Palm Beach County Housing Authority, West Palm Beach, FL

Public Housing

Office of Audit, Region 4
Atlanta, GA

Audit Report Number: 2019-AT-1006
September 30, 2019

To: Uche A. Oluku, Director, Office of Public Housing, 4DPH

//signed//

From: Nikita N. Irons, Regional Inspector General for Audit, 4AGA

Subject: Palm Beach County Housing Authority, West Palm Beach, FL, Did Not Support and Spend HUD Funds According to Regulations

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of the Palm Beach County Housing Authority's use of program funds for executive and employee compensation and expenditures for contract services.

HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation without a management decision, please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the audit.

The Inspector General Act, Title 5 United States Code, section 8M, requires that OIG post its publicly available reports on the OIG website. Accordingly, this report will be posted at https://www.hudoig.gov.

If you have any questions or comments about this report, please do not hesitate to call me at 404-331-3369.

Audit Report Number: 2019-AT-1006
Date: September 30, 2019

Palm Beach County Housing Authority, West Palm Beach, FL, Did Not Support and Spend HUD Funds According to Regulations

Highlights

What We Audited and Why

We audited the Palm Beach County Housing Authority in West Palm Beach, FL, based on concerns raised by news articles stating that the Authority dismissed its former executive director because of financial misconduct and ethical violations. The concerns included bonuses paid and payments for contracted services. Our audit objective was to determine whether the Authority spent U.S. Department of Housing and Urban Development (HUD) funds for eligible program purposes and sufficiently supported its expenditures, focusing specifically on executive and employee compensation and expenditures for contract services. The audit is consistent with our strategic goal to ensure the integrity of and accountability for program funds.

What We Found

The Authority did not support and spend HUD funds in accordance with Federal regulations. It did not ensure that Sections 8 and 9 funds were not used to pay for executive compensation exceeding the salary limit. The excess payment was caused by the Authority's improper classification of funds from two accounts as non-Sections 8 and 9 and then using those funds to pay for executive compensation. In addition, expenditures to one contractor were not eligible. The ineligible payment was caused by the Authority's not having written policies and procedures to prevent such payments from occurring. These deficiencies resulted in $67,377 in questioned costs.

What We Recommend

We recommend that the Director of HUD's Miami Office of Public Housing require the Authority to (1) reimburse its program for the $62,377 from non-Federal funds, (2) reimburse the U.S. Treasury $5,000 from non-Federal funds for the ineligible payments made, and (3) develop and implement written policies and procedures to ensure that Sections 8 and 9 funds are not used to pay for excess executive compensation and to provide detailed guidance to its staff on the payment review process.

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Background and Objective

The Palm Beach County Housing Authority was created in 1969 under Chapter 421 of the Florida Statutes to provide affordable housing to low-income families through rental assistance programs. Its mission is to preserve and build quality, affordable housing in choice, inclusive neighborhoods, using housing as a platform for social and economic advancement. The Authority is governed by five volunteer commissioners appointed by the governor.

The Authority administers low-rent public housing and Section 8 programs funded by the U.S. Department of Housing and Urban Development (HUD). The table below lists the HUD program funds allocated to the Authority for fiscal years (FY) 2016 through 2018.

HUD program	FY 2016	FY 2017	FY 2018	Total
Low-rent public housing				
Operating subsidy	$1,140,167	$1,121,081	$1,343,080	$3,604,328
Public Housing Capital Fund	815,505	836,471	1,449,542	3,101,518
Subtotal	1,955,672	1,957,552	2,792,622	6,705,846
Section 8 voucher				
Mainstream	745,319	757,207	778,903	2,281,429
Housing Choice Voucher Program	21,306,066	22,758,744	23,218,167	67,282,977
Subtotal	22,051,385	23,515,951	23,997,070	69,564,406
Total	24,007,057	25,473,503	26,789,692	**76,270,252**

The Authority operates under an asset management model. Its public housing portfolio consists of 428 units, managed under two asset management projects. In addition, the Authority administers 2,764 Section 8 vouchers and 225 vouchers under the Housing Opportunities for Persons With AIDS (HOPWA) program as a subrecipient for the City of West Palm Beach, FL. HUD pays the Authority's management and bookkeeping fees for administering HUD's programs, which are earned by the central office cost center (COCC).[1]

Effective December 28, 2015, the Authority authorized its instrumentality, The SPECTRA Organization, to implement and manage the functions and policies of the Authority. This authorization included but was not limited to its administrative management, public housing, and supportive services functions. It further authorized SPECTRA to use the Authority's public housing funds or assets to carry out public housing development functions. In administering the Authority's

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[1] Regulations at 24 CFR 990.280(c) state that public housing agencies may establish central office cost centers to account for non-project-specific costs, such as human resources, the executive director's office, etc. The funds must be provided from the property management fees received from each property and from the asset management fees to the extent that these are available.

HUD programs, such as its Section 8 voucher and Section 9 public housing programs, SPECTRA invoiced the Authority for the labor costs for the frontline staff and bookkeeping fees for the financial staff. The Authority paid SPECTRA with the fees it earned from HUD. The Authority terminated this arrangement with SPECTRA on July 29, 2017. In addition to the revenue earned from administering the Authority's Sections 8 and 9 programs, SPECTRA received revenue from rental income and management fees from other projects.

The termination of the arrangement occurred when the Authority ended the employment contract with its former executive director. Board minutes showed that the dismissal of the director was due to financial misconduct, misrepresentation of financial data and financial statements, and ignoring board requests. News articles raised concerns of possible abuses, such as questionable bonuses and fees, questionable contracted services, and misuse or mismanagement of funds.

The HUD Office of Public Housing performed a comprehensive management review of the Authority and issued its report in July of 2018. The comprehensive review examined the Authority's low-income public housing program, Section 8 Housing Choice Voucher (HCV) Program, financial management, and procurement procedures. The review resulted in 10 findings and 7 observations, including weak and inadequate internal controls to safeguard Federal funds, no evidence of quality control reviews, housing quality standards inspections not conducted, discrepancies with income verification, and a lack of policies and procedures.

Our audit objective was to determine whether the Authority spent HUD funds for eligible program purposes and sufficiently supported its expenditures. The review focused on executive and employee compensation and expenditures for contract services.

Results of Audit

Finding: The Authority Did Not Support and Spend HUD Funds According to Regulations

The Authority did not support and spend HUD funds according to Federal regulations. Our review of executive compensation showed that the Authority did not ensure that Sections 8 and 9 funds were not used to pay for executive compensation exceeding the salary limit. The excess payment was caused by the Authority's improper classification of funds from two accounts as non-Sections 8 and 9 and then using those funds to pay for executive compensation. In addition, our review of expenditures showed that expenditures to one contractor were not eligible. The ineligible payment was caused by the Authority's not having written policies and procedures to prevent such payments from occurring. These deficiencies resulted in $67,377 in questioned costs.

The Authority Did Not Ensure That Sections 8 and 9 Funds Were Not Used To Pay for Executive Compensation Exceeding the Salary Limit

The Authority did not ensure that Sections 8 and 9 funds were not used to pay for executive compensation exceeding the salary limit.[2] The Authority may use Sections 8 and 9 funds to pay for executive compensation up to the basic pay for a position at level IV of the executive schedule (salary limit); thus, compensation exceeding this limit must not come from Sections 8 and 9 funds.[3] Our review of the 2016 and 2017 executive compensation showed that two executives' compensation exceeded the salary limit. (See the table below.) The Authority paid the base salary for the two executives with funds from four general ledger accounts – COCC, HOPWA, admin, and SPECTRA.[4]

- The COCC account included management and bookkeeping fees earned by the Authority from administering HUD Sections 8 and 9 programs, and, thus, for the purposes of

[2] Office of Public and Indian Housing (PIH) Notice PIH-2016-14 states the applicable public housing agencies are those that receive appropriations on the Section 8 HCV Program and the Section 9 Public Housing Capital Fund and Operating Fund programs. In addition, it states that none of the funds originating from Section 8 (HCV) or Section 9 sources under the applicable appropriations act, as well as any other act, may be used to pay the salary (including any bonus) of a "covered individual" at a rate exceeding the applicable salary limitation at the close of the public housing agency's fiscal year, including fees that agencies that have implemented asset management may collect from property-level funding, which may be attributable to Section 8 (HCV) or Section 9 funding. The limitation on the amount of Sections 8 and 9 funds that may be used for public housing agency salaries was first implemented in Federal fiscal year 2012 in HUD's appropriations and has been included in all subsequent appropriations acts.

[3] Notice PIH-2017-11 is applicable for the 2016 compensation reviewed, and Notice PIH-2018-13 is applicable for the 2017 compensation reviewed.

[4] The Authority paid the executives' salaries using funds from the COCC, HOPWA, and admin accounts. Each quarter, the Authority invoiced SPECTRA for a share of the executive compensation. The funds from SPECTRA, in turn, reimbursed some of the amount paid from the COCC and admin accounts.

executive salary, we considered these fees to be Sections 8 and 9 funds.[5] Based on documentation provided by the Authority, it also considered these to be Sections 8 and 9 funds.

- The HOPWA account included funds received and used in administering the Section 8 program aimed at preventing homelessness among persons with AIDS and, thus, were also considered to be Section 8 funds.

- The admin account generally included the developer fees received by the Authority, but in 2016 and 2017, it also included COCC funds that the Authority transferred in to cover the admin account's negative balances. As noted above, the COCC account included fees that originated from Sections 8 and 9 programs. However, the Authority considered funds from the admin account to be Sections 8 and 9 funds for executive compensation only in 2017 but not in 2016, which showed a lack of consistent application in how the Authority defined and classified the Sections 8 and 9 funds. Based on our assessment, funds from the admin account were considered to be Sections 8 and 9 for 2016 and 2017 executive compensation.

- The SPECTRA account included the revenues and expenses of SPECTRA, the legal instrumentality of the Authority. From December 28, 2015, through July 29, 2017, SPECTRA received the management and bookkeeping fees earned from the COCC for administering the Authority's Sections 8 and 9 programs. (See the Background and Objective section.) Because these fees originated from Sections 8 and 9 programs, we determined, for the purposes of executive salary, that funds used from the SPECTRA account to be Sections 8 and 9 funds. The Authority disagreed with our determination, reasoning that it was SPECTRA's other revenue sources that paid for the excess executive compensation. Notice PIH-2016-14 requires the Authority to ensure that documentation exists to show that no Sections 8 and 9 funds were used to pay for any compensation exceeding the salary limit.[6] Although the Authority provided the financial reports for the SPECTRA account, the documentation was insufficient[7] to clearly show that the payment of executive compensation exceeding the salary limit did not come from the Sections 8 and 9 income sources received by SPECTRA.

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[5] Based on the instructions for form HUD-52725, Schedule of Positions and Compensation, funds paid as fees from public housing properties to the COCC are considered to be Federal Sections 8 and 9 funds for the purposes of executives salary.

[6] Section 5 of Notice PIH-2016-14 states that public housing agencies should calculate excess salary and bonuses reasonably and should document the calculation so that, upon an audit, the agency can explain how each covered individual's salary and bonus exceeding level IV of the executive schedule for that fiscal year were funded and prove to the auditor that there was no improper use of the applicable Federal fiscal year Section 8 or Section 9 funds to fund excess agency fiscal year salary and bonus payments.

[7] During our review of documentation provided by the Authority, we identified discrepancies with the manual classification of Sections 8 and 9 funds within the SPECTRA account, which raised concerns regarding the reliability of the classifications.

Two of the accounts combined funds that were restricted for executive compensation with nonrestricted funds. We considered all four funding sources to be Sections 8 and 9 funds and calculated the excess funds used to pay for the compensation as shown in the table below.

Executive compensation analysis

				Salary amount classified as Sec 8 and 9 funds		
Year	**Executive**	**Base salary[8]**	**Salary limit for Sec 8 and 9 funds**	**Authority**	**Our calculation**	**Unsupported excess[9]**
2016	Executive director	$209,577	$160,300	$84,812	$209,577	$49,277
2017	Interim executive director	175,000	161,900	152,260	175,000	13,100
Total						**62,377**

The excess use of the Sections 8 and 9 funds was caused by the Authority's classifying the funds from the two accounts as non-Sections 8 and 9 funds. Specifically, the Authority reasoned that SPECTRA funds could be used to pay for the excess executive compensation because the payment did not come from the revenue earned when administering the Authority's Sections 8 and 9 programs but, rather, from SPECTRA's other earned revenue. However, the documentation provided by the Authority was not sufficient to provide reasonable assurance that these funds were classified appropriately at the time the compensation was paid. The Authority's paying for executive compensation exceeding the limit from an account that combined restricted and nonrestricted funds, without being able to clearly reconcile and match its revenues to its expenses, put the funds at risk of violating the executive compensation regulations. As a result, HUD could not be assured that the $62,377 used for the excess executive compensation was paid from non-Sections 8 and 9 funds.

In addition to the base salary, the Authority paid bonuses to the former executive director and employees. The bonuses were paid as a result of two projects and one refinance transaction for a project. The three bonuses were not paid from HUD funds. However, we noted that the refinanced loan on the project was insured by HUD's section 223(f) multifamily insurance program. The loan allowed for a cash-out, which the Authority then used to pay bonuses totaling $144,963 to the former executive director and employees. The bonuses were paid not from profits earned but as a result of the receipt of loan proceeds from the refinance transaction. During the fiscal year in which this bonus was paid, the Authority had a net operating loss. Although the bonus payment did not violate a HUD regulation, the Authority should consider its allowance of bonuses to determine whether the payments were prudent and in the best financial interest of the Authority.

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8 The base salary amounts included in the table exclude the 2016 bonus paid to the executive director totaling $77,500 and taxes paid on the salary. The bonuses were not paid from HUD funds.

9 The unsupported excess is calculated by taking our calculated amount less the salary limit for the year.

Expenditures Paid to a Contractor Were Not Eligible

The Authority paid an architect $18,000 to provide architectural and construction management services to develop six units that complied with the American Disabilities Act at one of its public housing developments. The $18,000, charged to the Capital Fund program, was comprised of contract deliverables, each with a corresponding fee amount. We reviewed the documentation provided, discussed the project and documentation with Authority officials, and obtained a general understanding of the architectural design phases. The documentation provided supported only expenses of $13,000. We assessed that $5,000 for construction-related expenses[10] was ineligible for the program because construction did not occur. These expenditures did not comply with 2 CFR (Code of Federal Regulations) 200.403(a) and 200.405(a), which state that for a cost to be allowable under a Federal award, the cost needs to be allocable and a cost is allocable if the goods or services are chargeable to that Federal award in accordance with the relative benefits received.[11] Although the Authority paid the $5,000, it did not receive the agreed-upon deliverables.

The payment occurred because the Authority had no written policies and procedures to prevent ineligible payments from occurring. The review showed weaknesses in the Authority's payment review process. First, the official who approved the payments (former executive director) did not ensure that the deliverables were performed. Second, the accounting staff did not ensure that documentation to support the expenditure was included before making the payment. The absence of financial controls resulted in $5,000 not being available for Capital Fund program purposes.

Conclusion

The Authority did not support and spend HUD funds according to regulations because it did not have adequate controls to safeguard Federal funds. These weaknesses placed these funds at risk of being inappropriately used to pay (1) excess executive compensation and (2) a contractor for work that was not complete. The Authority was in the process of addressing financial management concerns. However, by not implementing adequate policies and controls, the Authority will continue to place these funds at risk of fraud, waste, and abuse.

Recommendations

We recommend that the Director of the Miami Office of Public Housing require the Authority to

1A. Reimburse its program from non-Federal funds for the $62,377 used to pay for the excess executive compensation.

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[10] Specifically, the $5,000 consisted of $3,000 for construction administration for 6 months of construction, $1,500 for project management upon issuance of a certificate of occupancy, and $500 for documents issued for construction.

[11] In addition, Federal regulations at 2 CFR 200.302(b)(3) require that the financial management system of each non-Federal entity provide for records that adequately identify the source and application of funds for federally funded activities. These records must contain information pertaining to Federal awards, authorizations, assets, expenditures, and income and interest and be supported by source documentation.

1B. Develop and implement written policies, procedures, and other financial controls to ensure that Sections 8 and 9 funds are not used to pay for compensation over the salary limit.

1C. Reimburse the U.S. Treasury from non-Federal funds for the $5,000 in ineligible costs paid to its contractor.

1D. Develop and implement written policies and procedures for the payment review process to comply with applicable regulations in 2 CFR Part 200.

1E. Train its staff on its newly developed policies and procedures noted in recommendations 1B and 1D.

Scope and Methodology

We performed the audit from December 2018 to July 2019 at the Authority's office located at 3432 West 45th Street, West Palm Beach, FL, and our Miami field office. The scope covered the period October 1, 2015, through September 30, 2018, and was expanded to December 2013 to cover our review of one of the bonuses paid. To address the audit objective, we reviewed relevant criteria and HUD reports, analyzed the Authority's financial reports, read through the Authority's audited financial statements and external report, and obtained explanations from Authority officials.

In addition, we performed the following fieldwork for the reviewed areas:

Executive compensation – We reviewed the 2016 and 2017 HUD-52725, Schedule of Positions and Compensation, submitted by the Authority to identify executives whose salaries exceeded the salary limit and identified two. Therefore, no sample was selected. For the two executives who were compensated above the salary limit, we determined whether the excess was paid with Sections 8 and 9 funds by reviewing the spreadsheets detailing the executives' allocated salary by quarter. In addition, we performed limited testing of the data in the spreadsheet by reviewing and tracing the data to the payroll journal and payroll reports for one executive's pay periods. This process validated the amounts reported in the spreadsheet.

Bonuses – We reviewed documentation and obtained explanations from the Authority to determine whether the three bonuses noted in the forensic examination report[12] were paid with HUD funds and if so, whether the bonus payment complied with HUD requirements. The Authority paid bonuses on two projects and one refinance transaction for a project. Documentation reviewed included documents related to the development's ownership structure, closing, and draw; bank statements; and printouts from the Authority's financial system detailing the reporting of the fees received and the payment of the bonuses.

Expenditures for contract services – We selected a nonstatistical sample to review the expenditures of eight payees totaling $466,163, or 4.5 percent of the universe. We set the universe of expenditures to include those expenditures in our scope period that were disbursed from bank accounts with HUD funds and funds that were subject to HUD purposes. We selected a nonstatistical sample to focus our review on concerns raised in the forensic report and to select higher dollar transactions. Therefore, we selected the payees[13] that had the largest total amount of expenditures paid to them, the payees receiving the

[12] The forensic examination was requested by the Authority to confirm its initial findings of questionable financial practices and to support future repayment negotiations with the former executive.

[13] We selected the payees with the intention of selecting contractors that provided services or goods to the Authority and, thus, did not select the utility companies or insurance carriers that had a large total dollar amount disbursed to them.

largest single payments, and a payee identified in the forensic report. We reviewed the invoices, contracts, and other documentation provided to support the expenditures. The results of our review of expenditures applied only to the specific items reviewed and cannot be projected to the universe of expenditures.

Computer-processed data generated by the Authority were not used to materially support our audit findings, conclusions, and recommendations. Thus, we did not assess the reliability of these computer-processed data. Instead, our conclusions were based on the supporting documentation obtained during the audit, including but not limited to a review of invoices, contracts, and bank statements. As noted above, we performed limited testing to validate the accuracy of the amounts included in the financial reports.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective(s). We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Internal Controls

Internal control is a process adopted by those charged with governance and management, designed to provide reasonable assurance about the achievement of the organization's mission, goals, and objectives with regard to

- effectiveness and efficiency of operations,
- reliability of financial reporting, and
- compliance with applicable laws and regulations.

Internal controls comprise the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

We determined that the following internal controls were relevant to our audit objective:

- Reliability of information – Policies and procedures to provide reasonable assurance that information used for decision making and reporting is reliable and fairly disclosed in reports.

- Compliance with applicable laws, regulations, contracts, and grant agreements – Policies and procedures that provide reasonable assurance that program implementation is in accordance with laws, regulations, contracts, and grant agreements.

- Safeguarding of assets and resources – Policies and procedures that reasonably prevent or promptly detect unauthorized acquisition, use, or disposition of assets and resources.

We assessed the relevant controls identified above.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations on a timely basis.

Significant Deficiencies

Based on our review, we believe that the following items are significant deficiencies:

- The Authority did not ensure that Sections 8 and 9 funds were not used to pay for executive compensation exceeding the salary limit (finding).
- The Authority did not ensure that expenditures to a contractor were eligible (finding).

Appendixes

Appendix A

Schedule of Questioned Costs

Recommendation number	Ineligible 1/	Unsupported 2/
1A		$62,377
1C	$5,000	
Totals	**5,000**	**62,377**

1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or Federal, State, or local policies or regulations.

2/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.

Appendix B

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

PBCHA
PALM BEACH COUNTY
HOUSING AUTHORITY

Executive Director
Carol Jones-Gilbert

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September 19, 2019

Nikita N. Irons
Regional Inspector General for Audit
U.S. Department of Housing and Urban Development
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Richard B. Russel Federal Building
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Atlanta, GA 30303-3388

Re: Palm Beach County Housing Authority Draft Audit Response

Dear Ms. Irons:

This letter is in response to the Draft Audit Report dated September 4, 2019 relating to the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) review regarding the Palm Beach County Housing Authority's (PBCHA) use of program funds for executive compensation and expenditures for contract services during the period of October 1, 2015 through September 30, 2018.

On behalf of the PBCHA's Board of Commissioners and staff, I would like to thank you and your staff, [redacted], [redacted], [redacted] and [redacted] for their time, effort and patience in conducting this review. We appreciate the collaborative approach with which the review was conducted.

This letter serves as the PBCHA's formal response and comments to the Draft Audit.

*names redacted for privacy reasons

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation	Auditee Comments

BACKGROUND

In 2017, the PBCHA Board of Commissioners conducted a review of records and financial reports by which they identified areas of concern, which ultimately led to the termination of the former Executive Director for financial misconduct and ethical violations. The termination resulted in several news articles and media coverage. The audit was conducted based on concerns raised by this media coverage. The audit's objective was to determine whether the Authority spent HUD funds for eligible program purposes and sufficiently supported its expenditures, focusing specifically on executive and employee compensation and expenditures for contract services.

Discussion

Recommendation 1A.
Require the Authority to reimburse its program from non-Federal funds for the $62,377 used to pay for the executive compensation.

Comment 1

The PBCHA disagrees with the determination that the funds used to pay for executive compensation in excess of the salary limit was taken from Section 8 and 9 income sources. The PBCHA provided information that it feels substantiated its position and indicated a separation of federal and nonfederal revenues. PBCHA believes that it maintained sufficient documentation which supported that the federal funds received by SPECTRA, its instrumentality , were related to specific costs and that all remaining costs utilized non-federal revenue and reserves built up since its inception. SPECTRA did receive Section 8 and Section 9 management fees, which were deemed to be fees earned under the 2013 Operating Fund Rule. Treatment of fee income for fee for service under OMB Circular A-87 and 24 CFR part 85, subsequently folded to 2 CFR 200, were deemed local revenue and are therefore de-federalized. HUD has never changed its position on the treatment of fees earned.[1] To date, HUD has not issued any guidance and written procedures through the rulemaking process regarding the refederalization of management fees. Therefore, PBCHA believes it has fully conformed to the rules as written.

[1] *U.S. Department of Housing and Urban Development, Change in Financial Management and Reporting for Public Housing Agencies Under the New Operating Fund Rule (24 CFR part 990), Supplement to HUD Handbook 7475.1REV., CHG-1, Financial Management Handbook, published by the Office of Public and Indian Housing (PIH), revised April 2007.*

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation	Auditee Comments
Comment 1	**The PBCHA will attempt to work with the HUD Miami Field Office to further review the documentation that was provided and any additional information that can support its position and provide reasonable assurance that program funds were used appropriately. In the event that further review cannot determine that Section 8 and Section 9 funds were used appropriately, it is unlikely that the PBCHA will be able to comply with the recommended repayment requirement. Documentation reviewed by the HUD OIG reflected that the dismissal of the former executive director was due to financial misconduct, misrepresentation of financial data and financial statements, possible abuses and misuse or mismanagement of funds, etc. This period of abuse has left the PBCHA with very few non-federal resources and it is unlikely that the PBCHA will be able to comply with the recommended repayment requirement. If required to repay, it would be necessary for the PBCHA to request a waiver of this repayment responsibility.** *Recommendation 1B* *Require the Authority to develop and implement written policies, procedures and other financial controls to ensure that Section 8 and 9 funds are not used to pay for compensation over the salary limit.*
Comment 2	**Issues related to the lack of financial controls and misuse or mismanagement of funds by the former administration have been clearly documented in a Board requested, independent forensic audit completed in December 2017 and a Comprehensive Management Review (CMR) performed by the HUD Miami Field Office in May 2018. Since that time, the PBCHA has begun taking corrective action to address past mismanagement and ensure compliance with statutory, regulatory ad contractual obligations. The PBCHA also requested a technical assistance project from HUD for significant assistance in the review of PBCHA's current practices and for the development of sound accounting policies and procedures for responsible financial management.** **The Miami Field Office notified the PBCHA that its Technical assistance request was approved on August 13, 2019. PBCHA is awaiting the assignment of a TA provider. It is believed that the assistance and training provided through the technical assistance will address these issues and allow the PBCHA to adequately and effectively utilize program funds.**

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation	Auditee Comments

Recommendation 1C

Require the Authority to reimburse the U.S. Treasury from non-federal funds for the $5,000 in ineligible costs paid to its contractors.

Comment 3

The agency does not disagree with the finding that expenditures paid to a contractor were ineligible. The invoices and contract presented for payment were not clearly drafted to ensure payments released reflected those of services rendered. However, the invoices for the ineligible costs were authorized and paid through approval of prior executive management. Only one individual had the authority to approve and request payment based on the invoices and they were removed from the agency due to Board concerns related to ineffective financial management/leadership as noted in the response to Recommendation 1A.

As previously stated, the PBCHA has very few non-federal resources and requests a waiver of this repayment responsibility.

Recommendation 1D

Require the Authority to develop and implement written policies and procedures for the payment review process to comply with applicable regulations in 2 CFR Part 200.

Comment 4

As stated in the response to Recommendation 1B, the Comprehensive Management Review identified issues related to inadequate procurement standards and noncompliance with federal procurement laws. It was noted in that report that the former administration and staff managing procurement activities were not cognizant of procurement practices to be followed per regulations found in 2 CFR Part 200.

Within its technical assistance request, the PBCHA also requested assistance in developing and implementing Procurement Procedures in accordance with all applicable guidance as contained in the federal register, 2 CFR 200, HUD Handbook 7460.8 Rev-2 an state and local law.

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation | **Auditee Comments**

Comment 4

The Miami Field Office notified the PBCHA that its technical assistance request was approved on August 13, 2019. PBCHA is awaiting the assignment of a TA provider. It is believed that the assistance and training provided through the technical assistance will address these issues and allow the PBCHA to adequately and effectively comply with federal procurement laws.

Recommendation 1E

Require the Authority to train its staff on its newly developed policies and procedures noted in recommendations 1B and 1D.

Comment 5

The PBCHA has and will continue to take advantage of training opportunities, webinars and industry best practices to address the issues identified in recommendation 1A and 1B and within the CMR. The PBCHA identified a number of training areas within its technical assistance request to include training related to financial management and procurement and contracting activities. As stated above, the technical assistance request has been approved and it is believed that training received through this project will suffice in addressing these issues.

If you have any questions regarding any of this information, please do not hesitate to contact me at (561) 684-2160, ext. 104.

Sincerely,

Carol Jones-Gilbert
Executive Director

CC: PBCHA Board of Commissioners

OIG Evaluation of Auditee Comments

Comment 1 The Authority disagreed with our determination and believed that they have maintained sufficient documentation to support that the executive compensation in excess of the salary limit did not come from Section 8 and Section 9 funds. We acknowledge the Authority's disagreement with the recommendation to reimburse $62,377 but maintain our position that the financial information the Authority submitted did not provide reasonable assurance to support that the executive compensation, in excess of the salary limit, came from non-Sections 8 and 9 funds as the compensation was paid throughout the year. In addition, the management fees are only considered Section 8 and 9 funds for the purposes of executive compensation as discussed in the finding, footnote 2, Notice PIH 2016-14. The Authority should work with HUD during the audit resolution process to ensure the recommendation is fully implemented and discuss repayment arrangements as necessary.

Comment 2 The Authority acknowledged the lack of financial controls and indicated it has started taking initial steps for corrective action. We acknowledge the corrective actions taken on behalf of the Authority to address internal control issues related to its financial management and the development of policies and procedures. The Authority should work with HUD during the audit resolution process to ensure the recommendation is fully implemented.

Comment 3 The Authority agreed with the finding issue related to payments made to one contractor but requested a waiver of the repayment responsibility. We acknowledge that the former executive management, who authorized and approved payment of these ineligible costs, was removed from the agency. However, this relates to the financial management weaknesses cited in the report. The Authority should work with HUD during the audit resolution process to ensure the recommendation is fully implemented and discuss repayment arrangements as necessary.

Comment 4 The Authority believed that the approved technical assistance will address these issues and allow the Authority to effectively comply with Federal procurement laws. We acknowledge the corrective actions taken by the Authority to request for technical assistance in addressing internal control issues related to the payment review process and the development of procurement policies and procedures. The Authority should work with HUD during the audit resolution process to ensure the recommendation is fully implemented.

Comment 5 We acknowledge the Authority's efforts to identify training opportunities for its staff in the areas of financial management and procurement. The Authority should work with HUD during the audit resolution process to ensure the recommendation is fully implemented.