



U.S. Department of Housing and Urban Development

District Office of the Inspector General  
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October 26, 1995

Audit-Related Memorandum  
96-AT-201-1803

MEMORANDUM FOR: Mack R. Heaton, Director, Alabama Public Housing Division, 4CPH

FROM: Kathryn Kuhl-Inclan  
District Inspector General for Audit-Southeast/Caribbean, 4AGA

SUBJECT: Citizen Complaint  
Selma Housing Authority  
Survey of Section 8 Program  
Selma, Alabama

We have completed a survey of certain activities of the Selma Housing Authority (SHA). The survey was done at the HUD Birmingham office and at SHA's offices mainly during February and March, 1995. We primarily gathered information related to a citizen's complaint, which was provided for consideration to the Special Agent In Charge, 4AGI.

Based on the survey results, we will not do a detailed audit of SHA. However, we confirmed conflict of interest involvement by the SHA's Section 8 Director with Section 8 properties, which your Division and SHA should resolve. In addition, we noted the following questionable practices:

- SHA Commissioners set their salaries, and
- There were Section 8 non-compliances with HUD administrative requirements,

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



## Finding 1 - Conflict of Interest Involvement with Section 8 Activities

SHA's Section 8 Director and/or family members were related parties with Section 8 landlords. Two of the landlords (Cloverdale Apartments\MJM Corporation and JEH Company) have units housing Section 8 assisted tenants. A third, Diamile Corporation, had two units with Section 8 tenants; the deeds on the two properties showed that the property was previously owned by the Director's daughter. Also, Tiremaster, a construction company controlled by the Director, did repair work on properties owned by three Section 8 landlords.

### **CLOVERDALE APARTMENTS**

Cloverdale was purchased by MJM Corporation (MJM) in December 1993. The Section 8 Director and his wife are listed as directors for MJM. He told us that his involvement with Cloverdale is only as an endorser on a note used in the purchase of Cloverdale. He acknowledged his possible conflict of interest at a SHA Board of Commissioners meeting held January 6, 1994. The Director told the Commissioners, and later HUD, that all Section 8 contracts would expire by November 1994 and that MJM had decided not to renew any Section 8 contracts. However, at March 17, 1995, there were nine Section 8 tenants living at Cloverdale. Cloverdale received monthly HAP checks totaling about \$1,870 on behalf of the nine tenants. The monthly rent for a unit at Cloverdale is \$228, which has not changed since MJM Corporation purchased the apartment complex.

When MJM purchased Cloverdale there were approximately 46 Section 8 tenants living at Cloverdale. By March 17, 1995, 37 Section 8 tenants had moved out, 11 of whom had left the Section 8 program altogether.

### **DIAMILE CORPORATION AND JEH COMPANY**

Two properties owned by Diamile were formerly owned by the Section 8 Director's daughter. The Warranty Deeds for two properties (1717 Lauderdale and 1013 Church Street) showed they were transferred to Diamile on December 29, 1992. John Elliott Harakas, the Registered Agent for Diamile in 1992, later became corporate president. Since January 1995, the HAP for the two properties has been paid to JEH Company.

In addition to the question of ownership and relationships, the Section 8 staff regularly collected or collects the tenant portion of the rent for Diamile and JEH, and delivered the collections to the Section 8 Director.

Concerning JEH Company, the Section 8 Director told us that he convinced John Harakas to buy the properties and fix them up so that Section 8 tenants would have a decent place to live; however, because Harakas did not want to deal with the tenants, SHA collected the tenant portion of the rent and arranged for repairs.

## **TIREMASTER**

Tiremaster, a local construction company performing work for Section 8 landlords, appears owned or controlled by the Section 8 Director. Based on building permits issued during January 1994, Tiremaster performed work for three Section 8 landlords.

### Conclusion

The described situations create at a minimum the perception of conflicts of interest between the SHA's Section 8 Director, and the integrity of its Section 8 activities. Therefore we believe the situations should be resolved.

### Recommendation

- 1A We recommend that you work with the SHA Board and resolve the noted Section 8 conflict of interest matters. If these matters are not resolved within 30 days, we suggest sanctions be applied.

## Finding 2 - Salary Payments to Board Members

The SHA Board Commissioners approved and received monthly salaries, which effective February 1, 1994 increased from \$400 to \$500 monthly. These salaries were not disclosed on SHA's operating budgets. During fiscal years 1993 and 1994, about \$35,434 of the \$47,600 in salaries paid to the commissioners were paid from SHA's conventional housing program funds. Previously, the salaries were funded with management fees paid by the Selma Housing Development Corporation (SHDC). However, because expenses exceeded the management fees received, SHDC funds were insufficient to pay the commissioners' salaries. There is an apparent conflict of interest for the commissioners when making decisions affecting SHDC. The principal source of revenue for SHDC is fees for Section 8 HAP; SHDC was the beneficiary of rent increases and a few payments of unearned rent. Such actions permit the appearance that the SHA Board of Commissioners' salaries provided SHDC with preferential treatment.

## Recommendation

2A We recommend that you have the SHA reduce salaries of Board members to amounts justified by available funds, and approved by HUD.

Finding 3 - Administration of the Section 8 Program

We found noncompliances with HUD administrative requirements for the Section 8 program . SHA did not consistently: (a) use the waiting list, (b) issue vouchers and certificates; (c) honor the portability of certificates and vouchers; (d) conduct inspections; and, (e) approve rent increases.

SHA did not use a waiting list when issuing vouchers and certificates. Also, Section 8 applicants were not given a request for lease approval until they found a unit acceptable to SHA. Certificates and vouchers appeared to be issued when an applicant was willing to lease a unit from a landlord acceptable to SHA; however its significance is lessened somewhat in that Selma had fewer rental properties under the Section 8 program compared to demand.

SHA did not honor the portability component of existing certificates and vouchers. Some tenants were told they had project-based certificates which could not move.

Some landlords received inspections more frequently than annual. Tested files for properties owned by SHDC, and properties where the Section 8 Director had an apparent conflict of interest contained only annual inspection reports.

Three landlords received rent increases more frequently than at the anniversary date of their respective Section 8 contracts. Also, one landlord in our limited tests received a \$50 monthly increase on an unit which equates to an increase of over 20 percent.

Recommendations - We recommend that you:

- 3A Advise the SHA to actually and consistently apply the criteria for waiting lists, unit leases, portability of existing certificates and vouchers, inspections and rent increases; and
- 3B Include these matters in your staff's next monitoring review.

\* \* \* \* \*

Should you or your staff have any questions, please contact Hoyle Seat, Senior Auditor (205/290-7584) or Ted E. Drucker, Assistant District Inspector General for Audit (404/331 - 3369). We are providing the SHA Board Chairman and Executive Director copies of this memorandum.

Attachment - Distribution

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