



U.S. Department of Housing and Urban Development

District Office of the Inspector General
Richard B. Russell Federal Building
75 Spring Street, SW, Room 700
Atlanta, GA 30303-3388
(404) 331-3369

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Audit Related Memorandum
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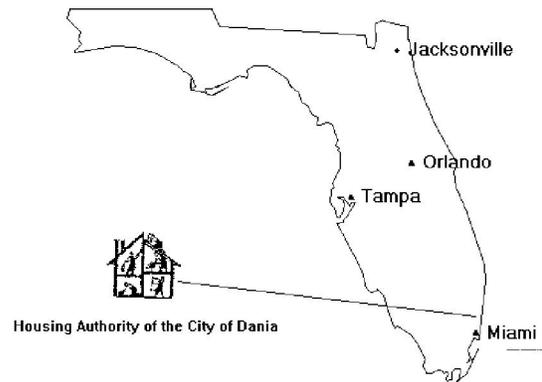
MEMORANDUM FOR: Paul K. Turner, Director, Office of Public Housing, Jacksonville, Florida, 4HPH; and*
Karen Cato-Turner, Acting Director, Office of Public Housing, Coral Gables, Florida, 4DPH

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

SUBJECT: Operation Safe Home Probe
Housing Authority of the City of Dania (DHA)
Dania, Florida

For Operation Safe Home, we did a limited probe of selected activities of the Housing Authority, City of Dania. We tailored our efforts primarily to identify indications of fraud or other wrongdoing, and program abuse.

We interviewed DHA personnel and tenants, and U.S. Department of Housing and Urban Development (HUD) staff. Activities were reviewed based on information obtained in the interviews, and from DHA records during September 1995 through June 1996. This probe was not a detailed audit of DHA or any of its activities.



* There currently is a transitional period between the Jacksonville and Coral Gables offices for oversight of South Florida public housing authorities. Therefore we jointly addressed this document. Coral Gables is the lead office for clearance of the controlled audit recommendations.

In conducting the probe, we identified administrative deficiencies that warrant your and DHA's attention. We did not develop the deficiencies as fully as we normally would to meet reporting standards for generally accepted government auditing standards.

SUMMARY

Four relatives or extended family members of a former acting executive director (acting ED) misrepresented their total housing expenses and/or preference status to obtain Section 8 assistance. The acting ED should have at least suspected the abuses. Section 8 assistance totaling \$28,424 through March 1996 was paid on their behalf rather than for families on the waiting list longer. We recommend termination of Section 8 assistance for the four families, and that consideration be given to having them reimburse the Section 8 program for all assistance received. We further recommend a Limited Denial of Participation (LDP) for the acting ED and the four family members.

In October 1995, the DHA Board entered into a management contract without adequately establishing whether its terms and conditions were in the best interests of DHA. In general, the 1-year contract provided for the contractor to manage DHA's day to day operations for \$130,000 annually, payable pro-rata monthly. The DHA should have conducted procurement to promote open competition, but did not do so. There were other deficiencies including inadequate history of the procurement, and inappropriate contract terms and conditions. Also, an appearance of favoritism existed in the procurement of two contracts; and accounting services were not periodically re-bid. We recommend DHA terminate the management contract, and take needed measures to safeguard its and HUD's interests when procuring goods and services.

More details of our findings are in Attachment 1. We are providing a copy of this memorandum to the auditee.

Within 60 days, please provide, for each recommendation in Attachment 1, a status report on : (1) the corrective actions taken; (2) the proposed corrective actions and the date to be completed; (3) why actions are considered unnecessary. Also, furnish us copies of any related correspondence or directives issued. Please keep in mind the recent reemphasis for timely management decisions on controlled recommendations.

If you have any questions, please contact Ted E. Drucker, Assistant District Inspector General for Audit, at (404) 331-3369, or Sam Daugherty, Senior Auditor, at (904) 232-1226.

Attachments:

- 1 - Findings and Recommendations
- 2 - Schedule of Ineligible and Unsupported Costs
- 3 - Distribution

FINDINGS and RECOMMENDATIONS

1. Relatives and Extended-Family Members of an Acting Executive Director Submitted False Data and Obtained Section 8 Assistance

Four relatives or extended-family members of an acting ED abused the Section 8 assistance program, and misrepresented their total housing expenses and/or preference status to obtain Section 8 assistance sooner than other applicants. The acting ED should have at least suspected the abuses, and prevented them. Section 8 assistance totaling \$28,424 through March 1996 was paid on their behalf, rather than for others on the waiting list who were denied timely assistance.

Criteria

According to the DHA *Section 8 Administrative Plan*, applicants have three preference categories (in order of most to least preference): (1) disabled or displaced persons; (2) substandard housing or paying over 50 percent of income for rent plus utilities; and (3) no preference. The waiting list is sorted first by the priority of each preference type, and then, within each preference category, by time the application is submitted.

Public Housing Authorities (PHAs) are required to verify family income and other factors relating to eligibility and amount of assistance [Title 24 Code of Federal Regulations {CFR} 882.116(c)]. Also, the DHA Section 8 Administrative Plan requires that all information submitted by applicants be verified.

PHAs should verify that applicants claiming a Federal preference qualify for that preference [24 CFR 882.219(c)(3)]. Federal preferences are involuntary displacement, living in substandard housing, and paying more than 50 percent of family income for rent.

Deficiencies

The following tenants received Section 8 certificates or vouchers based on incorrect preference claims: (1) the sister of acting ED (tenant # 91464); (2) niece of acting ED (tenant # 91479); (3) the acting ED's sister-in-law's sister (tenant # 91699); and, (4) the mother of acting ED's nephew's child (tenant # 91761). As a result, they improperly moved ahead of other applicants.

Tenant # 91464

The acting ED's sister applied for housing assistance on June 15, 1994 and received a Section 8 voucher on June 20, five days later. The sister received preferential treatment.

The sister claimed one Federal preference on her application, paying more than 50 percent of family income as rent. Even if the 50 percent preference were warranted, ten of the first 23 applicants still on the waiting list of September 1995 should have received assistance before her. A total of \$12,044 in Housing Assistance Payments (HAPs) were made for this

relative through March 1996.

The sister was not entitled to the 50 percent Federal preference claimed. She provided a false lease with a private sector landlord to substantiate the preference. Contrary to information on the lease provided, the sister lived in Pompano Beach public housing at the time of the application. As a public housing resident, she would have only paid 30 percent of adjusted family income as rent and, thus, she was not qualified for the 50 percent preference.

The sister also provided incorrect information on her application including: (1) the landlord's name and rent paid (same as on the nonexistent lease); and (2) a claim of paying more than 50 percent of family income for rent. Because the sister provided false information, we believe she willingly participated in a scheme to receive housing assistance. We found no indications that DHA independently verified this information. Specifically, verification of the lease and the rent paid should have been obtained from the landlord and/or rent receipts.

Tenant # 91479

The acting ED's niece applied for housing assistance on June 15, 1994 and was given a Section 8 certificate on September 16, about 3 months later. A review of the September 14, 1995 waiting list revealed the niece received preferential treatment.

The niece claimed one Federal preference on the application, paying more than 50 percent of family income as rent. However, even after the 50 percent preference is considered, 10 of the first 23 applicants still on the waiting list should have received assistance before her. Consequently, by receiving preferential treatment, the niece deprived others of housing assistance. A total of \$10,809 in HAPs were made on behalf of this relative through March 1996.

The niece was not entitled to the 50 percent Federal preference claimed. She provided a fake lease which reflected \$400 per month rent paid to a private sector landlord to substantiate the preference. Contrary to that information on the lease, the niece admitted, to us, living with the mother of the acting ED for \$50 a month at the time of the application.

Furthermore, the niece provided false information on the application for assistance including: (1) current address (same as the nonexistent lease); (2) landlord's name, address and amount paid (name and amount paid same as the nonexistent lease); and (3) a claim of paying more than 50 percent of family income for rent. We found no indications that DHA independently verified this information through the landlord and/or rent receipts.

Tenant # 91699

A sister of the acting ED's sister-in-law applied for housing assistance on January 14, 1995 and was given a Section 8 certificate on February 15, 32 days later. Based on our review of the September 14, 1995 waiting list, this tenant received preferential treatment.

She claimed one Federal preference on the application, paying more than 50 percent of family income as rent. After the 50 percent preference is considered, 12 of the first 23 applicants still on the waiting list should have received assistance before her. Consequently, by claiming preferential treatment, she knowingly prevented housing assistance to others who had applied earlier. A total of \$2,628 in HAPs were made on behalf of this family member through March 1996.

This tenant was not entitled to the 50 percent Federal preference she claimed on her application. She reported a monthly income of \$1,564 and a monthly rent of \$450 or about 28 percent. The DHA disregarded this information.

When this tenant applied to the program, the acting ED was employed with DHA as the housing assistant responsible for the entire Section 8 Program, including processing and selecting applicants for assistance. However, the acting ED delegated the processing of this application to the program assistant responsible for the public housing program.

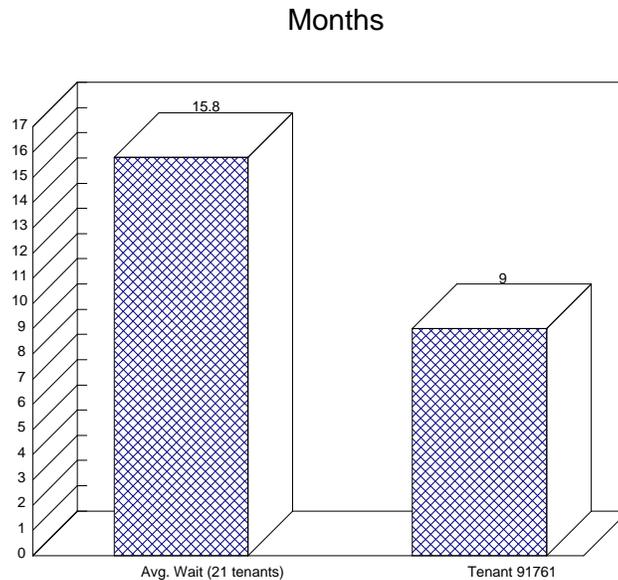
Tenant # 91761

The mother of the acting ED's nephew's child applied for housing assistance on June 14, 1994 and was given a Section 8 certificate on March 9, 1995, about 9 months later. Based on the September 14, 1995 waiting list, this tenant received preferential treatment.

The tenant claimed one Federal preference on the application, paying more than 50 percent of family income as rent. However, even after the 50 percent preference is considered, 10 applicants still on the waiting list should have received assistance before her. By inducing preferential treatment, this tenant effectively prevented housing assistance to others. A total of \$2,943 in HAPs were made on her behalf through March 1996.

This tenant was not entitled to the 50 percent Federal preference she claimed. On her application, she reported a monthly income of \$1,000 and a monthly rent of \$200 or 20 percent.

In summary, the acting ED should have known that each of the cited applicants applied for assistance. As of September 1995, other applicants remained on the waiting list who should have received assistance prior to all four of these tenants. Our random sampling of 21 of 378 tenants, or 5.6 percent, disclosed the average wait time from application to receipt of Section 8 assistance was 15.8 months. Three of these four received acceptance within 3 months, and the other received assistance within 9 months.



According to the acting ED, each of the cited cases was processed by the housing assistant and never reviewed by her. The acting ED explained that the housing assistant gave preferential treatment to the acting ED's family members to gain influence over her. However, this explanation seems unlikely because all four actively participated in the deception by providing false and incorrect information to justify preference.

In each case, the acting ED either knew or should have known preferential treatment was given. At a minimum, the acting ED was responsible for proper processing of these cases, which did not occur. The acting ED's failure to review these cases under the known circumstances was, at a minimum, serious neglect. Similarly, because the four tenants benefitted and gained their preferences by providing false information, we believe they should be held accountable for their actions by having their Section 8 assistance canceled.

Recommendations

We recommend you:

- 1A. Issue LDPs against the former acting ED and the four tenants.
- 1B. Have the DHA cancel the certificates and vouchers of the four tenants based on their misrepresentations.
- 1C. With the advice of HUD Counsel, tell the DHA whether the four tenants should repay the housing assistance made on their behalf through the date the assistance is terminated. (Through March 1996, the payments totaled \$28,424.)

2. Procurement of Professional Management Services Was Deficient

In October 1995, the DHA Board entered into a 1-year management contract for \$130,000 without adhering to procurement procedures. Our review of this contract disclosed procurement deficiencies including: (1) inadequate procurement history, (2) award without documentation of competition, (3) lack of adequate statement of work, (4) no request for proposal, and (5) other imprudent contract terms and conditions. Consequently, the contract was not in the best interests of DHA.

Inadequate Procurement History - The DHA did not maintain records detailing the significant history of the management services procurement as required. According to 24 CFR 85.36(b)(9) and HUD Handbook 7460.8 REV-1 paragraph 3-12, records will be maintained in a contract file including, but not limited to, rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price. The DHA could not show:

- The rationale for the contracting method; or for contracting a management company rather than an individual executive director.
- The advertisement soliciting applications and proposals, or statement of work.
- Evidence that the HA directly solicited potential bidders.

Further, maintaining these records would be helpful in speeding up future similar procurement since the HA would not have to recreate solicitation documents.

Contract Awarded Without Documentation of Competition - The contract was awarded without competition to the sole management company bidder. The president of the management firm was both a former attorney and a consultant for the DHA. According to Handbook 7460.8 REV-1 paragraph 2-6, housing authorities are to conduct all procurement by full and open competition, and to allow all responsible sources to compete. In exceptional cases, a noncompetitive proposals method may be used, provided a written justification is prepared concluding competition was determined inadequate as prescribed in 24 CFR 85.36(d)(4). We did not find justification prepared by the DHA that competition was determined inadequate.

Lack of Adequate Statement of Work - An adequate statement of work was not included in the contract. For services contracts, the HA should prepare a detailed statement of work (Handbook 7460.8 REV-1 paragraph 7-3) to define the contractor's obligations, protect the HA's interests, and establish a clear, unambiguous, and complete basis for performance. Should staffing be included, the contract should state the kind of personnel and qualifications required, the nature of work, and the required deliverables.

The contract terms and conditions provided that the contractor would direct and supervise the operation of the DHA programs through the contractor's employees and agents. The contractor would adhere to all applicable regulations promulgated by HUD. In our opinion, the contract scope of service did not sufficiently detail the work to be performed, provide measurable end results, and define specific end products. According to the DHA Board minutes, the contract amount was derived by calculating annual budgeted salary costs and deducting \$10,000.

No Request for Proposal (RFP) Found - We found no evidence that DHA had a request for proposals. According to Handbook 7460.8 REV-1, an RFP is needed for procurement by competitive proposals. The RFP is the written solicitation to prospective offerors to submit a proposal based on the terms and conditions set forth therein. Proposal evaluation and contractor selection are based on the factors for award as stated in every competitive RFP. Thus all interested parties can be aware of the buyer's wishes, and bids will be comparable.

Other Imprudent Contract Terms and Conditions - The contract stated the contractor would receive equal monthly payments with the first payment on the effective date of the contract. Therefore, the contractor was paid approximately \$10,800 (1/12 of the \$130,000 annual fee) upon signing the contract and before providing any service to the HA. Services normally must be provided before payment.

This contract did not contain provisions for termination for convenience by the HA (24 CFR 85.36(i)). The contract stated the HA could terminate the contract only for good cause upon written notice. Good cause was defined as "willful breach or habitual neglect" by the contractor of duties defined. Early termination of the contract for any reason other than good cause as defined would entitle the contractor to full payment of \$130,000. This "golden parachute" provision impaired the effect of the termination clause.

On July 8, 1996, we brought these deficiencies to the attention of the Office of Public Housing, Jacksonville HUD office. On August 1, the Acting Director of Public Housing in Coral Gables advised the Chairperson of the DHA Board to determine compliance with HUD requirements before continuing the current management services contract.

* * * * *

During the course of our review of the management contract, we noted other procurement issues needing DHA and HUD attention:

Appearance of Favoritism - We found two occasions where DHA granted contracts to a bidder/applicant allowed to personally address the Board. The contracts related to a Saratoga paint contract and the management contract. If one bidder/applicant was allowed to address the Board, then all should have been given the same opportunity. Allowing only one gave the appearance of favoritism.

Professional Service Contract Not Re-bid Periodically - The fee accounting professional service contract had been in effect, and not competitively re-bid, since 1987. According to PIH Notice 93-34, the HA must obtain written approval from HUD to execute contracts for professional services in excess of 2 years or which contain a renewal provision. This provision is intended to promote competition.

Recommendations

We recommend that you have DHA:

- 2A. Take measures to strengthen its procurement procedures to safeguard its and HUD's interests, including termination of the current management contract.
- 2B. Fully justify, or repay in whole or part, the \$130,000 in payments to the management contractor as being necessary, reasonable, and cost-effective.

SCHEDULE OF INELIGIBLE AND UNSUPPORTED COSTS

<u>Recommendations</u>	<u>Ineligible Costs</u> ¹	<u>Unsupported Costs</u> ²
1C	\$28,424	
2B		\$130,000

¹ Costs not allowable by law, contract, HUD or local agency policies or regulations.

² Unsupported costs are not obviously ineligible, but warrent being contested for reasons such as lack of satisfactory documentation.

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