirements	3
2. Relationship with Housing Development Corporation was Detrimental	13
3. Housing Did Not Meet Quality Standards.....	21
4. Effectiveness of Resident Enterprise Assistance Program was Questionable.....	27
5. Resident Loan Program was Inadequately Controlled.....	35
6. Property Management Needed Improvement.....	39
7. Resident Employees were Allowed to Pay Reduced Rents.....	43
8. PHMAP Certifications Contained Inaccurate Data	45
Internal Controls.....	49
Follow-up on Prior Audits	51
Appendices	
A. Modernization Contracts	53
A-1 With Resident/Non-Resident Joint Ventures	
A-2 With Resident Businesses	
B. Background - Housing Development Corporations.....	55
B-1 Source and Use of Funds - North Tampa Housing Development Corporation	

B-2 Source and Use of Funds - Leased Housing Corporation of Tampa

C. Examples of HQS Deficiencies 61

D. Resident Enterprise Assistance Program - Contractors and Payments 65

E. Schedule of Ineligible and Unnecessary/Unreasonable Costs..... 67

F. Auditee Comments..... 69

G. Distribution..... 77

Abbreviations

ACC	Annual Contributions Contract
CGP	Comprehensive Grant Program
CFR	Code of Federal Regulations
ED	Executive Director
FLHC	Florida Leased Housing Corporation
HQS	Housing Quality Standards
HUD	U.S. Department of Housing and Urban Development
JV	Joint Venture
LHCT	Leased Housing Corporation of Tampa
LIH	Low-Income Housing
NTHDC	North Tampa Housing Development Corporation
OMB	Office of Management and Budget
PHMAP	Public Housing Management Assessment Program
REAP	Resident Enterprise Assistance Program
ROB	Resident-Owned Business
THA	Tampa Housing Authority
THDC	Tampa Housing Development Corporation

Introduction

BACKGROUND

Mission and Organization - THA was created by Tampa City Commission in November 1937 under the laws of the State of Florida. THA's primary mission is to provide decent, safe, and sanitary housing for persons of low income.

THA is governed by a seven member Board of Commissioners, appointed by the Mayor of Tampa to 4-year terms. The Board is responsible for implementing a comprehensive public housing program, setting policy, approving an annual operating budget, and hiring an ED. The ED is responsible for daily operations and oversees a staff of approximately 250 employees.

Since late 1987, THA had two EDs. Audley Evans served from November 1987 through August 1996, and in a consulting capacity through December 1996. THA hired Arthur S. Milligan, Jr., on January 23, 1997, to replace Mr. Evans. Mr. Milligan resigned on January 2, 1998. Kris Warren, Deputy General Executive Director, was serving as interim ED until a new ED is hired. Our references to "former ED" mean Mr. Evans. THA's financial records are maintained primarily at its central office located at 1514 Union Street, Tampa, Florida.

Program Activity - Major THA activities include planning, developing and operating LIH, managing a Section 8 Program of assisted housing, resident initiatives, intergenerational programs, and youth sports and cultural programs. THA's resident initiatives included operation of REAP, established in 1988, to assist residents in small business ownership opportunities.

THA owns and operates 23 developments with 4,936 units serving a resident population of about 20,000. THA's Section 8 Program includes about 2,700 units.

Funding - THA received about \$11.5 million annually of HUD operating subsidy the last few years, and about \$45 million in Comprehensive Grant Program (CGP) funds from 1992 through 1997.

Management Performance - In September 1997, HUD revised THA's PHMAP score to 82 making THA a standard performer. However, the findings in this report warrant reconsideration of the score.

AUDIT OBJECTIVES, SCOPE AND METHODOLOGY

Our initial objective was to identify contractors, vendors, employees, or other officials involved in corruption, fraudulent activities, conflicts of interest or other illegal activities that detract from the integrity and effectiveness of THA's LIH and Section 8 Programs. The review was initiated as part of Operation Safe Home. Based on survey work, however, we redirected our review to evaluate the efficiency and effectiveness of THA's administration of its LIH Program, as well as the impact of housing development corporations on THA operations. Our review of the Section 8 Program was limited to procedures related to quality of housing.

The review generally covered the period April 1995 through October 1997. However, we reviewed activity in other periods, as necessary. The field work was conducted between May 1997 and November 1997.

Our review methodology included examination of records and files, interviews with HUD, THA current and former staff, contractors, vendors, and unsuccessful bidders, development site visits, Housing Quality Standards (HQS) inspections, and reviews of prior HUD, Office of Inspector General (OIG), and THA studies and reviews. Detailed audit testing was judgment or random sampling representative of transactions in the areas examined. We randomly selected 46 LIH units to inspect for compliance with HQS.

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

Findings and Recommendations

Finding 1

Program To Benefit Residents Was Used To Circumvent Procurement Requirements

Between 1994 and 1996, THA awarded at least 81 construction contracts totaling almost \$27 million to resident-owned businesses (ROBs) without competitive bidding. It did so under the guise of a HUD program allowing relaxation of certain procurement rules (but not bidding), aimed at benefiting residents. However, THA did not follow the rules of the program. For example, the ROBs were not qualified to, and did not, actively participate in the construction, contracts were awarded in excess of cost estimates, and in amounts that exceeded program limitations. We believe the contracting procedures were a means of circumventing HUD's procurement rules in order to select contractors of choice. As a result, THA incurred excessive cost estimated at \$1.9 million, residents received little of the benefits intended by the program, and certain favored contractors received preferential treatment.

SPECIAL PROCEDURES USED AS BASIS FOR PROCUREMENT ACTIONS

THA used HUD regulations aimed at enhancing economic opportunities for public housing residents to justify its actions (24 Code of Federal Regulations (CFR) 963, Public Housing-Contracting with Resident Businesses). The regulations allow special procurement procedures referred to as an alternative procurement process, meaning different than the normal Federal procurement process specified at 24 CFR 85.36. Actually, however, the process is not that different. The principal difference is that bid solicitations are limited to ROBs, as opposed to contractors at large. Other regular 24 CFR 85 requirements are applicable, e.g., method of procurement (small purchase procedures, sealed bids, competitive proposals, etc.), procurement standards, and record maintenance. In addition, some important new requirements are added:

- To use the alternate process, a ROB must meet certain eligibility requirements, e.g., must be at least 51 percent owned by a resident(s), must have its management and daily business operations controlled by a resident(s), and must demonstrate it has the ability to perform the proposed contract successfully (24 CFR 963.5 and 963.10(c)).
- Each ROB is limited in its participation in the process to a lifetime maximum of \$1,000,000 of contracts in total. The limitation was originally \$500,000 when the program was initiated in 1992 (24 CFR 963.10(d)).

- Awards cannot be made to ROBs if the contract exceeds an independent cost estimate required by 24 CFR 85.36 (24 CFR 963.12(b)).

For the procurements discussed in this finding, sealed bidding was the appropriate method of procurement, with solicitation of bids limited to ROBs.

SPECIAL PROCUREMENT PROCEDURES AND RESIDENTS WERE ABUSED

THA did not follow the alternate procurement process in several respects. Actually, however, we doubt the process was ever intended to be used for multimillion dollar construction contracts with ROBs, or if so, only rarely. It is impractical to expect ROBs to have the expertise to undertake massive modernization jobs of the size and complexity THA needed. THA used the process, as well as residents, to circumvent normal price competitive procurement requirements. In so doing, THA abused the procedures, its residents, and taxpayers.

THA used two different but similar methods of contracting with residents, described separately below. The predominant method was contracting with joint ventures (JVs) arranged between ROBs and non-resident contractors. A second method was contracting directly with ROBs, then arranging a non-resident contractor to actually do the work under a subcontract. The net effect of both was the same. Certain large, favored contractors were selected to actually do the work without cost competition, ROBs were portrayed as being the contractor and received token compensation for, in most cases, doing little or nothing, and residents were in most cases deprived of training skills and experience intended under the special procurement process.

Appendix A lists all contracts of both types we could identify from the time THA began the practice in 1994. Records did not in all cases enable us to determine the resident's share of the overall contract price. For contracts with available records, the resident's share of the total contract price was an average of a little over 1 percent. THA used its Resident Enterprise Assistance Program (REAP) contractors for the contracts. The ineffectiveness of REAP overall and deficiencies with numerous smaller REAP contracts funded from operations are discussed in Finding 4. Finding 1 deals with large major renovation contracts funded with CGP funds.

METHOD ONE - JOINT VENTURE

On large multimillion dollar projects, THA solicited competitive proposals from non-resident contractors to enter into JVs with ROBs. Price was not a factor in the solicitations. (Under Federal procurement rules, when the competitive proposals method is appropriate [it was not in these situations], price is one of several factors considered, but the lowest bid does not have to be accepted.) THA agreed on a price with the non-resident contractor and then selected a ROB, without competition, to enter into a JV agreement, typically a partnership, with the non-resident contractor. The non-resident contractor and ROB entered into the JV partnership, and THA then contracted with the JV.

The JV partnership typically allocated shares 51 percent to the ROB and 49 percent to the non-resident contractor, but then stipulated it would pay most of the fee received from THA to a “Construction Manager” or similar subcontractor for construction services, leaving only a nominal fee, e.g., 2.4 percent, for the JV. The 2.4 percent would then be split 51 percent to the ROB and 49 percent to the non-resident contractor. In most cases the non-resident contractor functioned as the general contractor or construction manager and subcontracted the job out.

MOST WORK WAS DONE THROUGH JOINT VENTURES

Eighty-seven percent, over \$23 million, of the contracting in question was done through JVs. Over \$20 million was spent in completing renovations at North Boulevard, done by two non-resident contractors selected by THA. In phase I, THA solicited proposals and selected the only non-resident contractor that applied (price not a consideration). THA negotiated a \$3.4 million overall price with the non-resident contractor and divided the job by tasks, initially into four contracts. THA selected four ROB's to enter into JVs with the non-resident contractor. THA later increased the number to six, shifting certain tasks to two new JVs when it became apparent some ROB's were going to exceed the \$1 million limitation.

On phase II, THA again solicited proposals, price not a factor, from non-resident contractors to enter into JVs with ROB's. Four applied. THA eliminated the phase I contractor due to bonding problems and a second contractor due to previous poor performance, leaving only two contractors with common ownership. THA negotiated a \$14.3 million price with the non-resident contractor, and selected 21 ROB's to enter into JVs. THA divided phase II by buildings rather than tasks in determining contract amounts on each JV.

On the remaining seven JVs for North Boulevard and eight others for other projects, THA files included no evidence proposals were solicited from non-resident contractors. On a \$1.5 million cabinet installation contract at College Hill, THA selected a non-resident contractor having common ownership with the non-resident contractor used on North Boulevard Phase II. THA files did not evidence how either the non-resident contractors or ROB's were selected.

METHOD TWO - RESIDENT CONTRACTS

For most of the 39 non-JV contracts, THA files did not indicate how resident or non-resident contractors were selected. In a few cases, the files included a bid solicitation from one non-resident contractor. In whatever manner it was done, THA selected a non-resident contractor, then selected a ROB to be general contractor, with the non-resident contractor functioning as subcontractor. For example, in one case where a bid was sought, THA secured a quotation from Smith Fence Company, a non-resident fence contractor, to install a security fence at North Boulevard. THA accepted the quotation, added 3 percent to the total for ROB profit, and executed a contract with the ROB to install the fence. THA required the ROB to subcontract installation of the fence to the non-resident contractor for the amount of its quotation. THA selected contractors for the other 38 contracts in similar fashion.

RESIDENTS WERE UNQUALIFIED AND UNINVOLVED

None of the ROBs demonstrated they were qualified in the particular trade needed or had the ability to satisfactorily complete the contracts. The ROB must satisfy the PHA that it has the ability to perform, considering such things as record of past performance, financial and technical resources, proof of completion of courses in business administration or financial management, or proof of job training or apprenticeship in the particular trade or business (24 CFR 963.10(c)).

Five of the six ROBs involved in JVs at North Boulevard phase I were either grass cutting or janitorial contractors. The sixth had some experience in site preparation, but did not possess the necessary skills and capacity to undertake such a large and complex project. Cutting grass or cleaning offices hardly qualified a ROB to complete the phase I renovations, which included construction of water retention ponds, installation of water lines, fences, streets, curbs and gutters, and construction of post offices and guard stations.

The ROBs on North Boulevard phase II and other resident contractors were similarly unqualified. They too consisted of grass cutters, day care operators, car wash operator, an answering service, janitorial services, and painters. The nine ROB owners we interviewed all stated they had little or no involvement in the construction process.

Construction contracts with JVs typically stated the ROB was “at least a 51 percent owner of JV and as such is involved in, and responsible for, all daily operations.” This wording was clearly in response to the requirement in 24 CFR 963.5 that residents must control the daily operations and management of ROBs. Residents did not control management of the JVs, whose function was to carry out or oversee construction services, nor were they otherwise involved in construction operations. The nine resident contractors interviewed stated their involvement included picking up pay checks, signing papers, and occasionally inspecting work in process and/or making suggestions. Certified payrolls further documented that ROBs had no involvement in construction activity.

CONTRACT AWARDS EXCEEDED COST ESTIMATES

Contract awards on North Boulevard phases I and II, 74 percent of the contracts in question, exceeded their independent cost estimates by over \$1 million. On the remaining 54 contracts there was no evidence THA obtained cost estimates. The alternate procurement process precludes awarding the contract if it exceeds the required independent cost estimate, to ensure costs are reasonable in the absence of open competitive bidding (24 CFR 963.12(b)).

We question the eligibility of costs incurred in excess of cost estimates because they were incurred in violation of HUD regulations. The costs are itemized as follows:

<u>Costs Over Estimate</u>	<u>Phase I</u>	<u>Phase II</u>	<u>Total</u>
Award	\$3,390,838	\$14,350,693	\$17,741,531
Estimate	2,995,966	13,555,959	<u>16,551,925</u>
Total			<u>\$1,189,606</u>

SOME RESIDENT CONTRACTS EXCEEDED \$1 MILLION LIMITATION

Six ROBs received contracts in excess of the \$1 million limitation (24 CFR 963.10(d)). The limitation is to prevent concentrating benefits with a few residents. The following ROBs participated in contracts exceeding \$1 million:

	<u>Excess Over \$1 Million</u>
WTA Painting	\$ 442,327
Tutties Family Day Care	131,959
Families and Senior Services	104,899
Rankin Enterprises, Inc.	78,543
Goshen Maintenance	75,147
Masterpiece Enterprises, Inc.	<u>40,108</u>
 Total	 <u>\$ 872,983¹</u>

THA had no system in place to track each contractor's cumulative contract awards and had not advised individual ROBs of the requirement to do so themselves. We consider the costs paid to ROBs in excess of the \$1 million lifetime limitation ineligible.

BID SPLITTING

On at least four occasions, THA split large contracts into smaller contracts, known as bid splitting, apparently to avoid bid solicitations. Federal procurement rules define purchases under \$100,000 as small purchases and only require formal advertising and sealed bids for contracts that exceed \$100,000 (24 CFR 85.36(d)). Since THA avoided bid solicitations in essentially all contracts anyway, we could not determine why the practice was employed, nor could THA staff offer any explanation. Two examples of the bid splitting follow:

<u>Contractor</u>	Non-Resident <u>Contractor</u>	Date of <u>Contract</u>	Amount of <u>Contract</u>
Tutties Day Care	A. Thomlinson	6/17/96	\$98,158
Tutties Day Care	A. Thomlinson	6/17/96	99,850
Tutties Day Care	A. Thomlinson	6/17/96	98,158
Tutties Day Care	A. Thomlinson	6/17/96	94,773
Tutties Day Care	A. Thomlinson	6/17/96	<u>60,926</u>
Total			<u>\$451,865</u>

Non-Resident	Date of	Amount of
--------------	---------	-----------

¹ The \$872,983 includes \$209,267 of costs considered ineligible because they exceeded estimates (\$1,189,606). To avoid duplicate recoveries, repayment should be sought for only \$663,716 of the \$872,983, resulting in total ineligible costs of \$1,853,322.

<u>Contractor</u>	<u>Contractor</u>	<u>Contract</u>	<u>Contract</u>
NBPV-1	B. & B. Dev.	5/7/96	80,357
NBPV-2	B. & B. Dev.	5/7/96	94,968
NBPV-3	B. & B. Dev.	5/7/96	94,968
NBPV-4	B. & B. Dev.	5/7/96	87,663
NBPV-5	B. & B. Dev.	5/7/96	99,942
NBPV-6	B. & B. Dev.	Undated	73,052
NBPV-7	B. & B. Dev.	Undated	<u>67,288</u>
Total			<u>\$598,238</u>

All contracts with Tutties Day Care were for cabinet removal and installation at the same project; all contracts with NBPV were for painting at the same project. The work was separated by building. THA staff could not explain why competitive bids were not solicited for one contract for each type of service, which likely would have resulted in overall less cost.

PROCUREMENT PRACTICES HAD SERIOUS CONSEQUENCES

In addition to the ineligible costs, other serious consequences of the practices described were:

- Contractors received preferential treatment
- Residents received little if any benefits
- Duplicated efforts increased costs unnecessarily.

Preferential Treatment Of Contractors

THA's contracting process gave the appearance of favoritism or preferential treatment to both resident and non-resident contractors. Examples included:

- Certain ROBs received contracts far in excess of other ROBs, in six instances exceeding the \$1 million limitation.
- Eight ROBs who received JV contracts were related to THA personnel, including three related to the former REAP Director.
- Certain residents received contracts without going through the REAP training program, required of most residents who participated (see Finding 4).
- The non-resident contractor on phase I of North Boulevard was also tentatively selected for phase II and would have received over \$20 million in contracts without competitive bids had it not been for bonding problems on phase I.

- Certain non-resident contractors such as Bradley & Bradley, Unique Construction, Williams Engineering and Albert Tomlinson were contractors on JV and resident contracts over and over (see Appendix A). In each case, their selection was made without competitive bids.
- On two contracts involving Unique Construction and Williams Engineering as subcontractors, THA executed three change orders totaling in excess of \$161,000 after the work was completed and without adequate documentation.

In addition, THA made certain concessions to non-resident contractors, either to entice them to enter into JVs with ROBs, or as another form of preferential treatment. For example, in addition to higher than estimated contract costs, THA permitted Bradley and Bradley, the non-resident contractor on phase II of North Boulevard, to dictate the terms and conditions of the 21 JV contracts. The non-resident contractor changed the form HUD-5370, General Contract Terms and Conditions, to allow use of an unbonded warehouse for storage, reduce liquidated damages, void warranties, delete certain specifications without price credits, and require THA to pay builder's risk insurance premium.

Little Lasting Benefits to Residents

The \$27 million in construction contracts to ROBs resulted in few benefits. Each North Boulevard phase I JV contract specified the resident contractor would make himself and six residents available to the subcontractor for employment and training. THA included a total of \$96,000 in the four initial contracts for resident training. THA files evidenced no resident employment or training, which our interviews with residents and the non-resident contractor's job superintendent confirmed. Other JV/resident contracts contained similar requirements with similar results.

The JV and resident contracts also provided limited financial benefits to relatively few residents. Only 33 of 4,400 households benefited from the \$27 million in contract awards. Their benefit in most cases was nominal. The JV contracts on North Boulevard phase II illustrate the typical compensation received by a ROB. The ROB partner received an average 1.2 percent of the average JV contract amount of \$762,960 for the 21 construction contracts. At the same time, the ROBs used up approximately three-fourths of their lifetime entitlement to the special contracts. The nominal benefits had no lasting impact in terms of gaining experience in the construction business.

Duplicated Efforts Increased Costs

THA's bid splitting unnecessarily duplicated efforts and costs. For example, THA had to execute 21 sets of contract documents for phase II of North Boulevard for 21 separate JVs. This caused 21 times the paper work even though the same non-resident contractor was construction manager on all 21 JVs. The overall negotiated job total was divided up by

building so no JV exceeded the \$1 million limitation. One result was THA's architectural contract included over \$1 million in change orders; one \$30,000 change order was for increased cost of inspections due to the 21 separate JVs. A THA official agreed additional paperwork was involved, but stated they were told to do it that way by the former ED.

ALTERNATE PROCUREMENT PROCEDURES WERE NEVER FEASIBLE

We concluded it was not feasible to use the alternate procurement procedures in 24 CFR 963 given the magnitude of THA's modernization program. The contracts ranged from \$5,000 to \$14 million and in complexity from interior painting to total project renovation. There was no indication any resident employment or training occurred and, except for small jobs such as painting or drywall, no evidence of residents capable of renovating a 784 unit apartment complex.

Further, the nature of a JV made it difficult if not impossible for the non-resident contractor to secure a performance bond. Bonding companies are reluctant to insure a JV where the non-resident contractor with the financial capability and experience is the minority partner. THA experienced this problem on phase I of North Boulevard when the non-resident contractor was unable to secure HUD required coverage on the six JVs. On phase II, the non-resident contractor had to resort to letter of credit guarantees to obtain adequate coverage.

Employment opportunities for residents and ROBs would have been better served under Section 3 of the HUD Act of 1968, 24 CFR 135, titled Economic Opportunities for Low- and Very Low-Income Persons. Under Section 3, Public Housing Agencies (PHAs) must give preference in hiring to low- and very low-income persons, and must give preference in contracting to businesses owned by these persons or to businesses that substantially employ low- and very low-income persons. Under Section 3, THA could have stipulated in bid solicitations that the successful contractor hire residents or set-aside small subcontracts for resident contractors.

HUD STOPPED JV PROCESS

In November 1996, HUD advised THA not to award any additional JV contracts. In July 1997, THA halted all ongoing construction at North Boulevard because it ran out of money, and was considering whether to finish the renovations or demolish the remaining buildings. Demolition would require HUD approval and additional funding. Five JV contracts totaling \$1,702,962 for renovation and painting were suspended before work started.

THA COMMENTS

THA substantially agreed with this finding. THA stated suspended JV contracts would be terminated and that, in the future, it would comply with all procurement regulations and request HUD guidance for unusual procurement or contracting methods. However, THA disagreed with our computation of and recommendation to reimburse ineligible costs. They provided additional information to support their position.

OIG EVALUATION OF THA COMMENTS

We agreed with some of THA's comments and made applicable changes to the final report. Based on information THA provided, we reduced our computation of costs in excess of estimates from \$3.4 million to \$1.2 million. We also reduced payments exceeding the \$1 million limitation from \$1.2 million to \$872,983. We provided HUD and THA a detailed evaluation of THA's comments separately. However, we disagree with THA's contention that ineligible costs should not have to be repaid. HUD Jacksonville staff agreed costs were ineligible, and that costs exceeding estimates should be repaid. However, HUD recommended, similar to THA, no repayment of costs exceeding the \$1 million limitation as THA received value for the costs.

Our position is that HUD should declare the costs ineligible because they were incurred contrary to HUD regulations. We will recommend that HUD require THA to repay costs in excess of estimates from non-HUD funds because, in addition to violating HUD regulations, the costs appear unreasonable. Regarding costs in excess of the \$1 million limitation, costs may be allocated to a program because of value received, but are unallowable if, as in this case, they do not conform to Federal law or regulation, or are unnecessary for efficient administration of the program (24 CFR 85.22 and Office of Management and Budget (OMB) Circular A-87). We will recommend HUD declare the expenditures ineligible and require THA to repay the costs from non-Federal funds.

Based on THA's overall positive response, we are dropping draft recommendations 1D and 1E regarding THA's intentions with respect to future compliance with HUD procurement regulations.

RECOMMENDATIONS

We recommend that you:

- 1A. Declare the \$1,853,322² ineligible and require THA to remove the costs from the CGP and reimburse them from non-HUD funds.
- 1B. Require THA to furnish satisfactory evidence of controls implemented/planned to ensure ROB contractors do not exceed the \$1 million lifetime limitation on contract awards.
- 1C. Follow up to assure THA terminates the awarded but suspended JV contracts, and strengthens management controls over the entire procurement process.

² Costs in excess of estimates (\$1,189,606) plus costs in excess of \$1 million limitation (\$663,716). See footnote 1.

This Page Left Blank Intentionally

Finding 2

Relationship With Housing Development Corporations Was Detrimental

THA's relationship with housing development corporations was detrimental. In the last 5 years, THA spent, or abdicated control of, over \$1.8 million for activities that primarily benefited the corporations. Meanwhile, THA's LIH Program had serious financial needs. Most of the financial benefits accrued to THDC, run by THA's former ED. The former ED used his position as ED of both THDC and THA to acquire assets and an income base for THDC, then to separate it from THA control. THDC's separation from THA, taking certain THA assets with it, may be contrary to the corporate documents and HUD regulations upon which THDC relied for authority. We found:

- Funds totaling \$1.9 million have been generated by THA paying off and refunding bonds on four LIH projects. Use of the funds is controlled by HUD regulations and contracts. However, THA used, or allowed THDC to use for its benefit, over \$1.6 million of the funds for payments on a failed housing project (\$801,114), to purchase two warehouses (\$238,166), and for unknown purposes (\$583,704). THDC retained the assets acquired in the above endeavors, or funds remaining, when it separated from THA.
- THA incurred unnecessary operating expenses of \$224,780 for warehouse rental.

According to THA staff, the former authority ED, and current THDC ED, was actively involved with development corporation activities and made the decisions on how to use the funds. In some cases, those decisions were not in THA's best interests. The former ED's relationship with both THDC and THA shortly before and after THDC separated from THA constituted a conflict of interest. A contributing factor may also have been lack of control or oversight by THA's Board. There was no evidence THA Board approval was sought for most payments, nor did THA procedures require Board approval or other measures to control expenditures of non-budgeted funds. In some instances, the Board may have been uninformed.

BACKGROUND

THA formed THDC in 1978 as a nonprofit financing agency to assist in developing low income housing. In the beginning, THDC and THA shared the same Board of Directors and the same ED. THDC remained dormant until 1989 when it began to acquire various rental properties. By March 1994, THDC had acquired duplex apartments, a 300 unit apartment complex, and two warehouses. In May 1994, THDC elected a new Board of Directors and became independent of THA, although they retained the same ED. In 1995, THDC attempted to renovate an old cigar factory into LIH, but failed. THDC acquired two other LIH projects in 1996. THA's ED continued to serve both Boards until he officially resigned in August 1996 to work full time for THDC. He continued to work for THA without pay until December 30, 1996.

NTHDC was created to assist THA in financing two privately owned, bond-financed, LIH projects, The Village at University Square and Country Oaks Apartments. The bonds were secured by Section 8 contracts. In 1992, THA refunded the bonds for the two projects. NTHDC's Board and THA's Board are the same.

THA created the non-profit LHCT and Florida Leased Housing Corporation (FLHC) to support its low income Section 23 Leased Housing Program. The program consisted of two projects, Seminole and Rembrant Apartments. The corporations shared the same board members with THA. When the bonds financing the projects were paid off, FLHC apparently ceased to exist and LHCT became the recipient of residual funds. Its Board and THA's Board were the same, but the LHCT Board is no longer active.

Appendix B contains more background information.

ACTIVITIES DETRIMENTAL TO OPERATIONS

The following activities were detrimental to THA operations:

- Residual funds from bond payoffs used contrary to ACC.
- Savings from bond refunding used contrary to agreement with HUD.
- Purchase of warehouses primarily benefited THDC.

Residual Funds From Bond Payoffs Used Contrary To ACC

THA received \$1,193,452 remaining in trustee escrow accounts when it paid off bonds on Rembrant and Seminole Apartments. According to the trust indentures, the funds became the property of THA; however, THDC either controlled or primarily benefited from the funds.

In the early 1980s, both projects received HUD modernization funding making them subject to the terms and conditions of THA's Annual Contributions Contract with HUD. Expenditures were made from the funds both before and after THA entered into a "new" contract with HUD in January 1996. However, both the original and new contracts include provisions that, in effect, made the residual assets a part of THA's assets, and prohibited their disposition or use without HUD's approval (Sections 312, 313 of Part Two of "old" Annual Contributions Contract; Section 2(B) of Attachment II of Part B of the "new" Annual Contributions Contract).

THA took no official action explaining ownership of the funds, but it appeared THA set the funds aside to be loaned to its non-profits. None of the disbursements were approved by THA's Board, except for purchase of a warehouse. To our knowledge, HUD neither directed

nor approved how the funds were used. More importantly, use of the funds appeared imprudent considering THA's financial needs, and beneficial primarily to THDC. Accordingly, we consider the disbursements ineligible. The disbursements of \$1,196,298 are summarized below and itemized in Appendix B-2.

Residual funds from Rembrant's bonds were disposed of as follows:

- In 1993, THA used \$130,000 to purchase a warehouse in THDC's name which THDC rented back to THA, providing THDC a source of income. The warehouse became a THDC asset.
- In 1993, THA loaned THDC \$40,000 and \$32,000 to pay closing costs on unknown activities. The \$72,000 was not repaid.
- The balance in the Rembrant fund in July 1994 was \$511,704, which THDC retained control of when it separated from THA. THA had no accounting for use of the funds.

Residual funds from Seminole's bonds were disposed of as follows:

- In mid-1996 and early 1997, THA used \$482,594 from the Seminole bonds to make bond payments on behalf of Historic Morgan Apartments. Morgan Apartments was an unsuccessful attempt by THDC to renovate an old cigar factory into 26 units of LIH. THDC formed Historic Morgan Apartments, Limited, a limited partnership with THDC as general partner. THA issued bonds to finance the project, obligating its general revenues in the process, contrary to Section 313 of the ACC (however, the bonds have been retired). Historic Morgan and THDC were to own and manage the project. The project failed, at least in part, because of poor planning.
- In April 1996, THA began making bond payments on behalf of Historic Morgan, although construction had not begun, and continued making payments until THA retired the bonds in September 1997. By this time THA had paid over \$801,000 on behalf of Historic Morgan (\$482,594 from Seminole and \$318,520 from NTHDC funds). THA neither sought nor received reimbursement for these payments from Historic Morgan or THDC. The cigar factory, valued at \$300,000 when purchased, remained the property of Historic Morgan, Limited.

Savings From Bond Refunding Used Contrary To Agreement With HUD

By August 31, 1997, THA had received \$651,754 in interest savings from refunding bonds it issued through NTHDC to finance The Village at University Square and Country Oaks Apartments. THA used \$318,520 to pay on the Historic Morgan project discussed above, and \$108,166 as a down payment on a warehouse on North Rome Avenue owned by NTHDC. NTHDC plans to finance the balance of the \$545,000 purchase price through a local bank and

rent the warehouse to THA so THA can consolidate its storage space. THA was renting three warehouses at various sites at a cost of \$13,660 per month (two are discussed below). THA will pay NTHDC \$6,000 per month from operating funds, which will be used to amortize the loan. When paid for, the property will revert to THA.

Financing Adjustment Factor Refunding Agreements entered into by THA and HUD control how the funds can be used, and the amount and timing of funds THA will receive. THA is due to receive an additional \$672,616 by 2004. The agreements require THA to use the payments to provide housing affordable to very low income families for at least a 10 year period. The agreements provide that THA must monitor the use of the funds to ensure they are used only as set out in the agreements, and certify annually to HUD that they were used as required. If not used as required, HUD can suspend further payments. The use restrictions in the agreements are also included in 24 CFR 811.110(g).

The payments on behalf of THDC for the Morgan project were directed by the former ED without THA Board approval. The payments may meet refunding agreement guidelines in that Morgan was an attempt to provide LIH, even if a poorly planned one. In our opinion, however, THA is in violation of the 10 year restriction on the funds by not controlling the assets remaining from the failed project. In addition, the payments did not appear prudent considering THA's financial condition. We consider the necessity and/or reasonableness of the payments questionable, and the property an asset THA should seek to recover from THDC.

The down payment on the warehouse was approved by THA's Board, but does not appear to be an eligible use of the funds. Otherwise, the plan to acquire the warehouse for THA appeared reasonable.

The first of the reports to HUD required by the refunding agreements was due within 90 days of the end of THA's March 31, 1997, fiscal year. THA had not submitted the reports.

Purchase Of Warehouses Primarily Benefited THDC

THDC acquired two warehouses with THA funds, but kept the warehouses and caused THA to incur unnecessary warehouse rental expense. THDC used the \$130,000 payment discussed earlier plus THA rent payments from operating funds to purchase and/or pay off indebtedness on the warehouses. THDC continued to rent one warehouse to THA, but since January 1996, rented the other one to a private company. THDC ultimately benefited because the arrangement allowed THDC to increase its assets and build an income base at THA's expense. THA incurred \$224,780 in costs paid from operating subsidy that were unnecessary and/or unreasonable.

OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments, provides that for costs to be allowable they must be necessary and reasonable for proper and efficient performance and administration of the Federal award.

North B Street Warehouse

THDC purchased the North B Street warehouse and began leasing it to THA in April 1989. THDC paid \$240,000 for the warehouse and financed it by borrowing \$260,000 from a local bank and \$52,000 from THA (THDC paid back \$17,000, leaving \$35,000 owed). The warehouse is a large rectangular building (50 by 200 feet) with a smaller attached building that could be used for office space.

Under the initial lease from April 1, 1989, to March 31, 1994, THA paid \$5,000 per month (total of \$300,000). THDC paid \$4,000 of the rent on its bank loan. A second lease was executed for the period April 1, 1994, to March 31, 1999, at the same monthly rent, but THA paid no more rent.

During a June 17, 1994, THDC Board meeting, THA's former ED told the Board THDC owed \$124,000 on the warehouse, and mistakenly told the Board THA owed \$326,000 in back rent (THA owed the funds for other reasons). The Board agreed that when THA paid the \$326,000, it would pay off the warehouse and reduce THA's rent to \$1 per year. The THDC Board instructed its attorney, also THA's attorney,³ to execute a new lease reflecting the lower rent. During a June 24, 1994, THA Board meeting, the former ED briefed the Board on the rent reduction effective July 1, 1994, and the savings to THA.

THA repaid the \$326,000, and THDC subsequently paid off the loan, but THDC never changed the lease. THA occupied the warehouse until December 1995 when the former ED told THA staff to vacate it. THDC had executed a lease with a private company effective January 1, 1996, at \$4,500 per month. The lease was signed by the former ED. In renting the warehouse to a private company, it appears THDC is involved in an activity contrary to its purpose as stated in HUD regulations and its Articles of Incorporation.

THDC's leasing of the warehouse to a private company, in violation of its lease and promise to THA, required THA to lease another property to store materials. In December 1995, THA was forced to lease space for \$1,600 per month, later increased to \$1,660, and at October 31, 1997, had paid \$37,280 on this lease. In summary, THDC now owns and is generating income from a warehouse paid for with THA funds, while THA pays rent elsewhere. We consider the \$37,280 in costs, as well as payments made subsequent to October 1997, to be unnecessary and/or unreasonable.

³ The attorney resigned from THDC effective February 15, 1998, citing potential conflicts of interest between THA and THDC.

Howard Avenue Warehouse

In 1993, THDC used \$130,000 from the Rembrant account to purchase the Howard Avenue warehouse. THA had been leasing the warehouse from a private owner for \$2,468 per month. After the purchase, THDC leased the warehouse to THA for the period February 1, 1993, through June 30, 1994, at \$3,000 per month, a total of \$51,000.

The Board decided that beginning July 1, 1994, THA's rent would be reduced to \$1 per year, as with the North B Street warehouse. Despite the Boards' decision THA paid another \$11,500 in November 1995, and \$35,000 more in July 1996, by writing off the balance of \$35,000 THDC owed Section 8. These payments totaling \$46,500 were contrary to the agreement reached by the Board. Furthermore, THDC and THA entered into another lease agreement for the Howard Street warehouse effective April 1, 1996, for \$5,000 per month. The agreement was signed by a former THA board member on THDC's behalf and the former ED on THA's behalf. At September 30, 1997, THA had paid \$90,000 on this lease.

In summary, THA paid THDC \$187,500 from operating funds, \$136,500 after THDC's Board agreed to charge no more rent, and continued to pay \$5,000 per month, for use of a warehouse that only cost \$130,000, and was paid for with THA funds to begin with. We consider the \$187,500, as well as payments made subsequent to September 1997, to be unnecessary and/or unreasonable.

PRUDENCE OF SPENDING QUESTIONABLE CONSIDERING THA'S POOR FINANCIAL POSITION

THA received little benefit from these transactions. At the time, THA was and still is in poor financial position with reserve levels ranging from 21 to 24 percent of maximum for the last 3 years. Most of the questionable transactions occurred in 1995-1997. For 6 months in 1996, THA had to reduce its work week to 32 hours to prevent operating at a deficit. In addition, as we observed, many of THA's conventional LIH units do not meet HUD's housing quality standards, thus THA was not providing decent, safe and sanitary housing to many of its residents. Although THA's LIH Program is supposed to benefit from development corporation activity, THDC appeared to be the primary beneficiary. Aside from conflicts with various regulations or agreements, the decisions to spend the funds as THA and/or THDC did raise questions of prudence.

UNAUTHORIZED THDC SEPARATION CREATED A CONFLICT OF INTEREST

THDC's separation from THA was contrary to its controlling authority, and the former ED's role after the separation represented a conflict of interest.

THDC's Articles of Incorporation mandate a narrow purpose, essentially to assist and benefit THA, its "parent entity," in developing LIH. Its purpose was established by the HUD regulations under which it was created (24 CFR 811.105), and is reinforced by provisions such as (a) any amendments of the Articles of Incorporation and By-laws must be approved by THA and HUD, and (b) all assets remaining when it is dissolved will be distributed to THA. The same provisions are required by 24 CFR 811.105.

It appeared from minutes of the May 1994 initial meeting of THDC's new Board that it considered itself independent of THA. The former ED suggested the Articles of Incorporation and By-laws might be later amended when the Board became active. THDC's attorney (also THA's attorney) noted that as an "independent nonprofit organization," THDC no longer falls under the Sunshine Law, and therefore did not have to give public notice of its meetings. The minutes described THDC's main purpose as purchasing property for rental under market rates, and using the profits to assist THA's subsidized housing needs. THA's Board minutes did not discuss or approve THDC's separation nor did they discuss the disposition of assets acquired while THDC was a THA agency.

THA staff generally were not familiar with THDC activities subsequent to the separation other than those discussed herein. THA records did not reflect the activities, and we did not review THDC's records. However, we question whether the activities described, and the separation from THA, were allowable under the above criteria. We saw no evidence THDC provided funding for THA's housing program; on the contrary, it took funding from the program.

In addition, the former ED's activities involving both THDC and THA from the time he began to contemplate the May 1994 separation, until up to 2 years after he left THA in December 1996, appear to represent a conflict of interest.

The ACC prohibits THA from entering into any contract or arrangement in connection with any project under the ACC in which any THA employee who formulates policy or who influences decisions with respect to the project(s), has an interest, direct or indirect, during his or her tenure or for 1 year thereafter. THA's personnel policies prohibit doing business with a former employee for a 2 year period.

The former ED certainly had and continued to have an interest in THDC, which after May 1994 was an entity independent of THA, and THA continued activity with THDC after the former ED resigned. While serving as ED of both entities, the former ED formulated policy and influenced decisions that affected both. However, some of those decisions did not appear in THA's best interests, and the decisions may have been affected by his knowledge and execution of the separation.

THA COMMENTS

THA stated that due to the complexity of the issue they would later provide a full response to HUD as appropriate. THA agreed that any funds used contrary to agreements, including the ACC, is of concern, but maintained as a matter of principle and law, that non-Federal funds can be used for any

purpose within Florida enabling legislation. They said their analysis would focus on whether the funds used for development corporations were governed by regulatory agreement or were available as a non-Federal resource, and they will argue that use of any non-Federal money should not be subject to a finding or recommendation.

OIG EVALUATION OF THA COMMENTS

The funds in question are Federal funds, controlled by HUD regulations or agreements, or both. The funds remaining after payoff of the Seminole and Rembrant Apartments bonds are subject to the ACC because the projects received HUD modernization funding while their bonds were still active. Funds received from the refunding of bonds issued through NTHDC are controlled through refunding agreements between HUD and THA, and are subject to 24 CFR 811 regulations. All other funding discussed in the finding was provided directly by HUD through operating subsidy.

RECOMMENDATIONS

We recommend that you:

- 2A. Require THA to establish controls, including Board review and approval, over non-budgeted expenditures exceeding a dollar threshold. (Expenditures for normal operations are controlled by board-approved budgets; those discussed are not.)
- 2B. Declare payments and the transfer of funds to THDC totaling \$1,196,298 from payoff of Section 23 bonds ineligible and direct THA to seek their recovery from THDC.
- 2C. Declare payments from refunded bonds totaling \$108,166 toward purchase of a warehouse ineligible, and payments totaling \$318,520 unnecessary/unreasonable, and direct THA to seek their recovery from THDC.
- 2D. Require THA to seek recovery from THDC of all assets purchased with THA funds, including the cigar factory, and the North B Street and Howard Avenue warehouses.
- 2E. Declare payments from operations totaling \$224,780 for warehouse rental unnecessary/unreasonable and direct THA to seek their recovery from THDC.
- 2F. Assist THA in either bringing THDC into compliance organizationally and functionally with its Articles of Incorporation and HUD regulations, or abolishing it. Suggest that THA seek outside independent counsel in doing so.
- 2G. Require THA to cease any business relationship with the former ED.
- 2H. Require THA to immediately provide HUD the required report on past usage of funds from refunded bonds, and annual reports thereafter.

Finding 3

Housing Did Not Meet Quality Standards

THA had not maintained its conventional LIH in good repair and condition. Every unit we inspected failed quality standards. The deficiencies appeared caused by lack of routine or preventive maintenance, which in turn was caused by lack of oversight and direction by THA management and by understaffing of maintenance personnel in some instances. As a result, THA is not providing decent, safe, and sanitary housing for many of its residents. Based on our review, including inspection of 46 units, housing deficiencies are numerous and serious.

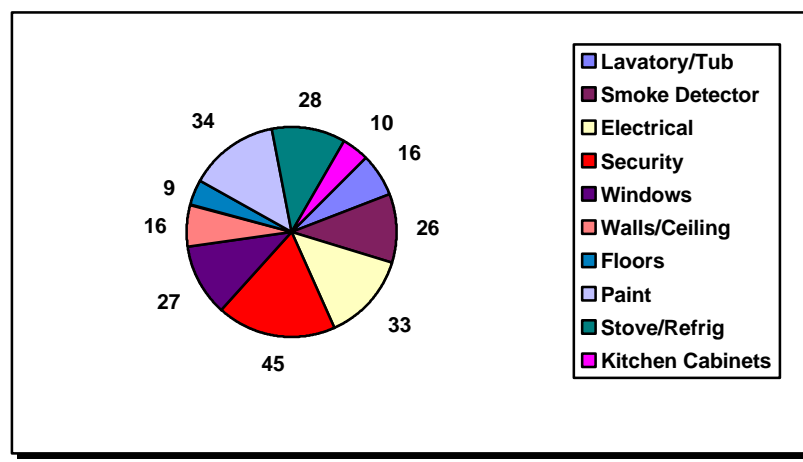
THA's primary mission is to provide decent, safe and sanitary housing, in a manner promoting serviceability and stability (ACC with HUD, Part A, Section 4).

OIG INSPECTION RESULTS

We randomly selected for inspection 46 units from 6 projects having 400 or more units each. THA had collectively spent approximately \$27 million in CGP funds in the past 5 years rehabilitating the projects, 85 percent of which was spent in one project, North Boulevard Homes.

Many units were in poor condition due to age, lack of routine and preventive maintenance. All 46 units had fail conditions as defined by HQS. HQS violations totaled 533 and averaged about 12 per unit. The violations ranged from averages of 4 at J.L. Young, an elderly project, to 13 at resident-managed Central Park Village, and 18 at Riverview Terrace. Our inspections concentrated on significant HQS violations that prevented a unit from being safe, decent, and sanitary, as opposed to technical or less significant HQS fail conditions.

The following chart illustrates the number of units failing HQS by deficiency:



The following are examples of deficiencies at two units inspected.

College Hill Homes, Unit 382

We found 30 HQS violations related to electrical problems, security, windows, walls, ceilings, floors, paint, kitchen cabinets, lavatory, tub, and smoke detector. Four examples follow:

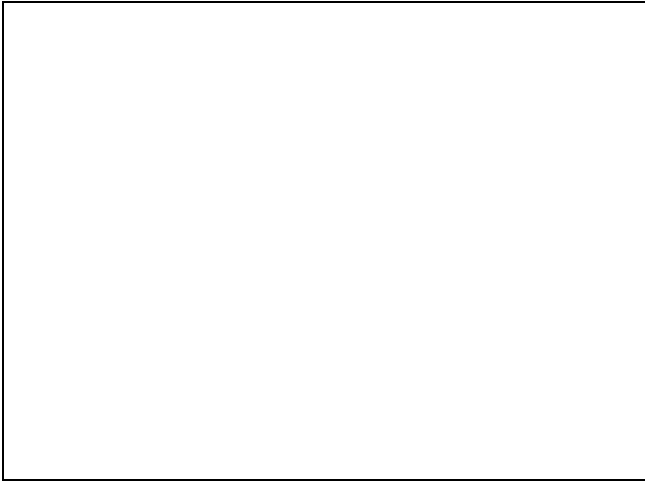


Improper electrical wiring for window air conditioner. Wiring directly into panel box could result in fire or electrical shock.

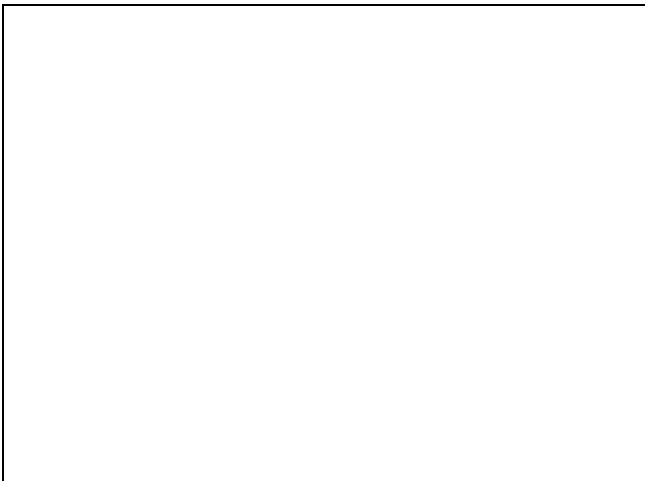


Large hole in bedroom ceiling left unrepaired after maintenance repaired a roof leak approximately 3 months prior to our inspection; also note heavy peeling paint. Tenant stated roof was still leaking. Condition was hazardous as ceiling could collapse.

College Hills Homes , Unit 382



Peeling paint on bedroom ceiling appeared to be caused by roof leak.



Wall not sealed around tub faucet. Tub finish worn off from dripping water is unsanitary.

Riverview Terrace, 272 Broad Street

Although the tenant moved into the unit only 2 weeks prior to our inspection, the unit had 17 HQS violations related to electrical problems, security, windows, peeling paint, stove, refrigerator, lavatory, tub, and smoke detector. The stove was not hooked up, the refrigerator did not cool or freeze, and the bathroom sink and tub had no hot water.

Riverview Terrace, 272 Broad Street



Kitchen sink faucet would not shut water off, and gas stove was not connected.



Although unit was painted the month prior to our inspection, paint was already peeling.

Other examples of HQS deficiencies are included in Appendix C . We furnished THA a summary of HQS deficiencies for each unit inspected.

ROUTINE AND PREVENTIVE MAINTENANCE NOT BEING PERFORMED

Failure to maintain units seemed the major contributor to the poor condition of inspected units. HUD requires all PHAs to annually inspect units and all building systems, such as structure exteriors and mechanical and electrical systems, to determine short-term maintenance needs, as well as long-term modernization needs. The inspections allow PHAs to examine the condition of the housing stock and initiate actions essential to maintaining decent, safe and sanitary housing (Chapter 6 of HUD Guidebook 7460.5 G).

As discussed in Finding 6, THA had not completed most HQS inspections since 1994 or 1995 at four projects tested, although its Operating Procedures Manual requires annual unit inspections. Neither had they conducted annual inspections of building systems. Without such inspections, THA could not identify, plan for and systematically correct deficiencies. Our inspections clearly documented the lack of a preventive maintenance program.

THA's Director of Operations stated there were no written procedures for preventive maintenance and no written maintenance plan. However, the Director of Operations stated THA had created two teams to work toward catching up on inspections, preparing work orders, doing repairs, and establishing procedures. The teams began work in October 1997 at two projects. Results were not available at the conclusion of our audit.

THA received 1996 and 1997 Hope VI funding to demolish 838 units at College Hill Homes and at Riverview Terrace Apartments. However, THA had not begun demolition as of October 1997. Units to be demolished were occupied or deemed habitable; therefore, THA remained responsible for keeping them in decent, safe, and sanitary condition.

POSSIBLE MAINTENANCE UNDERSTAFFING

Understaffing in the maintenance force may have contributed to the failure to perform maintenance. Based on limited testing of work orders, when THA maintenance staff made repairs, the work was generally acceptable. Therefore, insufficient numbers of staff may be a problem. According to HUD guidelines, the average ratio of maintenance employees to units for large PHAs was 1 employee per 40 units (Handbook 7460.7 REV-1, Field Office Monitoring of PHAs, Chapter 2-3). At this rate, THA would need a maintenance staff of about 123 persons for its 4,936 units, about 40 percent more staff than it had. THA's staff totaled 87 as of November 1997, 58 in Central Maintenance and 29 at the projects. The 3 employees assigned to maintain the 710 units at College Hill Homes would increase to 18 under this guideline. Possible understaffing is an area THA needs to explore in seeking ways to remedy its maintenance problems.

INSUFFICIENT MANAGEMENT OVERSIGHT

THA management also did not provide adequate oversight and direction. For instance, the January 1997 mini-audits of most projects omitted a review of HQS inspections, and quality control re-inspections by supervisors were routinely not done. THA management was generally unaware HQS inspections were not being done as required. In fact, THA submitted inaccurate PHMAP certifications to HUD stating HQS inspections were done (see Finding 8).

THA's Operating Manual requires property managers to do quarterly quality control reviews of whether HQS inspections were timely completed (which were not done-see Finding 6), but it does not require them to actually re-inspect selected units. HUD HQS procedures require supervisory quality control re-inspections (24 CFR 982.405(b)), and HUD requires PHAs to use HQS unless local codes are more stringent (24 CFR 901.30). THA needs to revise its Operating Manual to provide for quality control re-inspections, and top management needs to ensure that Property Managers carry out their responsibilities.

THA COMMENTS

THA agreed with the finding and planned to take the following actions:

- Draft a comprehensive maintenance plan by June 30, 1998.
- Re-inspect and make needed repairs to the 46 units we inspected by April 30, 1998, and re-evaluate all HQS inspections.
- Review maintenance staffing and organization in the next few months.
- Design and implement a customer satisfaction survey.

OIG EVALUATION OF THA COMMENTS

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

RECOMMENDATIONS

We recommend that you require THA to:

- 3A. Provide you its plan for improving its maintenance operation, and thereby the quality of its housing. The plan should include a written maintenance plan, written procedures covering preventive maintenance, unit and systems inspection schedule, written quality control re-inspection procedures for supervisors, and commitment by top management to ensure the plan is implemented.
- 3B. Complete the inspection of all units and systems and generate work orders to correct HQS or other deficiencies, including deficiencies in the 46 units we inspected. Provide HUD certification that this has been completed and certification that repairs either have been made or scheduled.
- 3C. Complete its maintenance staffing evaluation to determine whether adjustments are needed in either the number or location of maintenance personnel. Make any necessary adjustments in maintenance staffing.

Finding 4

Effectiveness of Resident Enterprise Assistance Program was Questionable

It is questionable whether THA's REAP is achieving the goals of the program. THA was not operating the program in accordance with HUD and THA rules. Procurement requirements aimed at assuring competition and cost reasonableness were ignored, non-resident contractors were allowed to participate, and training to qualify resident businesses for participation was sometimes overlooked. As a result, program costs were excessive and concentrated in a few resident businesses, and most REAP contractors were dependent on THA contracts rather than achieving the independence envisioned by the program.

BACKGROUND

THA established REAP in 1988 with a \$25,000 HUD grant plus matching funds from the City of Tampa. Subsequent funding for program administration was from CGP funds of about \$260,000 per year. The contracts with resident businesses were paid from operating funds and totaled over \$7 million from inception through March 1998. The number of participating resident contractors averaged about 21 each year, many repeating for several years. A total of 43 have participated in the program since inception. Appendix D details the number of contracts and contract payments by year.

The contracted services involved routine operations, such as lawn care, janitorial care, general maintenance. In 1994 THA expanded REAP contractors into major renovation, mainly joint venture-type contracts funded with CGP funds, discussed in Finding 1. In addition to the size and funding source, a major difference in the contracts discussed in Finding 1 and this finding, is that the contractors discussed in this finding did perform services, although perhaps not cost effectively.

REAP was apparently created under 24 CFR 135, Economic Opportunities for Low Income Persons. The regulations emphasize giving preference in awarding contracts to resident businesses to the extent feasible, but do not waive the competition requirements of Federal procurement standards at 24 CFR 85.36. THA later described the program as based on regulations issued by HUD in June 1992, 24 CFR 963, Contracting With Resident Owned Businesses. As discussed in Finding 1, these regulations were also aimed at increasing opportunities for residents, and allow special procurement procedures, e.g., to limit bid solicitations to resident businesses. THA ignored the competition requirements of the regulations.

REAP goals were to:

- Increase small business ownership among residents.
- Increase employment through entrepreneurial opportunity.
- Prepare resident businesses to compete in the open market.
- Enhance the technical, professional, quality and competitive services of resident businesses.

According to a program evaluation obtained by THA in 1996, the most important objective is to function as a stepping stone to economic independence. Consistent with this objective, THA planned to limit the time period residents could receive contracts from THA before moving to the private sector. This was also consistent with HUD goals for such programs.

PARTICIPANTS WERE DEPENDENT ON PROGRAM

Most REAP contracts were concentrated with a relatively few residents, most contractors had been in the program several years, and very few had “graduated” to independence in the private sector. Such results created reliance on THA income, as opposed to self sufficiency, and were a disincentive for other residents to enter the program.

HUD was concerned in finalizing the 24 CFR 963 regulations that resident contractors not become dependent on income provided by public housing contracts obtained through special procedures, and that resident contracts not be concentrated in a few contractors. HUD included a \$500,000 lifetime limit (later amended to \$1,000,000) on contracts to resident-owned businesses, in part, for that reason (24 CFR 963.10(d)).

For the same reason, THA planned to limit graduates of its REAP training program to a 2 year contract period with THA, thinking this would be sufficient time to gain the knowledge and experience needed to move the business into the private sector. However, contractors in fiscal year 1998 had contracts an average of over 4 years. Ten contractors had contracts from 6 to 9 years.

In addition, a relatively few 43 contractors participated in the 9-year program, and only 17 received over 85 percent of the \$7 million in funding. One contractor will receive \$1,613,432 through March 1998, \$613,432 in excess of the \$1 million lifetime limit of 24 CFR 963.10(d). Perhaps most significant, only three were identified as having left the program and continued successful businesses in the private sector.

THA gave the following reasons for deciding not to enforce a time limit on REAP contracts:

- It was easier to continue with existing contractors who were familiar with the work.
- Terminating contracts would reduce income and mortgage payment ability of those in the homeownership program.
- REAP contracts allowed renewal after the term expired (most were 1 year contracts).
- Not many capable REAP contractors were coming through REAP training.

The program evaluation obtained by THA concluded that REAP had been successful in getting several residents off welfare and a few out of LIH, but graduates of the program remained dependent on THA contracts, some up to 7 years. One contractor confirmed to us that REAP contractors were dependent on THA contracts.

PARTICIPATION CONTINUED AFTER RESIDENTS MOVED OUT

Contrary to the goals and rules of REAP, THA continued to contract with former residents after they were no longer residents. Such actions compromised the intent of attaining self sufficiency and limited access of residents to REAP contracts. It was also contrary to program rules and gave the appearance of favoritism.

The owners of the resident businesses are required by HUD to live within THA's LIH (24 CFR 963.10(b)). Program material stressed that participants must be residents and each REAP contract stated the contractor had to be a resident in good standing.

In a sample of 15 contractor files reviewed, all contractors were residents when their contracts were executed, but 6 later moved out, and THA continued to execute REAP contracts with 5 of the 6. The contracts totaled over \$1 million, including \$929,389 with one contractor who had not lived in LIH for 6 years.

A former REAP Director stated non-residents were allowed to continue in the program because of wording in REAP contracts at Article 2C. It appeared the wording was a standard renewal clause located coincidentally near a clause allowing contracts to run to the end of the term when a resident moves. THA may be misinterpreting the clause; if not, it should be revised. Either way, the practice should be discontinued.

REQUIRED PROCUREMENT PROCEDURES NOT FOLLOWED

THA did not follow Federal procurement procedures aimed at controlling costs and avoiding favoritism through free and open competition. THA staff stated that bids were never solicited prior to awarding the contracts, and independent cost estimates on which to base awards were generally not obtained. Instead, THA assigned contract work to specific REAP contractors, supposedly based on the contractor's ability to perform and location relative to the work site. However, THA files did not support why and how work was assigned, or how contract amounts were determined. As a result, there was no assurance costs were reasonable or that qualified contractors were fairly selected.

Contracts Not Awarded Competitively

The 24 CFR 135 regulations under which REAP was created require all procurement transactions to be conducted in a competitive manner as required by 24 CFR 85.36(c), although THA could give, to the extent feasible, geographic preference in evaluating bids. Effective June 1992, 24 CFR 963 rules allowed THA the option of limiting competition to resident-owned businesses, but similarly made clear that the requirements of 24 CFR 85.36

were applicable (24 CFR 963.12). THA was required to obtain price or rate quotations from an adequate number of qualified sources for contracts up to \$25,000, and to publicly solicit sealed bids for contracts over that amount (the limit was raised to \$100,000 in 1996).

A few of the REAP contracts exceeded \$100,000; many exceeded \$25,000 during the period 1990-1996. In all cases, price quotations from more than one potential contractor were required; however, none were solicited. A former Resident Initiatives Director stated incorrectly that HUD's 24 CFR Part 135 regulations did not require bids when contracting for services with a resident-owned business.

Cost Estimates Not Obtained

THA generally did not obtain independent cost estimates for the contracted services. THA was required to perform a cost or price analysis prior to awarding each contract to determine the reasonableness of the contract price (24 CFR 85.36(f)). An award shall not be made to the resident-owned business if it exceeds the independent cost estimate and the price normally paid for comparable supplies, services, or construction in the project area (24 CFR 963.12(b)).

In addition, THA failed to document the basis for the contract price or the contractor selected. THA was required to maintain records of the history of the procurement, including the cost estimate and price analysis, the basis for contractor selection, including documentation concerning the eligibility of the selected resident business, and the basis for determining the reasonableness of the proposed contract price (24 CFR 963.12(c)).

In the few instances THA performed cost analyses, i.e., janitorial services and lawn care, they were deficient. They were done after the contracts were awarded and cost quotations were not for the same scope of work as was contracted. However, such analyses rarely occurred.

Two examples follow of excessive costs and other abuses that can occur when improper procurement procedures are used.

Car Wash Contract

A former REAP Director awarded his cousin a car wash contract prior to her completing required REAP training. She stated the Director asked if she wanted to be a REAP contractor. The contract was to clean 15 vehicles a week for \$15 each, or \$11,700 per year. However, the contract had expired and since April 1997, THA was paying \$2,000 per month for the services. This would average about \$30 per vehicle serviced, assuming the car wash was servicing 15 vehicles each week. However, in 2 months tested, the car wash cleaned an average of 10.5 THA vehicles per month, a cost of about \$190 per vehicle. We only tested 2 months because records requested for 4 other months were missing.

THA's Director for Planning and Development stated they were reviewing the contract, after we informed him of the problem.

Maintenance Contract

THA executed a contract with a resident business to perform maintenance at one project, Central Park, for \$148,400 per year.⁴ The contract required the contractor to perform routine maintenance services, such as plumbing, paint, and carpentry. However, THA was also doing routine maintenance at the project using THA maintenance staff, resulting essentially in duplicated costs.

About 92 percent of 162 work orders completed by THA maintenance staff for Central Park from August 1, 1997, through October 7, 1997, involved routine maintenance items which should have been done by the resident contractor. The items required 2 hours or less to complete, and involved such things as replacing bathroom tile, repairing doors and baseboard, replacing a door, and unstopping drains. Only about 13 work orders involved major repairs requiring greater specialization than called for under the contract.

THA's Director of Planning and Development acknowledged THA was performing much of the routine maintenance at Central Park. He estimated THA could maintain the project with regular maintenance staff for approximately \$80,000 annually, \$68,400 less than they were paying only for the resident contract.

EVIDENCE OF TRAINING WAS LACKING

THA lacked evidence that potential REAP contractors successfully completed required training, and there were indications several had not. THA had no controls to assure the training was taken before contracts were awarded. The lack of training makes it more difficult for REAP to achieve its goals of enabling participants to obtain private and other public sector opportunities.

A resident business must submit evidence sufficient to demonstrate it has the ability to perform the proposed contract successfully, including such things as financial and technical resources, proof of completion of courses in business administration or financial management, and proof of job training or apprenticeship in the particular trade, business, profession, or occupation (24 CFR 963.10(c)).

REAP guidelines state that all residents accepted in the program must successfully complete business skill training conducted by REAP as part of technical assistance. The 9-month class training is designed to educate contractors in such things as how to develop business and marketing plans, the bid process, business correspondence, legal aspects of business, and record keeping.

⁴ This same contractor had a separate contract for lawn maintenance at Central Park for \$82,000 per year, and a non-REAP contract to manage the project. It is the contractor discussed earlier who exceeded the \$1,000,000 lifetime limitation.

Only 2 of 10 contractor files reviewed evidenced probable completion of the REAP training. Post dated certificates of training had been placed in four files long after the participant's first contract. We found one certificate dated in 1997 for training in 1988. The individual signing the certificates stated she did so at the request of her supervisor, a former REAP Director, until he requested her to sign one for his brother, who she knew had not completed training. After that she refused to sign more certifications. In four files, there was no indication training had been completed. Other REAP participants told us some individuals who obtained REAP loans or contracts did not attend the training.

The REAP department had no controls to assure participants completed the training, which was brought to THA's attention in a 1995 internal audit. Prior to 1997, THA seldom documented attendance at training, and if so, the records were incomplete. The department should have sign in sheets or other documentation of training completion, to supplement the certificates.

THA COMMENTS

THA agreed with the finding but disagreed with the draft recommendation to reimburse the \$613,432 paid in excess of the limitation on contract awards. THA stated it had taken or planned to take the following actions:

- Revise the REAP Policy and Procedure Manual by March 16, 1998.
- Disqualify REAP contractors from future contracts if they do not resolve noncompliances.
- Conduct mandatory contractor training classes and issue completion certificates. A contractor must have such a certificate to qualify for future REAP contracts.
- Construct an accounting record of total resident contractor awards and payments, which will be updated monthly and reconciled with the Accounting Department. No contract will be awarded if it would cause the \$1 million limitation to be exceeded.
- Terminate all current REAP contracts and re-bid them in accordance with the outstanding procurement regulations.

THA acknowledged the resident contractor exceeded the \$1 million regulatory limitation, but argued the expenditures were made for eligible work associated with maintaining THA properties; therefore, they believed the expenditures are eligible. THA added it could see no purpose in reimbursing the monies, given its scarce resources and needs. THA said it would terminate the contracts, and controls were now in place to assure no resident business exceeds the limitation again.

OIG EVALUATION OF THA COMMENTS

THA's planned actions are generally responsive to the finding, and should help correct the deficiencies. Although revision of the REAP Manual is needed, that alone may not satisfy the intent of our draft recommendation to provide a plan for improving REAP and achieving program goals; therefore, we are repeating the recommendation. The draft recommendation concerning training is resolved and is not repeated. We disagree with THA's position that the \$613,432 represents eligible expenditures, as they were incurred in direct violation of a Federal regulatory limitation, and were funded with HUD operating subsidy. HUD Jacksonville staff agreed the expenditures were ineligible, but recommended no repayment because THA received value for the costs.

We do not find compelling the argument to allow costs because of value received. Costs may be allocable to a program because of value received, but are unallowable if, as was the case, they do not conform to Federal law or regulation, or are unnecessary for efficient administration of the program (24 CFR 85.22 and OMB Circular A-87). We will recommend HUD declare the expenditures ineligible and require THA to repay them from non-HUD funds.

RECOMMENDATIONS

We recommend that you:

- 4A. Require THA to provide you a plan and timetable for improving REAP and achieving program goals. The plan at a minimum should include procurement procedures for competing, selecting and documenting contract awards, procedures to promote the award of contracts to a greater number of resident businesses, and procedures to promote tenants attaining self sufficiency.
- 4B. Require THA to furnish evidence it terminated REAP contracts with all former resident contractors who had moved out, and a statement it will not in the future renew REAP contracts after residents move.
- 4C. Require THA to furnish satisfactory evidence of controls implemented/planned to ensure REAP contractors do not exceed the \$1 million lifetime limitation on contract awards.
- 4D. Declare the \$613,432 paid in excess of the \$1,000,000 limit ineligible, and require THA to repay them from non-HUD funds.
- 4E. Require THA to provide evidence it terminated the two maintenance contracts at Central Park.
- 4F. Evaluate REAP after a reasonable time, and if THA has not significantly improved management, accountability, and the attainment of program goals, require them to terminate the program.

This Page Left Blank Intentionally

Finding 5

Resident Loan Program was Inadequately Controlled

THA management controls over bank loans to residents through its REAP were inadequate. THA was not: 1) properly accounting for loan guarantee funds in a Revolving Loan Account; 2) adequately monitoring the bank loans; and 3) taking prudent collection actions on defaulted loans. The lack of controls may have contributed to loan defaults, hindered collection efforts on delinquent loans, and resulted in less funding to collateralize future loans, which could eliminate opportunities for future REAP participants.

BACKGROUND

THA began REAP in 1988 to assist residents in starting their own businesses. As part of REAP, THA opened the loan account at the Bank of Tampa in December 1992. The account was used only to collateralize small business loans made by the bank. THA initially deposited \$88,296 in the account. Subsequent deposits of \$25,544 in March 1993 and \$162,698 in July 1994, plus accumulated interest of \$13,753, made up the balance of funding. At June 30, 1997, the balance in the account was \$147,321.

To get a loan, residents had to complete REAP training, then apply for the loan from the bank. The loans were secured by funds in the revolving account. Borrowers made their monthly payments to the bank. If the borrower defaulted, the entire balance due, including interest and late charges, was charged against the account by the bank. THA was then responsible for collecting the defaulted loans.

RECORDS AND CONTROLS REQUIRED

THA must maintain complete and accurate books of account in such a manner as to permit the preparation of statements and reports in accordance with HUD requirements, and to permit a speedy and effective audit (Consolidated ACC, Section 15). The records must adequately identify the source and application of funds provided for financially-assisted activities, and THA must maintain control and accountability for all grant cash (24 CFR 85.20(b)).

NO ACCOUNTING FOR REVOLVING ACCOUNT

THA did not account for transactions in the revolving loan account within or outside of its general ledger books of account. Deposits were recorded as charges to Comprehensive Improvement Assistance Program or CGP costs, and withdrawals from the account (by the bank for defaulted loans) were not recorded at all. THA did not set up a receivable account for amounts owed by

defaulters and did not record payments made on the defaulted loans. THA had nothing to reconcile loan account bank statements to, and in fact could not locate bank statements for the account. They requested copies from the bank in early 1997. Consequently, the account was not accounted for in THA financial statements.

Based on bank records, the bank had charged 27 loans totaling approximately \$142,988 against the account through June 30, 1997.

LOAN STATUS NOT MONITORED

A former REAP accountant stated THA did not maintain a list of residents who obtained loans, and did not keep up with the status of loan repayments to the bank. Although the loan account was used to guarantee the loans, THA staff said they received no notification from the bank when loans became delinquent. However, a 1992 commitment letter from the bank in THA files stated the bank will mail THA weekly a list of all loans over 5 days past due. When asked about the bank's letter, THA staff acknowledged they received delinquent loan information from the bank, but had ignored it. THA was attempting to determine the universe of loans being serviced by the bank during our review.

The lack of management control over the loan account probably contributed to loan defaults. Had THA gotten involved when loans first became delinquent, it perhaps could have prevented some defaults. Charging defaulted loans against the account as a minimum costs THA additional CGP funds to replenish the fund, and in the absence of CGP funds, could effectively limit future loans, and the potential of REAP participants to own businesses and become self sufficient.

INADEQUATE SERVICING OF DEFAULTED LOANS

After the loans were delinquent 90 days, the bank considered the loans in default and charged the loan account for the balance of the delinquent account. After loan default and payment to the bank from the account, THA failed to set up a receivable for the amount of the default or a file on the defaulted loan, or to record payments by the borrower on the defaulted loan. Prior to our arrival, THA could not determine the universe of defaulted loans or the amounts owed. As a result of our inquiries, THA was in the process of recreating account activity to determine the borrowers, how much was originally owed at default, how much had been repaid, and the current balances.

When THA received a payment on a defaulted loan, REAP personnel sent a letter to THA's accounting division with the payment attached instructing them to deposit the payment into the loan account. Instead, THA deposited the payment into a separate Revolving Loan Payable Account. According to the Assistant Director of Finance, THA planned to accumulate funds in this account and eventually apply them to amounts owed after the loan account is reconciled and accurate. There was no indication THA accounted for the collections by individual.

In addition, the REAP department supplied names of residents to participate in the JV program. At least five JV participants defaulted on REAP loans; three were in danger of default at the time their JV contracts were executed. Awarding JV contracts to residents who already were in trouble on REAP loans was not prudent. In addition, THA should have recouped the defaulted REAP loans by withholding JV payments.

THA COMMENTS

THA agreed with the finding. They stated the revolving loan program, suspended since June 1997, will be terminated once all accounts have been settled and any remaining funds will be returned to the appropriate THA account. THA stated it was in the process of completing the following actions:

- Developing records for, and current balances of, all loan accounts, reconciling them with bank records, and accounting for payments made to THA, estimated to be completed by April 30, 1998. If a defaulted loan applies to a THA contractor, future contract payments will be applied to the delinquent loan until paid.
- Writing policies and procedures to address the revolving loan program and to service delinquent and defaulted loans, estimated to be completed by April 30, 1998.
- Making a monthly accounting and full reconciliation of transactions to bank records, beginning April 1, 1998.

OIG EVALUATION OF THA COMMENTS

THA's comments and actions are responsive to the finding. If timely and adequately implemented, the actions will correct the deficiencies.

RECOMMENDATIONS

We recommend that you follow up to assure that THA completes the following actions:

- 5A. Account for all revolving loan account transactions within its general ledger. Accounting should include all cash transactions, defaulted loan receivables and collections, both in total and by borrower, and interest earned.
- 5B. Reconcile monthly loan account bank statements, and make a list of all REAP loan recipients being serviced by the bank.
- 5C. Determine previous loan defaults, the defaulted loan amount and any repayments.

- 5D. Establish a policy for servicing both delinquent and defaulted loans, including a policy addressing the award of JV contracts to REAP loan recipients whose loans are delinquent.
- 5E. For REAP loan recipients with defaulted loans who are also participating in the JV program, withhold JV program payments until the REAP loan is paid in full.

Finding 6

Property Management Needed Improvement

THA needed to significantly improve property management procedures for verifying tenant income and adjusting rents, inspecting housing, tracking work orders for repairs, recording amounts collected from and owed by tenants, and quality control monitoring, especially of resident employees. Inadequate performance of these procedures resulted in inaccurate tenant rents with some tenants possibly being ineligible for housing, housing not inspected annually, undue preferences to resident employees, and poorly maintained records. The deficiencies appeared caused by a lack of systematic monitoring, oversight, and follow up.

WRITTEN PROCEDURES WERE GENERALLY ADEQUATE

Required procedures for tenant recertifications, unit inspections, rent collection, review of tenant accounts, and quality control are included in various HUD regulations and/or THA's Operating Procedures Manual. The procedures were generally adequate, but were not followed.

REVIEW RESULTS

In September 1997, we reviewed 33 tenant files in 4 projects for compliance with various HUD and THA property management requirements. Results were as follows.

Tenant Income/Rent Recertifications Not Done As Required

24 CFR 5.617, 960.209 and THA's manual require THA to annually reexamine and verify tenant incomes, and adjust rents as necessary. January 1997 mini-audits by THA on 17 of its 23 projects reported that tenant income was not verified at five projects, and that recertifications were late at six projects and not done at all at two other projects.

Our review confirmed THA's results, plus we found tenant income/rent not recertified at Riverview Terrace, which had not been reported by THA. The results of our review were:

<u>Project</u>	<u>Tenants Not Recertified</u>
College Hill Homes	8 of 11
Ponce De Leon Courts	3 of 9
Riverview Terrace	6 of 7
Robles Park Village	2 of 6

THA did not promptly follow up to ensure deficiencies were corrected. THA's Director of Operations stated the only action taken following the mini-audits was to switch project personnel between the Ponce De Leon and College Hill projects.

Housing Quality Inspections Not Done As Required

24 CFR 901.30 requires housing authorities to inspect each unit annually for compliance with HUD's HQS. THA's manual requires property staff to determine and document unit defects on an HQS inspection form, and correct the deficiencies. THA's January 1997 mini-audits did not comment on HQS inspections.

The results of our file reviews were:

<u>Project</u>	<u>Units Not Inspected</u>
College Hill Homes	11 of 11
Ponce De Leon Courts	6 of 9
Riverview Terrace	7 of 7
Robles Park Village	6 of 6

In summary, most units at all four projects had not been inspected since 1994 or 1995. Further, HQS deficiencies did exist, as noted in subsequent THA reviews and our review. Therefore, the lack of inspections was significant.

Other Deficiencies

THA's manual requires property staff to review tenant accounts to assure the correct amount of rent, utilities, and other charges are properly posted; to post payments to tenant ledger cards; and to reconcile cash receipts with Daily Cash Tally sheets prior to submission to the Accounting Department.

In response to questions we raised about reduced rents for resident employees (see Finding 7), THA in August 1997 found that 4 resident employees at resident-managed Robles Park Village inappropriately received utility checks totaling \$1,512, and 13 tenants, including 3 resident employees, had been undercharged rent totaling \$8,100. THA dismissed three of the employees. A later follow-up review by a new project manager found that 95 tenants were being undercharged rent. The manager noted that 47 of the 95 were on negative rents (THA was paying them for utility costs), when they should have been paying rent.

We noted an 18 percent drop in monthly rent charges, and a corresponding drop in collections during fiscal year 1997. This was caused primarily by an unusual and unexplained decline of approximately 50 percent in monthly rent charges and collections for two projects, one of which was Robles Park. Had THA analyzed its reports, it may have detected the problem at Robles Park earlier.

THA's mini-audits reported that project staff did not: 1) maintain logs to track completion of work orders for housing repairs (eight projects); 2) maintain tenant accounts receivable reports (four projects) and tenant ledger cards (two projects); and 3) give tenants utility allowances (one project). Our review confirmed THA's conclusions.

THA HAD INITIATED IMPROVEMENTS

THA began to recognize problems in management operations and to make project staff changes prior to our review. After our review began and other problems surfaced, THA initiated other procedures aimed at improving operations.

The 17 mini-audits generally appeared well performed but had not been adequately followed-up to assure deficiencies were corrected. After we raised the question at Robles Park, THA reviewed exception rents, annual inspections and annual recertifications at Robles, and expanded the review to five other projects by September 1997. In November 1997, THA began reviewing recertifications and HQS inspections at the remaining projects, which THA estimated would be completed in about 6 months. The review was to include correction of deficiencies noted in mini-audits. Those efforts need to be continued and expanded, to assure that (1) corrections are completed, and (2) management controls are implemented to prevent the problems from reoccurring.

OVERSIGHT NEEDS IMPROVEMENT

The above deficiencies appeared attributable to ineffective oversight by supervisors and top management. THA's manual requires property managers and the Operations Coordinator to perform quarterly quality control reviews. Monitoring was either not done or corrections were not made when it was done. For instance, THA conducted a November 1994 files audit of the Riverview project which indicated HQS inspection problems. However, HQS inspections had not been done since 1994 in many instances. There was no evidence of quality control reviews in 1995 or 1996, and THA did not follow up on deficiencies noted in mini-property audits.

THA's review at resident-managed Robles Park Village noted income data in tenant files that should have resulted in rent increases, but did not. THA monitoring needs to address the potential for undue leniency on the part of resident employees.

THA COMMENTS

THA agreed with the finding and stated the following procedures were being implemented:

- Monthly annual recertification logs are reviewed by supervisory staff to ensure recertifications are timely completed.
- A revision of the Operations Manual to update internal procedural changes should be completed by June 30, 1998.

- Re-training of property managers is ongoing in several areas including HQS inspections and re-certifications.

New practices will be effective beginning April 1, 1998:

- Quality control reviews will be conducted quarterly to ensure timely completion of annual re-certifications, annual unit inspections and re-inspections, proper tenant and property file order and documentation.
- Annual inspections of units and major systems will be scheduled by buildings.
- Quality control reviews of completed workorders will be conducted weekly to verify satisfactory completion.
- Resident comment forms will be used to help evaluate and improve service delivery.

OIG EVALUATION OF THA COMMENTS

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

RECOMMENDATIONS

We recommend that you require THA to:

- 6A. After completion of its planned actions, provide you certification that annual recertifications and housing inspections have been/are being made, resident managers will not be allowed to do their own recertifications, work order logs track completion of repairs, tenant incomes have been verified and rents are correct, utility checks and allowances are correct, and tenant payments are accurately accounted for on accounts receivable reports, tenant ledger cards, and monthly collection reports.
- 6B. Provide you copies of the results of its next four quarterly quality control reviews. The reviews should evidence close evaluation of resident employees performing recertification or HQS functions.

Finding 7

Resident Employees were Allowed to Pay Reduced Rents

THA allowed some, but not all, resident employees to pay reduced rents, costing THA needed income. In 1996, THA ordered project managers to discontinue the practice, reportedly based on HUD instructions, but the practice continued because THA lacked adequate management controls to ensure it stopped. The practice was not consistently applied, as not all resident employees were allowed to pay the reduced rent. Also, the same benefit was not afforded to other tenants employed outside of THA.

HUD requires tenant rents generally to be based on the higher of 30 percent of the tenant's adjusted monthly income or 10 percent of the tenant's total monthly income (24 CFR Part 5).

On December 2, 1994, THA's Board approved an "exception rent" policy for resident employees (although "exception rents" began as early as October 1994). "Exception rents" were defined as: "... the GREATER OF the rent amount indicated ... or the tenant rent prior to employment by THA or through a THA resident initiative program." The exception rents were ostensibly alternate compensation for resident employees:

- Working over 40 hours a week without overtime pay.
- Serving as role models to other tenants.
- Providing more services and resources to residents than would other managers whose management companies provide units rent-free.

The exception rents vary considerably because they were based on median rents charged by census tract in the Tampa area. For example, if the median rent in census tract 43 was \$107, then the exception rent for any project in census tract 43 was \$107. In many instances, exception rents were much less than the HUD prescribed rent. For example, one resident employee paying an exception rent of \$132 per month based on census tract data, would have paid \$518 based on income, an increase of \$386. Another employee paying \$153 per month based on census tract data would also have paid \$518 based on income.

For calendar years 1995, 1996 and 1997 (as of July), THA had 43, 70 and 45 resident employees, respectively. Of 26 resident employee files reviewed, 11 were paying exception rents as of June 1997. As a result, THA lost rental income in 1995, 1996 and 1997. We did not calculate the amount, but THA's internal auditor estimated the amount for 1995 to be \$83,400.

THA implemented the exception rents without HUD approval. THA requested HUD approval in September 1994 and, although no written response could be located, an internal THA memorandum dated November 25, 1996, said HUD had approved no exception rents, and directed their discontinuance. However, THA continued to allow some resident employees to pay exception rents.

THA lacked adequate management controls to ensure exception rents were eliminated. The Director for Planning and Development stated it was his responsibility, and he failed to follow-up on the November 1996 directive to ensure the rents were discontinued.

On August 6, 1997, after we questioned the policy, THA requested the Jacksonville Area Office to approve the exception rents. Jacksonville staff advised us verbally they would not approve the rents because:

- They are targeted at a small, specific group of tenants.
- Tenants employed in the private sector are not afforded the same reduction in rents.
- The rents are unfair to tenants in other PHAs such as those in Clearwater and St. Petersburg.

THA COMMENTS

THA agreed with the finding. They stated the exception rent policy has been stopped, and by May 1, 1998, there will be no residents receiving exception rents. They said the Board will rescind the Board resolution approving the exception rent policy.

OIG EVALUATION OF THA COMMENTS

THA's actions will correct the deficiencies discussed in the finding.

RECOMMENDATIONS

We recommend that you follow up to assure that THA:

- 7A. Rescinds the 1994 Board resolution approving exception rents.
- 7B. Discontinues exception rents for resident employees.

Finding 8

PHMAP Certifications Contained Inaccurate Data

THA's 1997 PHMAP certification, and in some instances prior certifications, contained inaccurate information which likely resulted in higher scores than justified. Correspondingly, THA's management performance in the areas measured was overstated. All four categories reviewed contained erroneous information, including categories measuring performance in collecting rent, completing non-emergency work orders, inspecting units and building systems, and managing resident programs. It was not possible for us to determine what the scores should have been as basic information was unavailable. The errors we found indicated the scores would have been lower.

PHMAP IS INTENDED TO IDENTIFY MANAGEMENT CAPABILITIES AND DEFICIENCIES

PHMAP is an effort by HUD to improve the management of public housing by providing uniform objective standards for PHAs across the country. PHMAP provides eight indicators to identify management capabilities and deficiencies. The indicators are: (1) vacancy rate and unit turnaround time; (2) modernization; (3) rents uncollected; (4) work orders; (5) annual inspection of units and systems; (6) financial management; (7) resident services and community building; and (8) security.

The indicators, and components within indicators, are graded on a scale of "A" to "F" based on actual performance data provided by PHAs. The grade is converted to a numeric score ranging from 10 for an "A" to zero for an "F". The overall score is expressed as a percentage of the total possible points. PHAs that score 90 percent or higher are considered high performers; those that score between 60 and 90 percent are considered standard; and those that score below 60 percent are considered troubled (24 CFR 901).

SCORES WERE INACCURATE IN AT LEAST FOUR CATEGORIES

THA reported a 1997 PHMAP score of 89 to HUD, based on information THA submitted. HUD reduced the score to 83 because of changes in a category, but our review disclosed inaccuracies used to score at least four other categories discussed below. Evaluation of PHMAP data was not a primary objective of our review, so we did not review data supporting the remaining four indicators.

Indicator #3, Rents Uncollected

This indicator examines the ability to collect rent owed by tenants during the preceding year by measuring the balance of rent uncollected as a percentage of rent charged. THA certified the percentage of dwelling rent uncollected in 1997 was 9 percent, resulting in a grade of E and 3 points. To accurately compute the percentage, THA had to use rent rolls, tenant ledgers, and tenant accounts receivable records and reports, which themselves had to be

accurate. As discussed in Finding 6, THA did not reexamine and verify tenant income, adjust rents, or maintain tenant ledgers and tenant accounts receivable records at some projects. Thus, THA's score in this indicator was based on inaccurate data.

In testing records at four projects, we also noted that rent recertifications had not been completed since 1994 or 1995 in some instances. THA claimed and received a grade of A and the maximum 10 points in its 1995 and 1996 PHMAP certifications for both of the then separate indicators, Rents Uncollected and Tenants Accounts Receivable. These certifications were also likely overstated.

Indicator #4, Work Orders (Component #2, Average Days To Complete Non-emergency Work Orders)

This indicator examines the average number of days taken to complete work orders, and progress made in the preceding 3 years to reduce the time. The indicator measures emergency (component #1) and non-emergency (component #2) work orders separately. For component #2, THA certified for 1997 that all non-emergency work orders were completed within 3 days resulting in a PHMAP grade of A and a score of 10 for the indicator. THA's certification indicated the source of its score was work orders and work order logs, and that it carried forward 136 non-emergency work orders from 1996.

However, as discussed in Finding 6, THA had not properly maintained work order logs at eight projects, or completed most HQS inspections since 1994 or 1995 at four projects. As discussed in Finding 3, without such inspections, THA could not properly identify and record deficiencies and ensure that work orders were prepared and required maintenance performed. Finding 3 also discusses the significance of HQS violations, with all 46 units failing inspection.

Based on the age of projects, the lack of HQS inspections, and the results of our inspections, it was apparent many work orders went unrecorded, rendering claims of prompt completion of those that were recorded somewhat meaningless. THA's score was not supported by accurate data.

Indicator #5, Annual Inspection of Units and Systems

Component #1, Annual Inspection of Units

THA certified for 1997 that it completed 98 percent of required annual inspections resulting in a grade of B and 8.5 points for the component. However, Finding 6 discusses that based on our September 1997 file review, THA had not inspected 30 of 33 units within the past year. In fact, THA had not inspected many of the units since 1994 or 1995.

THA claimed and received the maximum 10 points in its 1995 and 1996 certifications for Annual Inspection of Units. THA certified that 100 percent of units inspected met HQS. These certifications were based on inaccurate information.

Component #2, Annual Inspection of Systems

This component is to ensure that PHAs annually inspect and maintain major systems essential to decent, safe, and sanitary housing, including structural/building envelopes (such as roofs, walls, windows, hardware), mechanical systems (such as heating and plumbing), and electrical systems (such as smoke alarms and lighting). THA certified for 1997 that it inspected all major systems at all sites resulting in a grade of A and 10 points.

Procedures for annual inspection of systems are supposed to be defined in a maintenance plan. THA's Director of Operations stated there was no maintenance plan or other written procedures. Although our inspections of units (Finding 3) disclosed minor system deficiencies, we did not inspect major systems per se, nor was there evidence THA had done such inspections. However, based on the overall poor condition of THA's units, the lack of procedures for doing systems inspections, and the lack of evidence of any inspections, we concluded it was unlikely THA performed the inspections.

THA claimed and received the maximum 10 points in its 1995 and 1996 certifications for Annual Inspection of Systems. We believe these certifications may also have been based on inaccurate information.

Indicator #7, Resident Services and Community Building (Component #4, Resident Programs Management)

THA certified for 1997 that it could document meeting at least 90 percent of the goals implemented under HUD funded special programs that benefit residents, resulting in a grade of A and 10 points. THA included its REAP in its scoring. However, as discussed in Finding 4, REAP was largely ineffective and did not achieve its goals. Also, THA disregarded various REAP contracting and program rules, such as limiting contract terms, requiring residency to participate, soliciting bids from all resident businesses, and resident training.

THA claimed and received the maximum 10 points in its 1995 and 1996 certifications for Indicator #11, Resident Initiatives. We believe these certifications may also have been based on inaccurate information.

MANAGEMENT PERFORMANCE WAS OVERSTATED

Many of the conclusions reached and much of the information provided by THA in its PHMAP certifications were erroneous, and its scores were overstated. Accordingly, conclusions reached by THA's board, HUD and others regarding management performance in the areas measured were likewise overstated. PHMAP does not measure all areas of management capability, but it does provide uniform standards in certain areas for all PHAs, and it should be accurately completed. THA's failure to do so was caused partly by inadequate underlying systems or procedures that generate the information needed for PHMAP, as discussed in the preceding findings. Improvements will be necessary in the systems and procedures to generate truly accurate PHMAP scores. In the meantime, THA must more accurately report what data it has, even if that means saying accurate data is not available.

HUD OVERSIGHT MAY BE NEEDED

HUD can confirm the performance level and accuracy of data certified to by a PHA, especially when there is evidence the PHA's certification is not supported by facts. Scores for indicators that cannot be documented are lowered, which can result in troubled status, formal improvement plans, and/or other remedial actions, depending on the extent of the problem(24 CFR 901.115-901.200).

THA COMMENTS

THA agreed with the finding. They said:

- The major systemic data deficiencies in the draft report are being addressed, and are included in the corrective actions planned for Findings 3, 6, and 7.
- THA will conduct an internal confirmation review prior to its next PHMAP certification to assure grades and scores are supported by file documentation.

OIG EVALUATION OF THA COMMENTS

THA's planned actions should correct the deficiencies.

RECOMMENDATION

We recommend that you:

- 8A. Perform an on-site confirmatory review of THA's most recent PHMAP certification. At that time, evaluate whether THA adequately implemented controls to ensure all PHMAP data submitted to HUD is supported by complete, accurate file documentation.

Internal Controls

In planning and performing our audit, we considered internal controls systems of THA management to determine our auditing procedures and not to provide assurance on internal control. Internal control is the process by which an entity obtains reasonable assurance as to achievement of specified objectives. Internal control consists of interrelated components, including integrity, ethical values, competence, and the control environment which includes establishing objectives, risk assessment, information systems, control procedures, communication, managing change, and monitoring.

We assessed the following internal control categories that we determined were relevant to our audit objectives:

- Procurement and contracting
- Resident Enterprise Assistance Program
- Maintenance of LIH units
- LIH and Section 8 housing inspections
- Housing development corporations
- Property management

A significant weakness exists if internal control does not give reasonable assurance that the entity's goals and objectives are met; that resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data are obtained, maintained, and fairly disclosed in reports.

Based on our review, with the exception of Section 8 inspections, we believe significant weaknesses exist in all areas reviewed. These weaknesses are discussed in Findings 1 through 8.

This Page Left Blank Intentionally

Follow-up on Prior Audits

A prior OIG audit issued in January 1989 addressed deficiencies in the Section 8 Housing Voucher Program, with primary emphasis on substandard housing inspections. The findings have been closed. Based on our survey, Section 8 was not an area requiring further review. However, we did perform a cursory review of the Section 8 housing inspection process, and found no significant problems with procedures or inspections.

The last Independent Auditor audit report completed by Malcolm Johnson & Company, P.A. for the year ended March 31, 1997, included one finding about weaknesses in controls over tenant accounting at properties, particularly ledger cards. Our review also noted this deficiency, discussed in Finding 6.

This Page Left Blank Intentionally

Appendices

Appendix A-1

Appendix A-2

Appendix B

BACKGROUND - HOUSING DEVELOPMENT CORPORATIONS

Background information follows on three THA housing development corporations - THDC, NTHDC, and LHCT. Both THDC and NTHDC were created to issue tax exempt obligations in connection with LIH projects pursuant to 24 CFR 811, Tax Exemption of Obligations of Public Housing Agencies.

THDC

THDC was incorporated as a non-profit corporation on August 14, 1978. According to Article II of its Articles of Incorporation, THDC's purposes were limited, in accordance with 24 CFR 811, to:

- Relieve a serious shortage of decent, safe and sanitary housing for persons of low income, the elderly and handicapped.
- Engage in or assist in developing, financing or operating a LIH project, and function as a Public Housing Agency within the meaning of Section 3(6) of the U.S. Housing Act of 1937.
- Remain continuously organized and operated exclusively for nonprofit purposes. Any net earnings shall not inure to benefit of any person or entity other than THA or its lawful successor.

THDC's and THA's controlling Boards and ED were the same until May 1994, when THDC elected its own Board of Directors and became independent of THA. The ED remained the same until he resigned in August 1996 to work full time for THDC.

While under THA control, THDC acquired a LIH apartment complex, duplex apartments, and two warehouses; after separating from THA, it acquired two more LIH projects. THA issued bonds to finance the purchase of the three apartment complexes for THDC. THDC borrowed funds to purchase its first warehouse; it purchased the second warehouse with \$130,000 received from THA when THA paid off bonds on Rembrant Apartments, discussed later.

In another attempted project, THDC planned to renovate an old cigar factory into 26 LIH units. Originally the renovation was to be a turnkey project involving a private developer, financed using Section 8 project-based certificates. When the developer failed to deliver the project, the former ED decided to use THA to deliver the financing using bonds and tax credits. In order to sell the tax credits, THDC on April 6, 1995, formed Historic Morgan Apartments, Limited, a limited partnership with THDC as general partner. Historic Morgan and THDC were to own and manage the project.

In April 1995, THA closed on \$1,515,000 in bonds, and had initial funds of \$304,250 from sale of the tax credits. However, the funds were insufficient. It was discovered the cigar factory had not been zoned for this type development, and had lead-based paint and asbestos problems, causing cost increases. THA's Deputy Director said the former ED told her to do whatever it took to make the project work, whereupon she sought other funding by applying for additional tax credits and loans. These additional attempts were unsuccessful, and in June 1995, the tax credit syndicator withdrew its initial investment of \$304,250.

In April 1996, THA began making bond payments on behalf of Historic Morgan Apartments, Limited, and continued making payments until THA retired the bonds in September 1997. By this time THA had paid on behalf of Historic Morgan over \$801,000 (\$482,594 from Seminole and \$318,520 from NTHDC funds).

NTHDC

NTHDC was incorporated as a non-profit corporation on March 25, 1982. NTHDC's Board of Directors and THA's Board of Commissioners are the same. According to its articles of incorporation, NTHDC's purpose was to promote and advance decent, safe, and sanitary housing for persons and families of low income and elderly or handicapped persons, and to act as an instrumentality of THA under the meaning of the National Housing Act. All activities of the corporation, including funds and assets thereof, are limited to such purposes. NTHDC's Board is active and holds periodic meetings.

During 1982, THA, acting on behalf of NTHDC, issued bonds to finance the construction of two multifamily projects, Country Oaks Apartments and The Village at University Square. The projects were privately owned and were secured by Section 8 contracts. In June and September 1992, respectively, THA refunded the bonds for Country Oaks and The Village at University Square.

THA and HUD entered into Financial Adjustment Factor Refunding Agreements related to refunding the bonds on December 3, 1996. The agreements provide that 50 percent of the amounts recaptured from the refinancing shall be made available to THA for use in providing decent, safe and sanitary housing for very low income families and persons. HUD receives the other 50 percent.

Under the agreements, THA will receive \$682,838 for Country Oaks, spread over 23 payments of varying amounts which began January 1, 1993, and will end January 1, 2004. THA also received \$100,620 remaining in various accounts when the original bonds were paid off. THA will receive \$519,526 for The Village at University Square, spread over 21 payments of varying amounts which began March 1, 1993, and will end March 1, 2003.

At August 31, 1997, THA had received payments totaling \$277,954 from Country Oaks Apartments, plus the \$100,620, and \$251,794 from The Village at University Square. THA deposited these funds in an interest bearing bank account in the name of NTHDC.

Section 6 of the agreements provides that THA agrees to use the payments to provide decent, safe and sanitary housing affordable to very low income families or persons. Appendix B of the agreements provides the following specific plans for the payments:

1. *Affordable Rental Housing Development and or Rehabilitation Assistance.* Provide financial grant/loan assistance for acquisition, construction or rehabilitation of single-family and multifamily residences, or purchase of land needed for such purposes.
2. *Homebuyer Assistance.* Funding grant/loan assistance to first time homebuyers and those not having owned a home in the last three years, or to entities serving this same population.
3. *Neighborhood Assistance.* Financial grant/loan assistance for use in neighborhood or individual property clean-up or improvement.

The agreements provide that THA will set aside the funds it receives and monitor the application of the funds to insure the savings are used only for the projects described above. THA may change its application of the funds after 30 days notice to HUD.

THA paid \$318,520 from these funds for architect fees and interest on behalf of THDC for Morgan Apartments, the failed LIH development discussed above. The payments are described in Appendix B-1. According to THA's Deputy Director for Administration and Finance, the architect fees were paid from NTHDC funds because the funds allocated at bond closing to pay the architect were deposited in the bond trustee's construction account and were not available when the payment was due. The agreements did not provide for payments of this type.

LHCT

Two corporations were initially involved with THA's leased housing program, the LHCT (Seminole Apartments) and the FLHC (Rembrant Apartments). Both corporations were created by THA and shared the same board members with THA. When the bonds were paid off, FLHC apparently ceased to exist and LHCT became the recipient of residual funds.

The articles of incorporation for the corporations were not available for review; however, LHCT's 1995 audit report provided that LHCT is a non-profit corporation formed to provide housing for low income families within the area. LHCT is empowered to borrow money as necessary to finance the cost of such housing. Upon termination of the existence of the corporation, all of its properties and assets become the property of THA. LHCT's Board is no longer active.

Rembrant Apartments

On March 1, 1972, FLHC entered into a Trust Indenture Agreement with Commerce Union Bank of Nashville, Tennessee (Trustee) and Florida National Bank of Jacksonville, Florida (Co-Trustee). Under this agreement, FLHC issued bonds totaling \$2,125,000 for the construction of 156 LIH units. FLHC leased the units to THA. The development became the property of THA after the bonds were paid off. The property known as Rembrant Apartments is now part of THA's conventional LIH Program.

Section 3.09 of the trust indenture provides that after the bonds are paid off, any monies remaining in any account created by the indenture shall be distributed solely for the use and benefit of THA. In accordance with this Section, THA received \$700,517 in April 1992, when the bonds were paid off. THA deposited the funds in a bank account titled Rembrant Apartments Fund separate from THA's general funds. THA used \$130,000 of the funds to purchase a warehouse and loaned THDC \$72,000 to pay closing costs on an apartment complex. THA's Board approved the purchase of the warehouse. We found no evidence THDC repaid the \$72,000. When THDC split with THA, THDC retained the Rembrant account balance of \$511,704. THA staff could not tell us how THDC used the \$511,704. The receipts and disbursements are itemized in Appendix B-2.

Seminole Apartments

On December 15, 1974, LHCT entered into a trust indenture with Nations Bank of Nashville, Tennessee. Under this agreement, LHCT issued bonds totaling \$1,440,000 to construct 100 units for persons of low and moderate income. LHCT leased the units to THA. The development became the property of THA once the bonds were paid off. The property known as Seminole Apartments is now part of THA's conventional LIH Program.

Section 3.09 of the trust indenture provides that after the bonds are paid off, any monies remaining in accounts created by the indenture will be distributed solely for the use and benefit of THA. In accordance with this Section, THA received \$492,935 in June 1996 when the bonds were paid off. The funds were deposited in an account titled Leased Housing Corporation of Tampa, Florida, Inc., separate from THA's general funds. On the same date, THA wire transferred \$469,754 to First Union National Bank, Trustee for the Morgan Apartments bonds, to pay the first bond installment. THA made additional bond interest payments totaling \$12,825 from the account. The receipts and disbursements are itemized in Appendix B-2.

Appendix B-1

**SOURCE AND USE OF FUNDS
NORTH TAMPA HOUSING DEVELOPMENT
CORPORATION
At August 31, 1997**

Date	Receipts	Amount
	FAF Payments:	
1/93-8/97	Country Oaks Apts.	\$277,954
3/93-8/97	Village at University Square	<u>251,794</u>
	Total FAF Payments	529,748
6/92-9/92	Funds remaining from bond payoff	100,620
Various	Interest and other receipts	<u>21,386</u>
	Total receipts	<u>651,754</u>
	Payments	
4/96	Architect fees - Morgan Apts.	102,576
4/96	Interest payment - Morgan Apts.	106,642
12/96	Interest payment - Morgan Apts.	<u>109,302</u>
	Total payments - Morgan Apts.	318,520
6/92-12/92	Legal fees - bond refunding	26,757
5/93-7/96	Audit fees and other payments	<u>11,269</u>
	Total payments	<u>356,546</u>
	Balance at August 31, 1997	<u>\$295,208</u>
	Subsequent payments	
10/97	Purchase warehouse - N. Rome Ave.	<u>\$108,166⁵</u>

⁵ We did not review other receipts and disbursements subsequent to August 31, 1997.

Appendix B-2

SOURCE AND USE OF FUNDS LEASED HOUSING CORPORATION OF TAMPA At July 31, 1997

Date	Receipts	Rembrant	Seminole	Total
4/92, 6/96	Escrow funds remaining after bonds paid	\$700,517	\$492,935	\$1,193,452
Various	Miscellaneous other	<u>13,187</u>	<u>10,135</u>	<u>23,322</u>
	Totals	<u>713,704</u>	<u>503,070</u>	<u>1,216,774</u>
Payments				
1/93	Purchase warehouse - Howard Ave.	130,000	-	130,000
2/93	Loan to THDC	32,000	-	32,000
2/93	Loan to THDC	40,000	-	40,000
7/94	Transfer to THDC	511,704	-	511,704
6/96	Morgan Apts. Bonds	-	469,754	469,754
6/96	Transfer fee- Morgan Apts.	-	15	15
8/96	Interest payment- Morgan	-	6,413	6,413
1/97	Interest payment- Morgan	<u>-</u>	<u>6,412</u>	<u>6,412</u>
	Totals	<u>713,704</u>	<u>482,594</u>	<u>1,196,298</u>
	Balance at July 31, 1997	<u>\$0</u>	<u>\$20,476</u>	<u>\$20,476</u>

Appendix C

EXAMPLES OF HQS DEFICIENCIES

Central Park Village, Unit 1232
Kitchen vent hood filter missing; grease laden underside of hood is fire hazard

Central Park Village , Unit 1019
Rear common hall exterior door did not open; door was damaged and lacked operable hardware

North Boulevard Homes, Unit 1111
Stove burner control knobs missing; unsanitary stove top

North Boulevard Homes, Unit 1914
Bath tub faucet will not turn off; painted tub finish peeling and unsanitary

College Hill Homes, Unit 259
Living room and kitchen floor tiles
missing and/or broken

College Hill Homes, Unit 315
Bath tub tiles not secured and not sealed
around faucets; worn off tub finish is
unsanitary

College Hill Homes, Unit 151
Bath wall tiles missing at tub faucet; unsanitary
excessive rust on tub, caused by finish worn off
from dripping water

Riverview Terrace Apts., Unit 219
Kitchen wall electrical outlet broken and
burned out

Riverview Terrace Apts., Unit 107
Heavy peeling paint on kitchen walls

Riverview Terrace Apts., Unit 107
Peeling paint on stairwell walls and ceiling

Robles Park Village, Unit 322
Refrigerator door handle missing; door rusting
and unsanitary

Robles Park Village, Unit 411
Kitchen vent hood inoperative and unsanitary
due to rust and grease

This Page Left Blank Intentionally

Appendix D

RESIDENT ENTERPRISE ASSISTANCE PROGRAM CONTRACTORS AND PAYMENTS

Year Ended <u>March 31</u>	Number Of <u>Contractors</u>	<u>Payments</u>
1990	3	\$26,525
1991	14	618,938
1992	21	1,015,297
1993	22	717,000
1994	20	1,025,519
1995	18	942,652
1996	19	757,776
1997	21	<u>919,620</u>
Subtotal		6,023,327
1998 (Contract awards)	22	<u>1,031,820</u>
Total		<u>\$7,055,147</u>

This Page Left Blank Intentionally

Appendix E

SCHEDULE OF INELIGIBLE AND UNNECESSARY/ UNREASONABLE COSTS

<u>Recommendation</u>	<u>Ineligible</u> ⁶	<u>Unnecessary/ Unreasonable</u> ⁷
1A	\$1,853,322	
2B	1,196,298	
2C	108,166	\$318,520
2E		224,780
4D	<u>613,432</u>	<u> </u>
Totals	<u>\$3,771,218</u>	<u>\$543,300</u>

⁶ Ineligible amounts violate law, contract, HUD or local agency policies or regulations.

⁷ Unnecessary costs are those not generally recognized as ordinary, prudent, relevant, and/or necessary within established practices. Unreasonable costs exceed costs that would be incurred by the ordinary prudent person in the conduct of a competitive business.

This Page Left Blank Intentionally

Appendix F

AUDITEE COMMENTS

Appendix G**DISTRIBUTION**

Acting Assistant Secretary for Public and Indian Housing, P
Secretary's Representative, 4AS
Assistant General Counsel, 4AC
Director, Office of Public Housing, 4DPH
State Coordinator, Florida State Office, 4DS
Director, Administrative Service Center, 4AA
Audit Liaison Officer, 3AFI
Director, Accounting Division, 4AFF
Acquisitions Librarian, Library, AS (Room 8141)
Associate General Counsel, Office of Assisted Housing and Community Development, CD
Chief Financial Officer, F
Chief Financial Officer for Finances, FF (Room 10166)
Director, Housing and Community Development, Issue Area, U.S. GAO,
441 G Street, NW, Room 2474 Washington, DC 20548 Attention: Judy England-Joseph
Counsel to the IG, GC (Room 8260)
HUD OIG Webmaster-Electronic format via Email Morris_F._Grissom@hud.gov
Public Affairs Officer, G (Room 8256)
Director, Office of Public and Indian Housing Comptroller, PF
Attention: Audit Liaison Officer (Room 4122)
Director, General Management Division, PMG (Room 4216)
Assistant to the Deputy Secretary for Field Management, SDF (Room 7106)
Assistant to the Secretary for Labor Relations (Acting), SL (Room 7118)
The Honorable Fred Thompson, Chairman, Committee on Governmental
Affairs, United States Senate, Washington, DC 20510-6250
The Honorable John Glenn, Ranking Member, Committee on Governmental
Affairs, United States Senate, Washington, DC 20510-6250
Mr. Pete Sessions, Government Reform and Oversight Committee,
Congress of the United States, House of Representatives, Washington, DC 20515-4305
Ms. Cindy Sprunger, Subcommittee on General Oversight and Investigations,
Room 212, O'Neill House Office Building, Washington, DC 20515
Executive Director, Housing Authority of the City of Tampa
Chairman, Board of Commissioners, Housing Authority of the City of Tampa