Tuscan Homes I and II, Hartford, CT

Section 223(f) Multifamily Insurance Program

Office of Audit, Region 1
Boston, MA

Audit Report Number: 2019-BO-1004
September 9, 2019

To: Joe Crisafulli, Director, Boston Asset Management Division, 1AHMLA

//signed//

From: William W. Nixon, Acting Regional Inspector General for Audit, 1AGA

Subject: Tuscan Homes I and II in Hartford, CT, Was Not Always Managed in Accordance With Its Regulatory Agreement and HUD Requirements

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of Tuscan Homes I and II.

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 (617) 994-8380.

Audit Report Number: 2019-BO-1004
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Tuscan Homes I and II in Hartford, CT, Was Not Always Managed in Accordance With Its Regulatory Agreement and HUD Requirements

Highlights

What We Audited and Why

We audited Tuscan Homes I and II, a multifamily project located in Hartford, CT, because our risk assessment ranked the project as the highest risk multifamily project in New England. Our audit objective was to determine whether the owner managed the project in accordance with its regulatory agreement and U.S. Department of Housing and Urban Development (HUD) requirements; specifically, whether (1) exigent health and safety deficiencies were corrected and certified within required timeframes, (2) operating funds were used only for reasonable and necessary operating expenses, and (3) the project was used only for its intended purpose.

What We Found

The project's owner and management agent did not always manage the project in accordance with the regulatory agreement and HUD requirements. Although exigent health and safety deficiencies were corrected and certified within required timeframes, (1) the operating funds were not always used for eligible operating expenses, and expenses were not always supported, (2) the owner made advances to the project that were misclassified as loans, (3) the project may have been used for nonresident purposes, and (4) the management agreement was in conflict with the management agent's certification. These issues occurred because the owner and management agent lacked adequate controls for the operation of the project to ensure that project funds were used only in accordance with the regulatory agreement and HUD's requirements. As a result, the project incurred ineligible costs of $17,761 and unsupported costs of $17,653. In addition, $45,000 in owner advances misclassified as loans can be put to better use if the transactions are reclassified and properly recorded to ensure that any repayments are made in accordance with the regulatory agreement.

What We Recommend

We recommend that the Director of HUD's Boston Asset Management Division require the owner to (1) reimburse the project for $17,761 used for ineligible costs, (2) support or reimburse the project $17,653 for inadequately supported expenses, (3) reclassify and properly record $45,000 in owner advances, (4) obtain a formal agreement and approval from HUD regarding allowed nonresident uses of the project, and (5) strengthen controls to address the control weaknesses identified in the report.

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Background and Objective

The U.S. Department of Housing and Urban Development's (HUD) Section 223(f) program insures mortgage loans to facilitate the purchase or refinancing of multifamily rental housing. These projects may have been financed originally with conventional or Federal Housing Administration (FHA)-insured mortgages. HUD requires completion of critical repairs before endorsement of the mortgage and permits the completion of noncritical repairs after the endorsement for mortgage insurance. This program insures lenders against loss on mortgage defaults.

On January 29, 2013, HUD executed a regulatory agreement with the owner of Tuscan Homes I and II detailing the agreed-to terms and conditions to secure an FHA-insured mortgage loan. Specifically, the owner refinanced a more than $4.7 million loan for multifamily rental housing, in which more than $2.5 million was to be used for noncritical repairs under section 223(f) of the National Housing Act.

Tuscan Homes I and II is a 170-unit nonprofit multifamily project owned by Tuscan Brotherhood Homes II, Inc., and managed by Faith Asset Management. It receives project-based Section 8 assistance through its housing assistance payments contract with HUD. HUD renews Section 8 project-based housing assistance payments contracts with owners of multifamily rental housing. The project-based rental assistance makes up the difference between what an extremely low-, low-, or very low-income household can afford and the approved rent for an adequate housing unit in a multifamily project. Eligible tenants must pay the highest of 30 percent of adjusted income, 10 percent of gross income, or the portion of welfare assistance designated for housing.

The Multifamily Asset Management Division specializes in all aspects of affordable housing preservation. Multifamily Asset Management staff is responsible for property management, monitoring, and assisting owners and managing agents to maintain projects in good physical and financial condition.

Our audit objective was to determine whether the owner managed the project in accordance with the regulatory agreement and HUD requirements; specifically, whether (1) exigent health and safety deficiencies were corrected and certified within required timeframes, (2) operating funds were used only for reasonable and necessary operating expenses, and (3) the property was used only for its intended purpose.

Finding 1: The Project Was Not Always Managed in Accordance With Its Regulatory Agreement and HUD Requirements

The project's owner and management agent did not always manage the project in accordance with its regulatory agreement and HUD requirements. Although exigent health and safety deficiencies were corrected and certified within required timeframes, (1) the operating funds were not always used for eligible operating expenses, and expenses were not always supported, (2) the owner made advances to the project that were misclassified as loans, (3) the project may have been used for nonresident purposes, and (4) the management agreement was in conflict with the management agent's certification. These issues occurred because the owner and management agent lacked adequate controls for the operation of the project to ensure that project funds were used only in accordance with the regulatory agreement and HUD's requirements. As a result, the project incurred ineligible costs of $17,761 and unsupported costs of $17,653. In addition, $45,000 in owner advances misclassified as loans can be put to better use if the transactions are reclassified and properly recorded to ensure that any repayments are made in accordance with the regulatory agreement.

Exigent Health and Safety Deficiencies Were Corrected and Certified

On March 20, 2019, HUD's Real Estate Assessment Center performed a physical inspection of the project, resulting in a score of 94c. Because the score was greater than 60, HUD directed the owner to correct all nonexigent health and safety deficiencies as part of the ongoing maintenance program. However, the owner was required to correct the four nonexigent health and safety deficiencies identified within 3 business days of receipt of the inspection report. The owner corrected the deficiencies and notified HUD that the deficiencies had been corrected within 1 day after receiving the report.

Disbursements Were Not Always Used for Eligible or Supported Expenses

Although exigent health and safety deficiencies were corrected and certified within required timeframes, the management agent did not ensure that project operating funds were disbursed for goods and services that were eligible and supported. Specifically, we reviewed $790,323 in disbursements and advances and found ineligible costs of $17,761 and unsupported costs of $17,653.

Expense description	Ineligible	Unsupported
Management advances	$14,349	
Management fees	3,095	
Payroll reimbursements	144	$17,300
Eskill online training		278
Resident service coordinator	173	75
Totals	**17,761**	**17,653**

For example, the management agent made two advances to the project totaling $14,349 in May 2018. Advancing funds was an allowable activity, and the management agent stated that the advances were made solely to ensure that the project remained in operation, with the funds used to cover payroll and other critical items. However, in May and June 2018, the management agent repaid itself from project funds without HUD approval and while the project was in a non-surplus-cash position in violation of the regulatory agreement.[1] The owner did not have adequate controls in place to ensure that the advances were not repaid when the project was in a non-surplus-cash position. The management agent was not aware of the regulatory agreement regarding the repayment of advances and believed that the funds were loans that could be repaid regardless of the surplus-cash position. As a result, the repayment of these advances was ineligible, and the management agent should be required to reimburse the project's operating account.

In another instance, the management agent overbilled for its management fee. The management agent was approved to charge an 8.9 percent fee on residential income collected and was not approved to charge a fee on commercial or miscellaneous income, such as income from laundry and concession income, late fees, and pet fees. However, the management agent included miscellaneous laundry income collected and miscalculated residential income, resulting in a higher fee. The owner did not have adequate controls in place for the proper review and approval of management agent fees prior to payment. The management agent charged $3,095 in ineligible fees due to the inclusion of $22,312 in laundry income and $12,465 in miscalculated excess income when determining its 8.9 percent fee. The management agent also charged the project $317 in ineligible expenses for an overpayment for a resident service coordinator contractor and payroll reimbursements to the management agent.

Additionally, the management agent was unable to provide sufficient support for operating expenses, such as (1) payroll reimbursements to the management agent, (2) online training services, and (3) a payment to the resident service coordinator contractor. Specifically, when requested, the management agent did not provide payroll and benefits documentation for all payroll reimbursements, an invoice for the online training services, or all invoices to support the services provided by the resident service coordinator contractor.

Owner Advances Were Misclassified as Loans

The owner advanced funds to the project's operating account, including a $22,000 transfer in April 2018 and a $23,000 transfer in May 2018. These transfers were incorrectly recorded as loans, and an accounts payable was established. However, there were no corresponding loan instruments, such as a loan agreement detailing the repayment terms. Therefore, these transfers should have been classified and recorded as owner advances on the project's general ledger. As advances may be repaid only with HUD approval and from surplus cash, there is a risk of

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[1] Section 15 of the regulatory agreement states that any principal or any entity that advances funds on behalf of a borrower or for a borrower for reasonable operating expenses may be reimbursed from surplus cash at the end of the annual or semiannual period or such other time as may be approved in writing by HUD. The project was in a non-surplus-cash position, and HUD approval was not sought.

improper repayment from project operating funds.[2] These owner advances of $45,000 can be put to better use if the transactions are reclassified and properly recorded in the project's general ledger to ensure that any repayments are made in accordance with the regulatory agreement.

The Project May Have Been Used for Nonresident Purposes

The owner may have used the project's community and recreation rooms for nonresident purposes. Section 36h of the regulatory agreement stated that the borrower could not, without the prior written approval of HUD, permit the use of the mortgaged property for any other purpose except that for which it was originally intended or permit commercial use greater than that originally approved by HUD. The owner used the upper floor of the project's community room to hold meetings for Masonic lodge members twice a month for 2 to 3 hours in the evening. Therefore, the upper floor was not always available for use by the residents. However, the owner stated that they have used the community room in this manner for decades, HUD was aware of its use, and that the residents are not restricted from accessing the upper floor. In addition, the owner stated that it expected to use the project's recreation room once or twice a week for meetings and social activities. Project funds were used to pay the insurance and utility expenses for the community and recreation rooms. For the benefit of the owner and for HUD, clarification is needed on the authorized uses of the project's community and recreation rooms.

The Management Agreement Was in Conflict With the Management Agent's Certification

The management agreement and the management agent's certification were in conflict. The management agent certification required that the owner and management agent together certify that they would comply with HUD requirements and contract obligations and execute an acceptable management agent agreement. The management agreement outlined the services the management agent was responsible for performing and for which the management agent would be paid management fees. While the certification stated that the management fee was 8.9 percent of residential income and included bookkeeping services, the management agreement included a fee of $11.50 per unit for bookkeeping services on its compensation schedule. Although we did not find that the management agent charged the additional fee for bookkeeping services, the management agreement's compensation schedule should match the HUD-approved fees in the management agent's certification.

Conclusion

The project's owner and management agent lacked adequate controls to ensure that the project space and funds would be used only in accordance with the regulatory agreement and HUD's requirements. The owner did not have adequate controls in place to ensure (1) that advances were not repaid when the project was not it a non-surplus-cash position, (2) proper review and approval of management agent fees prior to payment, and (3) all operating fund disbursements were for eligible and supported expenses. As a result, the project incurred ineligible costs of $17,761 and unsupported costs of $17,653. In addition, $45,000 in owner advances misclassified as loans can be put to better use if the transactions are reclassified and properly recorded to ensure that any repayments are made in accordance with the regulatory agreement.

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[2] If the advances are repaid without HUD approval and while the project is in a non-surplus-cash position, the repayment(s) would be in violation of the regulatory agreement.

Recommendations

We recommend that the Director of HUD's Boston Asset Management Division require the project owner to

1A. Reimburse the project $17,761 from nonproject funds for the project operating funds disbursed for ineligible expenses.

1B. Support or reimburse the project $17,653 from nonproject funds for the project operating funds disbursed without sufficient supporting documentation.

1C. Reclassify and properly record $45,000 in owner advances misclassified as loans.

1D. Strengthen controls to ensure that project advances are reimbursed only when the project is in a surplus-cash position.

1E. Implement adequate controls to ensure the review of the management agent fee to ensure that it is properly calculated in accordance with the HUD management agent certification and approved prior to payment from project operating funds.

1F. Implement adequate controls to ensure that project funds are used only for eligible and supported operating expenses.

1G. Obtain a formal agreement and approval from HUD to specify who is authorized to use the project's community and recreation rooms and what activities are authorized or prohibited. In addition, this agreement must ensure that sufficient legal and liability protections are in place, establish consequences for noncompliance, and determine who is to pay for the utilities and maintenance of the rooms.

1H. Amend the management agent agreement compensation schedule to remove bookkeeping fees as a fee separate from the 8.9 percent management agent fee.

Scope and Methodology

We performed our audit work from February through May 2019 at the project located at 49 Montville Street, Hartford, CT, and at the management agent located at 50 Founders Plaza, Suite 200, East Hartford, CT. Our audit generally covered the period January 1, 2016, through December 31, 2018, and was expanded to March 20, 2019, to include a review of the most recent Real Estate Assessment Center inspection report.

To accomplish our objective, we

- Reviewed the applicable Code of Federal Regulations, HUD handbooks, and the project's policies and procedures.
- Reviewed key documents for the project, including the regulatory agreement, the management agent agreement, the mortgage, the reserve for replacement account, and rental deposits.
- Interviewed key project officials and HUD officials.
- Reviewed HUD's files related to the project's regulatory agreement and permitted uses of the project by nonresidents.
- Reviewed independent public auditor reports for the project.
- Reviewed HUD monitoring and Real Estate Assessment Center inspection reports for the project.[3]
- Selected a sample of 21 disbursements totaling $415,730 from a universe of 1,658 disbursements totaling more than $5.7 million to determine whether the costs were eligible, necessary, and supported. The sample was chosen based on large dollar disbursements, potential unnecessary types of costs, unreasonable amounts, the unknown nature of the costs, or amounts not associated with operating the project. We did not perform a statistical sample, so our results were not projected.[4]
- Reviewed 100 percent of management agent fee payments totaling $393,256 and 100 percent of owner and management agent advances and distributions totaling $14,349.

[3] The Real Estate Assessment Center's (REAC) mission is to provide and promote the effective use of accurate, timely and reliable information assessing the condition of HUD's portfolio and to provide information to help ensure safe, decent and affordable housing. REAC coordinates the procurement of uniform physical condition standards (UPCS) inspections for Office of Multifamily Housing (MFH) assisted and insured properties.

[4] The $415,730 included $33,012 in management agent fee disbursements. We reviewed 100 percent of the management agent fee disbursements.

To achieve our objective, we relied on the project's computer-processed data. We used the data to select samples to determine whether disbursements were eligible, necessary, and supported. For our disbursement tests, we traced automated data to source documents. Although we did not perform a detailed assessment of the reliability of the data, we performed a minimal level of testing and found the data to be adequate for our purposes.

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:

- Program operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.

- Reliability of financial information – Implementation of policies and procedures to reasonably ensure that relevant and reliable information is obtained to adequately support program expenditures.

- Compliance with laws and regulations – Policies and procedures that management has implemented to reasonably ensure that the use of resources is consistent with laws and regulations.

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 Deficiency

Based on our review, we believe that the following item is a significant deficiency:

- The project's owner and management agent lacked adequate controls to ensure that the project space and funds were used only in accordance with the regulatory agreement and HUD's requirements (finding).

Appendixes

Appendix A

Schedule of Questioned Costs and Funds To Be Put to Better Use

Recommendation number	Ineligible 1/	Unsupported 2/	Funds to be put to better use 3/
1A	$17,761		
1B		$17,653	
1C			$45,000
Totals	17,761	17,653	45,000

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.

3/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified. By implementing these recommendations, $45,000 in owner advances misclassified as loans can be properly classified and recorded on the project’s general ledger to ensure that any repayments are made in accordance with the project’s regulatory agreement.

Appendix B

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Faith Asset Management, LLC.

August 8, 2019

Mr. Joshua Sunderland
U.S. Department of Housing and Urban Development
Office of Inspector General
One Corporate Center
20 Church Street, 10th Floor Hartford, CT 06103

RE: AUDIT REPORT FOR TUSCAN HOMES I AND II, SECTION 223 (F) MULTIFAMILY INSURANCE PROGRAM

Mr. Sunderland:

Please see the below response to be included in the final audit report:

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Comment 1

Below is the Owner and Manager response to the Office of Inspector General's (OIG) Audit of Tuscan Brotherhood Homes, covering a total of four years (2015, 2016, 2017 and 2018):

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation	Auditee Comments
Comment 2	There are three categories reflected in the audit that show audit findings in areas of deficiency or noncompliance. There is a fourth category tested by OIG that addresses areas where negligence or intentional misuse of funds is cited. This category was not included in the audit report because no instances of these violations were identified.
	1) **<u>Exigent health and safety deficiencies were corrected and certified</u>**: Owner/Manager earned a 94c on the HUD REAC inspection on 3/20/2019 due to its efforts to correct major physical deficiencies at the property under very tight financial constraints. Health and Safety issues were corrected ahead of HUD's mandated time frame as reflected in the Audit.
Comment 3	2) **<u>Disbursements Were Not Always Used For Eligible or Supported Expenses:</u>** Of the $790,323 in disbursements and advances tested by the Office of Inspector General, 99.98% was utilized according to the HUD Regulatory Agreement. Below outlines the Owner's and Management's response to the .02% reflected as "ineligible or unsupported":
Comment 4	a) **Management Advances:** Tuscan was forced to operate for six years without a promised tax abatement from the City of Hartford. This substantially impacted its ability to function efficiently and resulted in critical physical and financial difficulties, including shutting off of utilities and an inability for Tuscan to meet its payroll. Management deferred its management fee for many months and at times Management was owed over $20,000 in deferred fees in order to maintain operations. In 2018 the negative cashflow reached a critical point and payroll for staff was at risk of not being paid. To avoid the devastating repercussions Tuscan would be subject (including hefty State and Federal penalties and potential legal action by employees), Management "loaned" Tuscan $14,349 to cover its payroll.

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation	Auditee Comments
	Management then repaid itself over a two month period when cashflow allowed, while still owed deferred management fees. Management categorized this cash input as a "loan"; however, HUD regulations require any outside infusions of cash be considered "advances" and paid back only after a property shows surplus cash. Management acknowledges that this "loan" should have been classified as an "advance" and not been returned until the property was in a surplus cash position.
Comment 4	**Management's Response To Auditor Recommendation to HUD:** Management is requesting twelve months to refund the "advance" made by itself to the property. Management is still recovering from the financial impact of deferring its management fee for Tuscan for years and having to re-advance $14,349 in short time would be detrimental to Management's operations.
Comment 5	b) **Management Fees:** Management acknowledges that it did not have the proper box checked on the HUD 9839b to allow it to calculate miscellaneous income (late fees and laundry income) as part of its management fee; and, therefore should not have collected these fees.

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation	Auditee Comments
Comment 6	c) **Staff Party:** Tuscan employees have received no annual increases or substantial bonuses for several years due to its cash flow issues; however, staff continued to work diligently in helping to maintain Tuscan as safe and decent (which takes additional effort than a fully operational site); and their hard work yielded a 94c on HUD's stringent physical REAC inspection. In an effort to boost morale, in a year when no increase or incentive was affordable, a holiday party was planned and employees attended for $60/person as a direct cost to the facility to cover food, music and the room space. Management does not see this as an unreasonable expense and does not see where it is outlined as an ineligible expense in the HUD regulations. It considers this an employee incentive within reasonable costs. **Management's Response To Auditor Recommendation to HUD:** Management is requesting that HUD reconsider this holiday party as an eligible expense unless HUD prohibits funds being used in this manner as an overall policy for all of its housing portfolio.
Comment 7	d) **Payroll Reimbursements:** Management acknowledges that detailed payroll support was not provided for a small percentage of the payroll reimbursements tested by the Auditor at the time the audit was finalized. Management did provide additional support and will continue to provide what it retrieves from its archives, and that of the third party payroll company, in order to further reduce these unsupported costs. Management understands that it must repay any costs that remain unsupported. **Management's Response To Auditor Recommendation to HUD:** Management is requesting twelve months to repay any unsupported payroll expenses as it is still recovering from the financial impact of deferring its management fee for Tuscan for years.

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation	Auditee Comments
Comment 8	e) **Eskills online training:** Management acknowledges that it did not provide detailed support for the skills training module purchased by Tuscan at the time of the audit. Management does intend to subsequently provide this documentation or repay the $278.
Comment 9	f) **Resident Service Coordinator:** Management acknowledges that there are ineligible or unsupported expenses in this category due to bookkeeping errors and intends to provide additional documentation. Management understands that it must repay any costs that remain unsupported.
Comment 10	**3) <u>Owner Advances Were Misclassified as Loans:</u>** Tuscan was forced to operate for six years without a promised tax abatement from the City of Hartford. This substantially impacted Tuscan's ability to oeprate efficiently and resulted in critical physical and financial difficulties, including utilities being shut off and payroll deficits. To avoid these devastating circumstances, the Owners "loaned" Tuscan $45,000 from an entity escrow account, set up by the owners voluntarily and designated for the sole benefit of the property and its residents. These funds were directly used to keep mandatory utilities (lights and trash removal) from being terminated; however, Management did not correctly classify these infusions of funds as an "advance". The owner has not repaid itself this "advance" to date and understands it cannot do so until the project is in a surplus cash position.
Comment 11	**4) <u>The Project Was Used for Nonresidential Purposes:</u>** The Owners objects to this finding and requests that the audit be revised or that HUD review the below and consider the matter resolved.

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation	**Auditee Comments**
Comment 11	The Owners and Lodge Members have coordinated use of the room for periodic meetings by the Lodge Members without ever prohibiting the use or attendance by the Tuscan Residents who are the primary users of the community room. In fact, a number of the Tuscan residents hold positions in the Lodge which serves as dual support that the room remains as use for residents. This matter was raised again by the new HUD regime during due diligence for the 2012 refinance. The rooms were inspected and HUD mandated that certain items be removed from storage and that a separate certificate of occupancy be obtained. The Owners complied and the City required code upgrades and other improvements for which the owner completed at their own expense. Once the requirements were met, the owners proceeded with allowing the Lodge and other outside organizations requested by the members to hold periodic meetings. The Lodge holds a total of two (2) meetings per month with a duration of three (3) hours each in the evenings. To further support the Owner's request to have this noncompliance finding removed, please see attached Hartford Courant Article dated June 30, 1987. Roland Hutter, HUD's representative at the time, investigated and concluded that the ***'...use of the community room by Tuscan Lodge #17 of the Free and Accepted Masons, seniors and other groups "requires some coordination" but that "no major problem" was found.'*** The Owners have complied with the Regulatory Agreement in this category.

Ref to OIG Evaluation	Auditee Comments
Comment 12	5) **<u>The Management Agreement Was in Conflict With the Management Agent's Certification:</u>** a) Management did not charge a bookkeeping fee in addition to its approved management fee. Management acknowledges that the management agreement with the Owner included a bookkeeping fee of $11.50/unit but that the HUD approved 9839b did not. Management never collected this fee as it was an error and oversight in the documentation which will be corrected. There is no additional correction action for this matter.
Comment 13	The Owner and Managing Agent acknowledge that they did not fully comply with all aspects of the HUD Regulatory Agreement and/or HUD's Management Agent Handbook. To ensure that the proper controls are in place: 1) Owner will review the Regulatory Agreement and Management Agent Handbook regularly with Management; 2) Management will ensure it references these documents, and seek HUD guidance and approval where clarity is needed, prior to implementing any new policies, executing HUD documents or utilizing funds outside of normal operational costs; and 3) All aged third-party records will be maintained onsite to avoid delays in producing support. These include payroll reports, timesheets. This would have eliminated any unsupported documentation and the $278 Eskills listed as an ineligible finding.

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation	**Auditee Comments**
Comment 13	Overall, the Owner/Manager believes that the Office Of Inspector General did a thorough job auditing Tuscan. As a result, the Owner/Manager was able to see areas where stronger controls were needed to be put in place. It should also be noted that Management kept HUD apprised of the financial constraints and physical challenges at all times. The local and regional HUD staff worked swiftly to expedite emergency loans from the reserve; work through voucher delay challenges; and provide whatever support Tuscan needed to help obtain the long delayed tax abatement. We look forward to a stronger more sound operation at Tuscan, as well as a stronger partnership with HUD, in light of the recent award of the retroactive tax abatement credits and increased diligence of the Owner/Management team to comply with Regulatory Agreement requirements.

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Thank you for your time and please feel free to contact me if there is anything further needed.

Sincerely,

Kimalee Williams
CEO, Faith Asset Mgt

OIG Evaluation of Auditee Comments

Comment 1 The owner and management agent stated that the audit period covered the four year period 2015, 2016, 2017, and 2018. Our audit covered the period January 1, 2016, through December 31, 2018, and was expanded to March 20, 2019.

Comment 2 The owner and management agent stated that there were three categories reflected in the audit that showed areas of deficiency or noncompliance. We agree as our questioned costs reflected in the finding and recommendations are identified as ineligible, unsupported, and funds to be put to better use.

They further stated that there was a fourth category tested by the OIG that addressed areas where negligence or intentional misuse of funds was cited and that this category was not included in the audit report because no instances of these violations were identified. This statement is misleading. Negligence or intentional misuse of funds would be causes of questioned costs. It appears the owner and management agent may be referring to unreasonable and unnecessary costs, which are a subset of unsupported costs. We did not classify costs as unreasonable or unnecessary in our final report.

Comment 3 The owner and management agent stated that of the $790,323 in disbursements and advances we tested, that 99.98 percent were utilized according to the HUD regulatory agreement. We disagree. The draft audit report identified ineligible and unsupported costs of $44,060, which was 5.6 percent of the disbursements and advances that we reviewed. Based on additional support provided by the management agent, we revised the ineligible and unsupported costs to $35,414, which reflects 4.5 percent of the disbursements and advances that we reviewed.

Comment 4 The owner and management agent acknowledged that advances were misclassified as loans and should not have been repaid until the project was in a surplus cash position. They are requesting 12 months to refund the advances due to concerns that re-advancing the $14,349 in a short period would be detrimental to their operations. The owner and management agent should work with HUD's Boston Asset Management Division during the audit resolution process to resolve this finding.

Comment 5 The owner and management agent acknowledged that they were not allowed to calculate miscellaneous income (late fees and laundry income) as part of its management fee; and, therefore should not have collected those fees. The owner and management agent should work with HUD's Boston Asset Management Division to resolve this during the audit resolution process.

Comment 6 The owner and management agent stated that they do not view the staff party cited in the report as an unreasonable expense and that they do not see where HUD regulations specifically prohibited it. They considered the expense as a reasonable employee incentive and requested HUD to reconsider the cost as an eligible expense. The draft report stated that the staff party was not a necessary operating expense for the project. We acknowledge the owner's and management agent's assertion that the expense was an employee incentive within reasonable costs, and we have removed the discussion of the staff party and the associated $650 of ineligible costs from the final report.

Comment 7 The owner and management agent acknowledged that detailed payroll support was not provided during the audit, and they have since provided additional supporting documentation and will continue to do so as the documentation is retrieved from their archives. We reviewed the additional documentation provided and, as a result, we increased the ineligible costs by $241. However, as noted in comment 6 above, we removed $650 of ineligible costs associated with the office party and, therefore, there was a net decrease of ineligible costs of $409 ($18,170-$17,761). We also decreased the unsupported costs by $8,237. These changes are reflected in this report. The owner and management agent requested 12 months to repay any unsupported payroll expenses as they are still recovering from the financial impact of deferring their management fee. The owner and management agent should work with HUD's Boston Asset Management Division to resolve the remaining costs during the audit resolution process.

Comment 8 The owner and management agent acknowledged that they did not provide detailed support for the skills training and have agreed to support or repay the $278. The owner and management agent should work with HUD's Boston Asset Management Division to resolve this during the audit resolution process.

Comment 9 The owner and management agent acknowledged that there were ineligible or unsupported expenses for the resident service coordinator and understand that any unsupported costs must be repaid. The owner and management agent should work with HUD's Boston Asset Management Division to repay any unsupported amounts during the audit resolution process.

Comment 10 The owner and management agent acknowledged that $45,000 was provided to the project from an entity escrow account and were misclassified as loans instead of advances. They stated that the owner has not repaid itself these advances to date and that they understand they cannot do so until the project is in a surplus cash position. The owner and management agent should work with HUD's Boston Asset Management Division to resolve this issue during the audit resolution process.

Comment 11 The owner stated that they objected to the finding that the project was used for nonresidential purposes and requested that it be removed from the audit report. The owner further stated that they and the lodge members have coordinated the use of the room for periodic meetings without ever prohibiting the use by the residents who are the primary users of the community room. They stated that this matter was raised again during the 2012 refinance of the project. They also cited a June 30, 1987, article in the Hartford Courant that stated a HUD representative at the time investigated and concluded that the '…use of the community room by

Tuscan Lodge #17 of the Free and Accepted Masons, seniors and other groups "requires some coordination", but that "no major problem" was found. The owner believed they have complied with the regulatory agreement. Although we acknowledge the article and its content, it predated the project's 2012 refinance by 25 years and did not necessarily apply. As stated in the report, the owner may have used the project's community and recreation rooms for nonresident purposes in violation of the regulatory agreement. We revised the audit report to provide better context. For the benefit of the owner and for HUD, clarification is needed on the authorized uses of the project's community and recreation rooms. The owner and management agent should work with HUD's Boston Asset Management Division to clarify proper use of the facilities during the audit resolution process.

Comment 12 The owner and management agent acknowledged that there was a discrepancy between the management agreement and the management agent's certification and that it will be corrected. The owner and management agent should work with HUD's Boston Asset Management Division during the audit resolution process to ensure correction.

Comment 13 The owner and management agent acknowledged that they did not fully comply with the HUD regulatory agreement and HUD's Management Agent Handbook and have proposed proactive actions to address the control weaknesses. They stated that they look forward to a stronger more sound Tuscan, as well as a stronger partnership with HUD. As recommended in this report, the owner and management agent should implement adequate controls to ensure that project funds are used only for reasonable, necessary, and eligible operating expenses. The owner and management agent should work with HUD's Boston Asset Management Division to implement adequate controls during the audit resolution process.