audit report

Issue Date June 20, 2011	
Audit Report Number 2011-LA-1011	

TO: Kelly Boyer, Director, Los Angeles Multifamily Housing Hub, 9DHML

Dane Narode, Associate General Counsel for Program Enforcement, CACC

Tanya E Schulze

FROM: Tanya E. Schulze, Regional Inspector General for Audit, Region IX, 9DGA

SUBJECT: Multifamily Insured Project Saint Timothy's Tower, Compton, CA, Was Not Administered in Accordance With HUD Rules and Regulations

HIGHLIGHTS

What We Audited and Why

We reviewed the books and records of Saint Timothy's Tower (project), a 114-unit U.S. Department of Housing and Urban Development (HUD)-insured (Section 236) Section 8 multifamily project consisting of 1 high-rise elevator building located in Compton, CA. We initiated the review in response to a request from the Departmental Enforcement Center due to its concerns about the owner's use of project funds. Our objective was to determine whether the project was administered in accordance with HUD rules and regulations. Specifically, we wanted to determine whether project funds were used for eligible purposes and whether the project was decent, safe, sanitary, and in good repair.

What We Found

The owner/agent improperly used or lacked supporting documentation for the use of $286,326 in project funds. The owner/management agent inappropriately used $154,421 in project funds for nonproject (ineligible) purposes in violation of its regulatory agreement. The ineligible uses included $94,815 for senior enrichment; $30,560 for a vacant lot; and $9,358 for lobbying, donations, and entertainment. Additional improper uses consisted of $8,388 paid to a resident to assist management in providing ineligible senior enrichment activities and unauthorized loans of $11,300. The owner also lacked documentation to support disbursements of $95,036 in office salaries and $36,869 in bad debt expenses.

The owner's procurement activities were also not adequately supported in accordance with HUD requirements. As a result, the owner did not ensure that it obtained $146,058 in goods and services at a reasonable cost and in accordance with HUD rules and regulations.

Finally, the owner did not always ensure that the project was decent, safe, sanitary, and in good repair. Our inspections revealed that the building and 18 of the 32 units inspected did not meet HUD's physical condition standards for HUD housing.

What We Recommend

We recommend that the Director of HUD's Los Angeles Office of Multifamily Housing require the owner/management agent to (1) repay the project operating account $143,121[1] used for ineligible expenses from non-Federal sources; (2) support $36,869 in bad debt expenses or repay the project's operating account from non-Federal sources; (3) discontinue the practice of using project operating funds to pay for payroll advances; and (4) establish and implement controls and procedures to ensure compliance with the regulatory agreement and other HUD requirements for documenting payroll, using payroll advances, and maintaining procurement documentation and to ensure that all units, common areas, and the emergency call system are decent, safe, sanitary, and in good repair. We also recommend that HUD perform a limited review of St. Timothy's Manor's ineligible senior enrichment expenses.

For each recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Please furnish us copies of any correspondences or directives issued because of the audit.

[1] Since unauthorized loans of $11,300 were repaid to the project, that amount is not included as part of the recommendations for repayment.

Auditee's Response

We provided our discussion draft report to the owner/agent on May 9, 2011, and held an exit conference on May 12, 2011. The owner/agent generally agreed with the facts of the findings and had already made some efforts to implement some corrective action, but disagreed it should be required to repay the questioned costs.

The complete text of the auditee's response, along with our evaluation of that response, can be found in appendix B of this report. The auditee also provided additional documentation related to the eligibility of the expenses. We did not include this in the report because it was too voluminous; however, it is available upon request.

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BACKGROUND AND OBJECTIVE

Saint Timothy's Tower (project) is located in Compton, CA. The project is owned by the nonprofit corporation, Saint Timothy's Manor doing business as Saint Timothy's Tower and Manor, Incorporated (Inc.). Saint Timothy's Tower and Manor, Inc., was incorporated with the Secretary of the State of California through its Articles of Incorporation on October 2, 1961. The nonprofit corporation, Saint Timothy's Manor, entered into a regulatory agreement with the U.S. Department of Housing and Urban Development (HUD) on July 1, 1970. Saint Timothy's Tower and Manor, Inc., owns and manages two separate HUD-insured projects: Saint Timothy's Tower and Saint Timothy's Manor. The project is located at 425 South Oleander Avenue in Compton, CA, and it shares management and common areas with the Saint Timothy's Manor project.

The project is a 114-unit HUD-insured (Section 236) Section 8 multifamily project consisting of 1 high-rise elevator building. The mortgage is due to be paid in full on September 1, 2011; thus, the regulatory agreement is in place until that date. Section 8 assistance is provided to 112 of the units. The project's residents are low-income senior citizens and people with disabilities. The facility provides housing, senior activities, and an interface for social services through the City of Compton and the County of Los Angeles. It received more than $1.4 million in Section 8 housing assistance payments from January 2008 to September 2010. Section 8 housing assistance payments are expected to continue after the mortgage is paid in full. Specifically, the housing assistance payments contract is active and does not expire until October 1, 2014.

Saint Timothy's Manor (manor) is a 21-unit apartment project for the elderly located in Compton, CA. It is operated under Section 202 of the National Housing Act. Its major program is its Section 202 HUD-insured direct loan. It is also subject to Section 8 housing assistance payments agreements with HUD.

Audit Objective

Our objective was to determine whether the project was administered in compliance with HUD rules and regulations. Specifically, we wanted to determine whether project funds were used for eligible purposes and whether the project was decent, safe, sanitary and in good repair.

RESULTS OF AUDIT

Finding 1: The Owner/Agent Improperly Used or Lacked Supporting Documentation for the Use of $286,326 in Project Funds

The project owner/agent did not comply with the terms of its regulatory agreement when it improperly used or lacked supporting documentation for the use of $286,326 in project operating funds. Specifically, the project owner/agent used $154,421 in project funds for ineligible expenses, and it could not support the eligibility of $131,905 in project funds. The problems occurred because the owner did not follow its regulatory agreement with HUD and did not ensure that it complied with HUD and Office of Management and Budget (OMB) rules and regulations. As a result, $286,326 in project funds was not available for reasonable operating expenses and necessary repairs.

The Owner Spent $286,326 on Ineligible and Unsupported Expenses

The owner spent $286,326 in project funds for ineligible ($154,421) and unsupported ($131,905) expenses (see appendix D). More specifically, the ineligible expenses related to the following:

- Senior enrichment costs of $94,815 for activities such as memorial services for deceased seniors, luncheons, gifts, fundraisers, and counseling services;
- Disbursements of $8,388 made to a tenant to assist management in providing senior enrichment activities;
- Payments totaling $30,560 for the occasional use of a vacant lot adjacent to the project;
- Unauthorized loans totaling $11,300[2] to employees/consultants in the form of payroll advances (however, all funds were paid back to the project's operating account); and
- Miscellaneous costs of $9,358 for activities such as lobbying, donations, and entertainment costs.

The unsupported expenses related to the following:

- Payroll expenses of $95,036 for employees that did not have timesheets or time activity reports to support that the employees worked on project activities and

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[2] The actual amount of unauthorized loans was $12,800. Since $1,500 of this amount was included in the $8,388 paid to a tenant to assist management in providing senior enrichment activities, the amount was reduced to $11,300 ($12,800 – $1,500).

- Bad debt expenses of $36,869 for which there were no records to support the nature of the costs.

Details of the expenses are discussed separately below.

The Owner Spent $154,421 in Project Funds for Ineligible Expenses

Ineligible Senior Enrichment Expenses

The owner used project operating funds totaling $94,815 for ineligible senior enrichment expenses (see appendix D). The regulatory agreement states that owners shall not "… pay out any funds, except for reasonable operating expenses and necessary repairs." Additionally, OMB Circular A-122, Attachment B: Selected Items of Cost, states that donations, contributions, and entertainment costs are not allowable (refer to appendix C). Contrary to HUD rules and regulations, project operating funds were frequently used for entertainment, counseling and church services, donations, memorial services, fundraisers, education, and gifts. Examples of specific ineligible senior enrichment expenses included the following:

- Donations to the California Community Foundation, Black History Program, Arts Council for Long Beach, Union of Black Episcopalians, and nonprofit organizations such as Food on Foot;
- Tickets to a Hollywood Bowl annual fundraiser;
- Tickets to attend the International City Theatre Anniversary Opening Gala;
- Tickets for a gala dinner hosted by 100 Black Men of Los Angeles; and
- Tickets to attend the 10^{th} Anniversary of Opera Noir.

In addition, more than 50 percent of the senior enrichment expenses went to Saint Timothy's Episcopal Church and its affiliates such as the Episcopal Men's Group, a Saint Timothy's Episcopal Church priest, and the Union of Black Episcopalians. For instance, project operating funds were used to pay a monthly enrichment fee of $2,000 to Saint Timothy's Episcopal Church. The fee was reportedly for the priest and assistant priest to provide services to the residents including counseling, Bible study, communion, and home prayer services for residents who were ill. We did not consider such operating expenses necessary to the project operations and, consequently, concluded that the senior enrichment expenses of $94,815 were ineligible project operating costs.

Ineligible Payments to Senior Services Coordinator

The project hired a resident as its senior services coordinator and paid $8,388 (see appendix D) for her services. According to the agreement, the coordinator's duties included organizing trips, town hall meetings, and holiday celebrations for the residents. These were not eligible project costs or activities because such duties were not necessary to the project operations, and as a result, we concluded that the $8,388 paid to the coordinator was ineligible.

St. Timothy's Manor

The senior enrichment expenses were shared with the owner's other HUD-insured project, the manor. The manor shared resources such as management, staff, and common areas with the project. The project and manor also had joint community activities. As a result, each project paid an allocated portion of these costs. For example, the project paid a percentage of senior enrichment costs that ranged from 82 to 85 percent during our audit period. Therefore, it appeared that the manor may have paid for the remaining 15 to 18 percent of these costs. We will address a separate memo to HUD on this issue.

Ineligible Payments for Vacant Lot

Contrary to the regulatory agreement, the owner used $30,560 (see appendix D) in project funds for monthly lease payments for the occasional use of a vacant lot adjacent to the project located at 401 South Oleander Avenue in Compton, CA. In 2008, operating funds of $2,000 were used at an auction for a deposit on the lot. Although Saint Timothy's Tower and Manor, Inc., used nonproject funds to purchase the property, the project made monthly lease payments of $2,040 to Saint Timothy's Tower and Manor, Inc., for the occasional use of the lot for celebrations, holidays, and parking. We concluded that the $2,040 was an unnecessary cost since it was only for occasional use and the project had other common areas and parking. Further, the lot was zoned for residential and not commercial use. Therefore, the owner did not have the authority to bill the project for use of the land for which it was not zoned. The loan was due to be repaid by the owner on the same date as the final payment was due on the project's mortgage; thus, it appeared that the $2,040 monthly payments were calculated to essentially repay the owner for the loan it had taken out for the purchase of the property. Consequently, we concluded that the $30,560 in expenditures was ineligible.

Unauthorized Loans

Contrary to the regulatory agreement, the owner made $11,300 in loans from project funds to project personnel, including the project administrator, secretary, and a general maintenance worker, for payroll advances; however, these amounts were repaid.

The regulatory agreement provides that the owner shall not pay out any funds except for reasonable operating expenses or encumber any personal property of the project without written approval from HUD. Although the funds were repaid, this was an ineligible use of project funds, and the owner needs to discontinue its practice of using project funds for payroll advances.

Due to the ineligible use of funds described above, $11,300 in project funds was not available to pay for operating expenses of the project at the time when the payroll advances occurred.

Other Ineligible Miscellaneous Costs

Project funds totaling $9,358 (see appendix D) were used for miscellaneous expenses as follows:

- Operating funds totaling $7,013 were disbursed to entities for donations. The entities that benefited from the donations included but were not limited to the Union of Black Episcopalian, the Episcopal Church Men's Association, and Saint Timothy's Church Choir. The owner also used project funds for lobbying, including donations to a United States presidential candidate campaign.
- Operating funds totaling $1,070 were used for entertainment expenses, such as a consultant hired to organize a New Year's party.
- Operating funds of $600 were used for bereavement donations, such as when tenants passed away.
- Operating funds of $675 were used to pay for ineligible advertising and public relations costs. For instance, the owner promoted its non-profit organization in its own newsletter. In addition, funds were used to pay memberships to the Compton Chamber of Commerce and art decorations. The owner/agent recorded these ineligible costs as advertising expenses.

The Owner Spent $131,905 in Project Funds for Unsupported Expenses

Unsupported Payroll Costs

Contrary to Office of Management and Budget Circular A-122, the project did not have payroll records such as timesheets for its employees or consultants. Instead, the payroll costs were allocated and charged to the project.[3] Of the salaries reviewed, we identified $95,036 in unsupported employee and consultant costs (see table below).

	Position	Amount
1	Bookkeeper	$69,126
2	Secretary	$14,664
3	Administrator	$11,246
	Total	**$95,036**

Since we confirmed that these employees and consultants worked for the project, we did not recommend additional support or repayment of the expenses. However, future payroll costs should be adequately supported by timesheets or other supporting documentation.

[3] The allocation ranged from 82 to 85 percent during our audit period. The difference was allocated to the manor.

Unsupported Bad Debt Expenses

The project had bad debt expenses totaling $36,869 in fiscal years 2008 ($19,652) and 2009 ($17,217). The owner was unable to provide sufficient documentation showing how the amounts were determined. According to the project bookkeeper, the audit adjustment requests were made by the certified public accountant during the project's annual financial statement audits. The bookkeeper added that the accountant did not provide supporting documentation for the request. Since the bookkeeper did not know how the amounts were determined, the bookkeeper wrote off the amounts and recorded them as bad debt expenses. In addition to the lack of supporting documentation, the amounts exceeded one percent of gross rents due from tenants which surpassed HUD's reasonable amount of bad debt expenses. Consequently, bad debt expenses of $36,869 were unsupported.

Conclusion

The owner/management agent used $286,326 in project funds for ineligible purposes or unsupported expenses. In addition, the owner may have charged ineligible expenses to its affiliated St. Timothy's Manor project. The deficiencies occurred because the owner did not establish and implement controls and procedures to ensure that project expenditures were eligible under the regulatory agreement and other HUD rules and regulations. As a result, $286,326 in project funds was not available for reasonable operating expenses and necessary repairs.

Recommendations

We recommend that the Director of HUD's Los Angeles Office of Multifamily Housing:

1A. Require the owner/agent to repay the project's operating account $94,815 from non-Federal sources for project funds used for ineligible senior enrichment expenses (see appendix D).

1B. Require the owner/agent to repay the project's operating account $8,388 from non-Federal sources for project funds paid to a tenant to assist management in providing senior enrichment activities (see appendix D).

1C. Require the owner/agent to repay the project operating account $30,560 from non-Federal sources for project funds used for the occasional use of a vacant lot (see appendix D).

1D. Require the owner/agent to repay the project operating account $9,358 from non-Federal sources for miscellaneous activities such as lobbying, donations, and entertainment costs (see appendix D).

1E. Require the owner/agent to support $36,869 in bad debt expenses or repay the project's operating account from non-Federal sources.

1F. Establish and implement controls and procedures to ensure compliance with HUD requirements and with all terms and conditions of the regulatory agreement including documenting payroll and payroll advances.

1G. Require the owner to support the eligibility of senior enrichment expenses paid by the manor or repay that amount from non-Federal sources.

We recommend that HUD's Associate Counsel for Program Enforcement, in coordination with the Director of the Los Angeles Office of Multifamily Housing and HUD's Office of Inspector General (OIG):

1H. Pursue double damages remedies against the responsible parties for the ineligible/inappropriate disbursements and the applicable portion of the unsupported disbursements that were used in violation of the project's regulatory agreement.

We recommend that HUD's Associate Counsel for Program Enforcement:

1I. Pursue civil money penalties and administrative sanctions, as appropriate, against the owner, operator, and/or their principals/owners for their part in the regulatory violations cited in this report.

Finding 2: The Owner/Agent Did Not Always Ensure That the Project Was Decent, Safe, Sanitary, and in Good Repair

The owner did not always ensure that the project was decent, safe, sanitary, and in good repair. Our inspections of 32 randomly selected units showed that 18 of these units and the building did not meet HUD's physical condition standards for HUD housing. These conditions occurred because the owner lacked sufficient policies, procedures, and controls to ensure that the project complied with HUD's rules and regulations regarding housing that is decent, safe, sanitary, and in good repair. Consequently, HUD funds were placed at significant financial and legal risk. In addition, tenants residing in the project were subject to health and safety risks.

Project Units Inspected Were Not Decent, Safe, and Sanitary

Our inspection of 32 randomly selected units and all 8 floors of the building identified 38 total deficiencies in 18 of the units and the building itself. Of the 38 deficiencies identified, 34 were considered 24-hour emergency repairs. One of the most significant and prevalent deficiencies was the obstruction of the tenants' emergency call systems by furniture, which prevented them from accessing the cords to request emergency assistance. In addition, the inspection identified four common area deficiencies on three of the eight floors of the project. For instance, a fire safety door did not close properly on the eighth floor. Fire doors are designed to withstand fire, heat, and smoke for a period of time; thus, the deficiency in the fire safety door was an unnecessary health and safety risk imposed on the elderly and/or disabled tenants living in the project. The units and floors that did not pass inspection are summarized in the table below (see appendix E for specific inspection results).

Saint Timothy's Tower	Floor failed	Number of units inspected	Number of units failed	Deficiencies
First floor	No	4	1	3
Second floor	No	4	3	4
Third floor	No	4	3	6
Fourth floor	No	4	3	6
Fifth floor	No	4	3	5
Sixth floor	Yes	4	2	5
Seventh floor	Yes	4	1	5
Eighth floor	Yes	4	2	4
Total	**3**	**32**	**18**	**38**

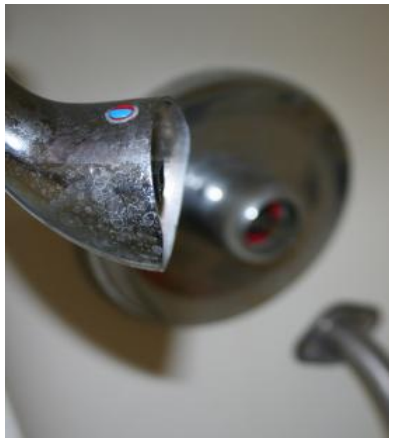
HUD requirements under 24 CFR (Code of Federal Regulations) 5.701 and 5.703 state that owners of HUD-insured projects and facilities with project-based Section 8 funding must maintain the dwelling units, site, building systems, and common areas free of health and safety hazards and in good repair. The deficiencies resulted in 56 percent of the units inspected failing physical condition standards for HUD housing. The photographs below illustrate some of the conditions found in the project units.

Call-for-aid pull cords registered to the project's emergency call system in units 214, 304, 507, and 807 were blocked by tenants' furniture and personal items.

Unit 205: Risk of electric shock due to inoperative ground fault circuit interrupter
Unit 211: Unsecured handle to the shower/tub to control the temperature of the water
Unit 314: Excessive grease on the wall near the stove, posing a fire hazard

Unit 205

Unit 211



Unit 314

Unit 400: Control knobs not secured to the stove
Unit 514: Electrical wall heater missing safety screen

Unit 400

Unit 514

The project had corrected the deficiencies. However, these deficiencies occurred because the owner did not establish adequate policies, procedures, and controls to ensure compliance with HUD rules and regulations regarding housing that is decent, safe, sanitary, and in good repair. Consequently, tenants were subjected to potential health and safety risks.

The Emergency Call System Was Not Monitored 24 Hours A Day

The owner/agent did not monitor the project's emergency call system 24-hours a day, as required by HUD Handbook 4910.1, Minimum Property Standards for Housing, because it lacked sufficient policies, procedures, and controls. The handbook states that in projects "containing 20 or more living units, each bathroom and one bed location in each living unit shall by furnished with one of following emergency call systems: an emergency call system which registers a call (annunciator and alarm) at one or more central supervised locations, an intercommunication telephone system connected to a switchboard which is monitored 24 hrs a day..."

The project had emergency call system panels in the management office and in a unit occupied by a tenant. The panel located in the office was monitored by the staff during business hours. However, the backup system panel located in the tenant's unit was not monitored, as it was blocked from clear view by a refrigerator at the time of the inspection. Further, the tenant did not have a contractual obligation to monitor the system. Emergencies can occur outside of business hours. Consequently, the absence of 24-hour monitoring of the system posed unnecessary health and safety hazards to the elderly and disabled tenants who may have required emergency assistance and placed HUD funds at significant financial and legal risk. In addition, both panels did not have the capability to be tested daily to determine whether the call-for-aid lights were functioning properly.

Conclusion

The owner did not always ensure that the project was decent, safe, sanitary, and in good repair. These deficiencies occurred because the project lacked sufficient policies, procedures, and controls to ensure that it complied with HUD's rules and regulations regarding housing that is decent, safe, sanitary, and in good repair. As a result, tenants residing in the project were subjected to potential health and safety risks. In addition, HUD funds were place at significant financial and legal risk because the project is HUD-insured and its units are subject to a housing assistance payments contract with HUD.

Recommendation

We recommend that the Director of HUD's Los Angeles Office of Multifamily Housing require the project to:

2A. Establish and implement sufficient written policies, procedures, and controls to ensure that all units, common areas, and the emergency call system comply with

HUD rules and regulations regarding housing that is decent, safe, sanitary, and in good repair.

2B. Install an additional emergency call-for-aid system panel at the lobby security desk or in another location that can be monitored by security personnel when the office is closed.

2C. Install an on/off check light switch or button that can be tested daily to determine whether the call-for-aid lights on each of the call-for-aid system panels are functioning properly.

Finding 3: The Owner/Agent Did Not Adequately Support Its Project Procurement Activities

The owner/agent awarded contracts for goods and services without maintaining procurement records as required by HUD regulations. This condition occurred because the project lacked sufficient written procurement policies, procedures, and controls to ensure that it retained procurement documentation for at least 3 years following the completion of the work. As a result, the project paid at least $146,058 to vendors without adequate support to show whether the goods and services were provided at a reasonable cost.

Procurement Documents Were Not Retained

The project was unable to provide documentation showing that it properly procured vendors for elevator repair, security services, and hazard insurance totaling $146,058 (see table below). Specifically, the project's administrator stated that bids and cost estimates were obtained when selecting its vendors but that the project did not keep the records. However, HUD Handbook 4381.5, paragraph 6.50(c), states that documentation of all bids should be retained as part of the project's records for 3 years following the completion of the work. Consequently, all records of bids should have been retained to show that goods or services were obtained at a reasonable cost and in accordance with HUD rules and regulations.

Vendors	Amount compensated (January 2008-September 30, 2010)
Thyssen Krupp Elevator	$49,441
RFP Ins. Agency	$23,626
Fountain Security	$53,236
Demsey Insurance	$19,755
Total	**$146,058**

The Project Did Not Have Adequate Written Policies and Procedures

We attribute the deficiency described above to the project's insufficient written policies and procedures. Although its procurement policy specified that management was required to obtain three estimates before purchasing goods or services, it did not provide details to ensure that the project retained procurement documentation for at least 3 years following completion of the work. Instead, it stated that management was required to obtain three estimates and obtain executive director approval for purchases exceeding $500 or obtain board of director's approval for purchases exceeding $2,500.

Conclusion

The project did not meet HUD procurement requirements. This condition occurred because the project lacked sufficient written procurement policies and procedures. Although written procurement policies and procedures were established, they did not provide details related to retention of records for 3 years following completion of the work. As a result, the project paid at least $146,058 to contractors without adequate support to show whether goods and services were obtained at a reasonable cost in accordance with HUD rules and regulations. However, since the services were performed and any potential overpayments did not appear to be material, we are not requiring the project to demonstrate the reasonableness to HUD. However, we recommend that the project establish and follow sufficient procurement procedures to ensure that all services are performed at a reasonable cost and HUD funds are spent accordingly.

Recommendations

We recommend that the Director of HUD's Los Angeles Office of Multifamily Housing require the project to

3A. Establish additional policies, procedures, and controls to ensure that it retains procurement documentation for at least 3 years following completion of the work.

SCOPE AND METHODOLOGY

We performed our onsite audit work at the project, located in Compton, CA, between October 2010 and March 2011. Our audit generally covered the period January 1, 2008, through September 30, 2010.

To accomplish our audit objectives, we

- Reviewed applicable HUD regulations, including Financial Operations and Accounting Procedures, HUD Handbook 4370.2, and the Management Agent Handbook 4381.5.
- Reviewed the regulatory agreement and the owner/agent's internal policies and procedures.
- Interviewed the project's management and staff and HUD employees.
- Reviewed the project's tenant rents, financial statements, accounting records including general ledgers, invoices, and supporting documentation related to the disbursements selected for review.
- Conducted a health and safety inspection of the project.

The project expended more than $2.4 million during our audit period of January 1, 2008, through September 30, 2010. We selected the administrative and operating and maintenance accounts for detailed testing since these were the two largest expense accounts on the general ledger. We also selected the elderly and congregate services expense account since the Departmental Enforcement Center identified in its referral that this account appeared to include ineligible expenses. We reviewed specific subaccounts of the administrative, operating and maintenance, and senior and congregate services accounts that exceeded $100,000 during our audit period. We reviewed (1) three administrative cost subaccounts (consultants, management fees, and office salaries); (2) three operating and maintenance cost subaccounts (contract and repairs labor, repair materials, and security contract); and (3) the elderly and congregate services subaccount, senior enrichment. We reviewed all transactions in these accounts that were more than $1,000. We selected additional expenditures for review based on auditor judgment.

We used RAT-STATS computer software to randomly select units for a health and safety inspection of the project. The selection included a random selection of 4 units for each of the 8 floors for a total of 32 units. The selection also included three replacement units for each floor in the event of rare, unique circumstances that did not affect the outcome of the audit. The project's common areas were also inspected for health and safety deficiencies. Our sample universe included all 114 units in the project.

We did not assess the reliability of computer processed data because we did not use that type of data, and therefore the assessment was not necessary.

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 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:

- Policies and procedures that management has implemented to ensure that HUD funds are expended in accordance with HUD rules and regulations.
- Policies, procedures, and controls that management has implemented to ensure that all units, common areas, and emergency call systems comply with applicable HUD rules and regulations regarding housing that is decent, safe, sanitary, and in good repair.

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) misstatement 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 project lacked sufficient policies, procedures, and controls to ensure that HUD funds were expended in compliance with HUD rules and regulations. (Finding 1 and 3)
- The project lacked sufficient policies and procedures to ensure that units were decent, safe, sanitary, and in good repair. (Finding 2)

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS

Recommendation number	Ineligible 1/	Unsupported 2/
1A	$94,815	
1B	$8,388	
1C	$30,560	
1D	$9,358	
1E		$36,869
Total	**$143,121**[4]	**$36,869**

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. These ineligible costs consist of project operating funds that were not used for reasonable operating expenses or necessary repairs.

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. These costs may consist of income or receivables that were not collected by the project and were recorded as bad debt expenses. However, the owner/agent was unable to provide support that the amount was due to uncollectible debts. Therefore, the amount was unsupported.

[4] Since unauthorized loans of $11,300 were repaid to the project, that amount is not included as part of the recommendations for repayment.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation | **Auditee Comments**

May 23rd 2011

St. Timothy's
Tower & Manor Inc.
425 S. Oleander Avenue
Compton, CA 90220
Ph: (310) 638-8251
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Ronald D. Chatman
Executive Director

Matthew Love
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Member

Phillip Watters
Member

Germaine Love
Member

Dwayne Ennis
Director

U.S. Department of Housing and Urban Development
Office of Inspector General Region IX
611 West Sixth Street Suite 1160
Los Angeles, CA 90017

Dear Mrs. Schulze,

I am writing to you in response to the letter of audit findings pertaining to St. Timothy's Tower and Manor, and would like to respectfully point out those findings which have already been corrected, as well as some errors or misinterpretations in said document. Upon consideration of these matters, we would further request that the audit report findings be revised, as appropriate.

Comment 1

Prior to OIG, at no time has management been contacted by HUD regarding the inappropriate use of funds in relation to regulatory agreements. However, management did receive a communication from HUD office dated May 5th 2009 regarding an unauthorized payment plan associated with our Replacement Reserve. Hence, this matter has been rectified in a response sent to HUD office June 3rd 2009. St. Timothy's Tower has always operated on the behalf of the residents; every dollar spent has been to enrich the lives and overall well being of our residents.

For the record, St. Timothy's Tower & Manor Inc. exist solely to support the daily operations of the Tower project. Furthermore, it is managements request that the project be absolved from repaying the $154,421.00 as suggested in your report. Management was informed by HUD staff ( ) at the time of the assumption of management duties, that once bills related to the operation of the project were paid, remaining moneys could be allocated to support the project as management deemed most appropriate, provided that justifications of expenditures and appropriate

Comment 2

records/documentation were maintained. As a result, management has consistently operated with the understanding and belief that funds have been allocated appropriately and in accordance with HUD guidelines. This understanding was reinforced by the fact that the disbursement of project funds was never questioned by the Department.

SENIOR ENRICHMENT:

Monies allocated to the Senior Enrichment Program have been used to:

- provide activities that enhance the quality of life of residents, living in an economically depressed, socially isolated environment and community.

Comment 3

- compensate for the failure of HUD to authorize funds for a Senior Coordinator.
- provide residents with a variety of culturally diverse events to enhance the quality of life of residents.
- improve the sense of self-esteem of the residents of the project.

Please note that we are no longer utilizing these funds for Senior Enrichment.

Page **2** of **4**

INELIGIBLE PAYMENTS TO SENIOR DOORDINATOR:

Comment 4

Management contracted one of our senior residents to assist in performing after hour lock-out services and monitor the 24 hour call for aid station. In exchange for these services the resident was paid a stipend. It was more cost effective to pay a stipend to one of our seniors than to hire another employee to perform similar duties. Hence, the term Senior Coordinator was incorrectly used.

LOANS: EMPLOYEES

All" loans" were actually payroll advances and were paid back in full, as stipulated in the employee's signed agreement with the project. Moneys were deducted from the employee's bi-monthly payroll check until repaid in full. (See attached)

Comment 5

In addition, management utilized moneys from St. Timothy's Tower & Manor Inc operating budget for these salary advances and did not directly use funds from the Tower project. Again, it is management's position that the funds used could be allocated at our discretion.

Note: Management has discontinued providing payroll advances to staff members in accordance with this finding.

401 S. OLEANDER AVENUE (VACANT LOT)

Management conducted a market analysis of other properties in the area in order to determine the appropriate rental value of this property for purposes related to the operation of St. Timothy's Tower.

Comment 6

The original purpose for acquiring this property was to provide additional parking for residents and guests. However, it was later determined that the property was not zoned specifically for parking but for a 3-1500 square foot facility, with associated parking. Currently, the property is utilized to provide additional parking for the Tower and also as a venue for such diverse activities as picnics, tree-lighting ceremonies, birthday celebrations, and other social events, all designed to enhance the quality of life of Tower residents. Furthermore, the market analysis conducted by management shows the fee assessed to the Tower project is less than market rate. (See attached).

OFFICE SALARIES

Comment 7

Timecards have always been mandatory for hourly employees and, per HUD request, a time clock has now been installed to record and document employee hours.

In the past management did not require a full-time, salaried employee to punch in and out of work. However, currently all employees are subject to stringent timekeeping requirements and procedures per OIG request (see attached).

BAD DEBTS:

Comment 8

The bad debts of $19,652.06 for fiscal year 2008 and the $17,219 for prior years were part of the audit adjustments prepared by our external auditor, Audrey Jones of Jones & Company Professional Corporation. The auditor failed to provide OIG and management with supporting documentation despite repeated request to support the data submitted in the audit .However, in reviewing the Resident Summary Balances from the OneSite management has compiled documentation that shows bad debts were not charged to the project for over five (5) years and that the amount of $36,869.06 for bad debts is reasonable. (See attached)

PROCUREMENT:

It has always been the policy and practice of management to secure a minimum of three (3) competitive bids prior to purchasing goods and services, and management has consistently secured both at below market prices/rates.

Comment 9

The procurement/bidding policy and procedure has been updated to clarify the length of time that bid information is to be retained for record-keeping purposes.

All services and goods exceeding $10,000 must now be rebid on an annual basis. (See attached)

OMB A-122 and OMB A-133

Comment 10

A financial plan with clearly delineated steps and procedures has been adopted by management to ensure that the project complies with all rules and regulations set forth for cost principles and financial auditing by the Office of Management and Budget (see attached).

HEALTH AND SAFETY

All deficiencies noted in the last inspection of the project have been addressed and corrected and policies and procedures have been put in place to ensure future compliance with inspection guidelines. Management has also implemented a preventive maintenance schedule for common areas and plant maintenance. (See attached)

Comment 11

In addition, management has also instituted a detailed checklist for unit inspections and maintenance staff is now required to attend seminars and training programs designed to help them enhance their job skills and proficiency.

An auxiliary call for aid station has been installed in the Tower lobby, as requested for monitoring the safety of our residents (see attached photos).

It should be stressed that the health and safety deficiencies noted by OIG (e.g., problematical access to call-for-aid station; clothing and furniture being stored on wall heaters; and issues related to basic cleanliness are attributable to resident non-compliance with rules and regulations and not to any impropriety on the part of project management.

St. Timothy's Tower & Manor is committed to providing professional services to enhance the overall quality of life for our residents. At the same time, we acknowledge the need to obtain the services of a qualified management group to ensure compliance with the Real Estate Assessment Center (REAC) and Housing Assistance Payment (HAP) requirements of the United States Department of Housing and Urban Development.

Comment 12

We are currently in the process of finalizing a management agreement, subject to HUD approval, with the Levine Management Group, Inc., headquartered at 822 S. Robertson Boulevard, Suite 200, Los Angeles, CA 90035. The Levine Management Group has over forty years of experience in the property management, development, and construction fields. The company currently manages in excess of 2,400 multi-family and senior citizen apartment units throughout Southern California. It also has extensive experience managing government-subsidized projects.

Comment 13

In closing, St. Timothy's Towers is appreciative of your consideration of these clarifications and of our request to amend the findings of the OIG audit.

Sincerely,

Ronald Chatman
Executive Director

Name has been redacted for privacy

OIG Evaluation of Auditee Comments

Comment 1 We appreciate the owner/agent's willingness to correct some of the deficiencies identified during the audit. We did not remove the deficiencies from the report since we are obligated to report the deficiencies identified during our audit. The owner/agent has a responsibility to comply with the regulatory agreement and other HUD requirements regardless of whether HUD contacts the project owner regarding the eligibility of project expenses. The audit resolution process will provide the owner/agent with ample opportunity to present evidence of corrective actions taken for each recommendation to HUD.

Comment 2 We disagree with the owner/agent that it should be absolved from repaying the ineligible and unsupported expenditures cited in the audit report. Further, the owner/agent's response incorrectly states that the ineligible and unsupported costs total $154,421. The actual amount of ineligible and unsupported costs cited in the report total $179,990 ($143,121 + $36,869). The owner/agent used project funds for ineligible expenditures in violation of its regulatory agreement with HUD. The owner/agent is bound by the terms of its regulatory agreement with HUD which limits the use of project funds to reasonable operating expenses and necessary repairs. The expenditures were not reasonable operating expenses or necessary repairs of the project. Therefore, $179,990 must be paid back to the project's operating account. As stated in Comment 1 above, whether HUD contacted the owner/agent or not is moot. The owner/agent has a responsibility to ensure it is in compliance with the regulatory agreement and other HUD requirements.

Comment 3 The senior enrichment expenses charged to the project were not necessary to the project operations; therefore, the costs are ineligible and must be repaid to the project's operating account. We acknowledge that the owner/agent stated that it no longer uses project funds for senior enrichment activities.

Comment 4 The senior coordinator's contract with the project owner/agent specified that she would work on senior enrichment activities. However, contrary to the owner/agent's statement, the contract did not specify that she would assist with after-hours lock out services or monitor the call for aid station. Since the senior coordinator was not contractually obligated to perform management agent duties such as lock-outs and call for aid monitoring, her entire stipend is not an eligible project operating expense. Therefore, all $8,388 paid to the coordinator are ineligible project costs and must be paid back to the project's operating account.

Comment 5 We agree that the employee loans were payroll advances and that they were paid back in full. However, a payroll advance is a type of loan and is not an eligible use of project funds. During our review, we determined that project Housing Assistance Payments and rental receipts were deposited to the project's operating account and subsequently transferred to the St. Timothy's Tower and Manor, Inc. account to pay for project operating expenses, including employee salaries and payroll advances. As a result, the advances were ultimately paid with project funds. Since all employee payroll advances were repaid, we did not recommend repayment of these costs in the audit report.

Comment 6 We reviewed a market analysis conducted by the owner/agent for the 401 South Oleander lot. We disagree with the conclusions reached by the owner/agent for several reasons. As stated in the report, the lot is a vacant residential dirt lot and is not zoned for parking. We also disagree with the estimate that 20 cars park on the lot each day. During our field work at the project site, the lot was used sparingly to park approximately 4 or 5 vehicles per day. The remainder of the lot was not used. As a result, we disagree with the owner/agent's justification for the vacant lot expenditures. The $2,040 monthly lease payment to park 4-5 cars per day was excessive and not necessary to the project operations. Therefore, we continue to recommend that the owner/agent repay all project funds used for the vacant lot to the project's operating account.

Comment 7 We acknowledge the owner/agent's efforts to implement a timekeeping system for all employees. The owner/agent should provide evidence of its corrective action to HUD during the audit resolution process.

Comment 8 We disagree. The documentation provided did not support how bad debt expenses totaling $36,869 was determined. The owner/agent also did not provide sufficient documentation to show that bad debts were not recorded for 5 years. Further, the owner/agent is responsible for ensuring that it pursues collection of all delinquent rents. Bad debts should only be charged to the project if necessary.

Comment 9 We appreciate the owner's willingness to correct the procurement documentation issues identified during the audit. We noted that the revised procurement and bidding policies and procedures still do not meet all HUD requirements. For example, the revised policy requires retention of procurement documentation for 7 years, while HUD Handbook 4381.5 requires retention of procurement documentation for 3 years following completion of the work. As a result, the owner/agent will not meet record retention for contracts that exceed 4 years (4 year contract + 3 year retention = 7 years). The owner/agent can work with HUD during the audit resolution process to adequately address the deficiencies.

Comment 10 We appreciate the owner/agent's efforts. The financial plan specified was not attached as indicated for our review. It can be provided to HUD during the audit resolution process.

Comment 11 We acknowledge the owner/agent's corrective action. We observed during the exit conference that the call-for-aid panel was installed in the lobby. However, we did not verify that it was functioning properly. The owner/agent can provide evidence of its corrective action taken to HUD during the audit resolution process.

We also noted that the checklist is not sufficient. The checklist did not state how often unit inspections be performed. (i.e. monthly or quarterly). The documents provided also did not specify any controls related to common areas and the emergency call system. The owner/agent's preventative maintenance schedule for common areas and plant maintenance was not attached as specified for our review.

The owner/agent is responsible for identifying health and safety deficiencies during inspections and requiring that deficiencies are corrected and that the deficiencies do not reoccur. It is also the responsibility of the owner/agent to follow-up on repeated instances for the safety of not only that tenant, but all other tenants in the building. The owner/agent is ultimately responsible for what occurs between inspections. The owner/agent must also take responsibility to ensure that tenants are educated about the deficiencies when repeated instances occur.

Comment 12 We acknowledge that the owner/agent is seeking a professional management agent to manage the project. The owner/agent should coordinate their plans with HUD to ensure that it obtains the services of a management agent in accordance with HUD requirements.

Comment 13 We commend the owner/agent for its efforts to correct the identified deficiencies. We did not amend the report to eliminate the deficiencies since they were in existence at the time of the audit and there were still items that require corrective action. However, we have included the owner/agent's response in this appendix to reflect the owner/agent's position and planned/taken action on each of the items.

Appendix C

CRITERIA

<u>Regulatory Agreement</u>

"7. Owners shall not without the prior written approval of the Commissioner:

(a) Convey, transfer, or encumber any of the mortgaged property, or permit the conveyance, transfer or encumbrance of such property;

(b) Assign, transfer, dispose of, or encumber any personal property of the project, including rents, or pay out any funds, except for reasonable operating expenses and necessary repairs;

(i) Pay any compensation, including wages or salaries, or incur any obligations, to themselves, or any officers, directors, stockholders, trustees, partners, beneficiaries under a trust, or to any of their nominees;"

<u>OMB Circular 122, Attachment B</u>

1. *Advertising and public relations costs.*

a. The term advertising costs means the costs of advertising media and corollary administrative costs. Advertising media include magazines, newspapers, radio and television, direct mail, exhibits, electronic or computer transmittals, and the like.

b. The term public relations includes community relations and means those activities dedicated to maintaining the image of the non-profit organization or maintaining or promoting understanding and favorable relations with the community or public at large or any segment of the public.

c. The only allowable advertising costs are those which are solely for:

(1) The recruitment of personnel required for the performance by the non-profit organization of obligations arising under a Federal award (See also Attachment B, paragraph 41, Recruiting costs, and paragraph 42, Relocation costs);

(2) The procurement of goods and services for the performance of a Federal award;

(3) The disposal of scrap or surplus materials acquired in the performance of a Federal award except when non-profit organizations are reimbursed for disposal costs at a predetermined amount; or

d. Other specific purposes necessary to meet the requirements of the Federal award.

(1) Costs specifically required by the Federal award;
(2) Costs of communicating with the public and press pertaining to specific activities or accomplishments which result from performance of Federal awards (these costs are considered necessary as part of the outreach effort for the Federal award); or

(3) Costs of conducting general liaison with news media and government public relations officers, to the extent that such activities are limited to communication and liaison necessary keep the public informed on matters of public concern, such as notices of Federal contract/grant awards, financial matters, etc.

e. Costs identified in subparagraphs c and d if incurred for more than one Federal award or for both sponsored work and other work of the non-profit organization, are allowable to the extent that the principles in Attachment A, paragraphs B. ("Direct Costs") and C. ("Indirect Costs") are observed.

f. Unallowable advertising and public relations costs include the following

(1) All advertising and public relations costs other than as specified in subparagraphs c, d, and e;
(2) Costs of meetings, conventions, convocations, or other events related to other activities of the non-profit organization, including:

(a) Costs of displays, demonstrations, and exhibits;

(b) Costs of meeting rooms, hospitality suites, and other special facilities used in conjunction with shows and other special events; and

(c) Salaries and wages of employees engaged in setting up and displaying exhibits, making demonstrations, and providing briefings;

(3) Costs of promotional items and memorabilia, including models, gifts, and souvenirs;

(4) Costs of advertising and public relations designed solely to promote the non-profit organization.

8. *Compensation for personal services.*

m. Support of salaries and wages.

(1) Charges to awards for salaries and wages, whether treated as direct costs or indirect costs, will be based on documented payrolls approved by a responsible official(s) of the organization. The distribution of salaries and wages to awards must be supported by personnel activity reports, as prescribed in subparagraph (2), except when a substitute system has been approved in writing by the cognizant agency. (See subparagraph E.2 of Attachment A.)

(2) Reports reflecting the distribution of activity of each employee must be maintained for all staff members (professionals and nonprofessionals) whose compensation is charged, in whole or in part, directly to awards. In addition, in order to support the allocation of indirect costs, such reports must also be maintained for other employees whose work involves two or more functions or activities if a distribution of their compensation between such functions or activities is needed in the determination of the organization's indirect cost rate(s) (e.g., an employee engaged part-time in indirect cost activities and part-time in a direct function).

Reports maintained by non-profit organizations to satisfy these requirements must meet the following standards:

(a) The reports must reflect an after-the-fact determination of the actual activity of each employee. Budget estimates (i.e., estimates determined before the services are performed) do not qualify as support for charges to awards.
(b) Each report must account for the total activity for which employees are compensated and which is required in fulfillment of their obligations to the organization.
(c) The reports must be signed by the individual employee, or by a responsible supervisory official having firsthand knowledge of the activities performed by the employee, that the distribution of activity represents a reasonable estimate of the actual work performed by the employee during the periods covered by the reports.
(d) The reports must be prepared at least monthly and must coincide with one or more pay periods.

12. *Donations and contributions.*

a. Contributions or donations rendered. Contributions or donations, including cash, property, and services, made by the organization, regardless of the recipient, are unallowable.

14. *Entertainment costs.*

Costs of entertainment, including amusement, diversion, and social activities and any costs directly associated with such costs (such as tickets to shows or sports events, meals, lodging, rentals, transportation, and gratuities) are unallowable.

25. *Lobbying.*

a. Notwithstanding other provisions of this Circular, costs associated with the following activities are unallowable:
   (1) Attempts to influence the outcomes of any Federal, State, or local election, referendum, initiative, or similar procedure, through in kind or cash contributions, endorsements, publicity, or similar activity;

   (2) Establishing, administering, contributing to, or paying the expenses of a political party, campaign, political action committee, or other organization established for the purpose of influencing the outcomes of elections;

   (3) Any attempt to influence: (i) The introduction of Federal or State legislation; or (ii) the enactment or modification of any pending Federal or State legislation through communication with any member or employee of the Congress or State legislature (including efforts to influence State or local officials to engage in similar lobbying activity), or with any Government official or employee in connection with a decision to sign or veto enrolled legislation;

(4) Any attempt to influence: (i) The introduction of Federal or State legislation; or (ii) the enactment or modification of any pending Federal or State legislation by preparing, distributing or using publicity or propaganda, or by urging members of the general public or any segment thereof to contribute to or participate in any mass demonstration, march, rally, fundraising drive, lobbying campaign or letter writing or telephone campaign; or

(5) Legislative liaison activities, including attendance at legislative sessions or committee hearings, gathering information regarding legislation, and analyzing the effect of legislation, when such activities are carried on in support of or in knowing preparation for an effort to engage in unallowable lobbying.

b. The following activities are excepted from the coverage of subparagraph a:

(1) Providing a technical and factual presentation of information on a topic directly related to the performance of a grant, contract or other agreement through hearing testimony, statements or letters to the Congress or a State legislature, or subdivision, member, or cognizant staff member thereof, in response to a documented request (including a Congressional Record notice requesting testimony or statements for the record at a regularly scheduled hearing) made by the recipient member, legislative body or subdivision, or a cognizant staff member thereof; provided such information is readily obtainable and can be readily put in deliverable form; and further provided that costs under this section for travel, lodging or meals are unallowable unless incurred to offer testimony at a regularly scheduled Congressional hearing pursuant to a written request for such presentation made by the Chairman or Ranking Minority Member of the Committee or Subcommittee conducting such hearing.

(2) Any lobbying made unallowable by subparagraph a (3) to influence State legislation in order to directly reduce the cost, or to avoid material impairment of the organization's authority to perform the grant, contract, or other agreement.

(3) Any activity specifically authorized by statute to be undertaken with funds from the grant, contract, or other agreement.

c. (1) When an organization seeks reimbursement for indirect costs, total lobbying costs shall be separately identified in the indirect cost rate proposal, and thereafter treated as other unallowable activity costs in accordance with the procedures of subparagraph B.3 of Attachment A.

(2) Organizations shall submit, as part of the annual indirect cost rate proposal, a certification that the requirements and standards of this paragraph have been complied with.

(3) Organizations shall maintain adequate records to demonstrate that the determination of costs as being allowable or unallowable pursuant to paragraph 25 complies with the requirements of this Circular.

(4) Time logs, calendars, or similar records shall not be required to be created for purposes of complying with this paragraph during any particular calendar month when: (1) the employee

engages in lobbying (as defined in subparagraphs (a) and (b)) 25 percent or less of the employee's compensated hours of employment during that calendar month, and (2) within the preceding five-year period, the organization has not materially misstated allowable or unallowable costs of any nature, including legislative lobbying costs. When conditions (1) and (2) are met, organizations are not required to establish records to support the allowablility of claimed costs in addition to records already required or maintained. Also, when conditions (1) and (2) are met, the absence of time logs, calendars, or similar records will not serve as a basis for disallowing costs by contesting estimates of lobbying time spent by employees during a calendar month.

(5) Agencies shall establish procedures for resolving in advance, in consultation with OMB, any significant questions or disagreements concerning the interpretation or application of paragraph 25. Any such advance resolution shall be binding in any subsequent settlements, audits or investigations with respect to that grant or contract for purposes of interpretation of this Circular; provided, however, that this shall not be construed to prevent a contractor or grantee from contesting the lawfulness of such a determination.

d. Executive lobbying costs. Costs incurred in attempting to improperly influence either directly or indirectly, an employee or officer of the Executive Branch of the Federal Government to give consideration or to act regarding a sponsored agreement or a regulatory matter are unallowable. Improper influence means any influence that induces or tends to induce a Federal employee or officer to give consideration or to act regarding a federally sponsored agreement or regulatory matter on any basis other than the merits of the matter.

30. *Memberships, subscriptions, and professional activity costs.*

a. Costs of the non-profit organization's membership in business, technical, and professional organizations are allowable.

b. Costs of the non-profit organization's subscriptions to business, professional, and technical periodicals are allowable.

c. Costs of membership in any civic or community organization are allowable with prior approval by Federal cognizant agency.

<u>HUD Handbook and Regulations</u>

1. **HUD Handbook 4566.2** (Management, Service, and Disposition Requirements for Projects) and **4350.1, REV-1** (Multifamily Asset Management and Project Servicing) checklists - Has annual write-off of tenants' accounts receivable for the last two fiscal years been less than 1% of gross rents due from tenants?

2. **HUD Handbook 4910.1, Minimum Housing Standards for Housing,** 100-2.20, Emergency Call Systems - In projects containing 20 or more living units, each bathroom and one bed location in each living unit shall be furnished with one of the following emergency call systems: an emergency call system which registers a call (annunciator and alarm) at one

or more central supervised locations, an intercommunicating telephone system connected to a switchboard which is monitored 24 hours a day, or an emergency call system which sounds an alarm (no the fire alarm) in the immediate corridor and automatically actuates a visual signal in the corridor at the living unit entrance.

3. **HUD Handbook 4381.5, The Management Agent Handbook**
   6.50 Contracting Guidelines
   (c) Documentation of all bids should be retained as a part of the project records for three years following the completion of the work.

4. **24 CFR 5.703, Physical condition standards for HUD housing that is decent, safe, sanitary and in good repair (DSS/GR)**
   HUD housing must be decent, safe, sanitary and in good repair. Owners of housing described in 5.701(a), mortgagors of housing described in 5.701(b), and PHAs [public housing agencies] and other entities approved by HUD owning housing described in 5.701(c), must maintain such housing in a manner that meets the physical condition standards set forth in this section in order to be considered decent, safe sanitary and in good repair. These standards address the major areas of the HUD housing: the site; the building exterior; the building systems; the dwelling units; the common areas; and health and safety considerations.
   (a) *Site*. The site components, such as fencing and remaining walls, grounds, lighting, mailbox/project signs, parking lots/driveways, play areas and equipment, refuse disposal, roads, storm drainage and walkways must be free of health and safety hazards and be in good repair...
   (b) *Building exterior.* Each building on the site must be structurally sound, secure, habitable, and in good repair. Each building's doors, fire escapes, foundations, lighting, roofs, walls, and windows, were applicable, must be free of health and safety hazards, operable, and in good repair.
   (c) *Building systems*. Each building's domestic water, electrical system, elevators, emergency power, fire protection, HVAC [heating, ventilating, and air conditioning], and sanitary system must be free of health and safety hazards, functionally adequate, operable, and in good repair.
   (d) Dwelling units.
      (1) Each dwelling unit within a building must be structurally sound, habitable, and in good repair...
      (2) Where applicable, the dwelling unit must have hot and cold running water, including an adequate source of potable water...
      (3) If the dwelling unit includes its own sanitary facility, it must be in proper operating condition, usable in privacy, and adequate for personal hygiene and the disposal of human waste.
      (4) The dwelling unit must include at least one battery-operated or hardwired smoke detector, in proper working condition, on each level of the unit.
   (e) *Common areas.* The common areas must be structurally sound, secure, and functionally adequate for the purposes intended. The basement/garage/carport, restrooms, closets, utility, mechanical, community rooms, day care, halls/corridors, stairs, kitchens, laundry rooms, office, porch, patio, balcony, and trash collection

areas, if applicable, must be free of health and safety hazards, operable, and in good repair...

(f) *Health and safety concerns.* All areas and components of the housing must be free of health and safety hazards. These areas include, but are not limited to, air quality, electrical hazards, elevators, emergency/fire exits, flammable materials, garbage and debris, handrail hazards, infestation, and lead-based paint. For example, the buildings must have fire exits that are not blocked and have hand rails that are undamaged and have no other observable deficiencies. The housing must have no evidence of infestation by rats, mice, or other vermin, or of garbage and debris...

(g) *Compliance with State and local codes.* The physical condition standards in this section do not supersede or preempt State and local codes for building and maintenance with which HUD housing must comply. HUD housing must continue to adhere to these codes.

Appendix D

SCHEDULE OF INELIGIBLE COSTS[5]

Year	Type of expense	Amount
2008	Senior enrichment	$38,477
2009	Senior enrichment	$33,286
2010	Senior enrichment	$23,052
	Subtotal senior enrichment	**$94,815**
2008	Pay to senior services coordinator	$4,938
2009	Pay to senior services coordinator	$1,974
2010	Pay to senior services coordinator	$1,476
	Subtotal pay to senior services coordinator	**$8,388**
2008	Vacant lot	$2,000
2009	Vacant lot	$10,200
2010	Vacant lot	$18,360
	Subtotal vacant lot	**$30,560**
2008	Miscellaneous expenses	$5,918
2009	Miscellaneous expenses	$3,030
2010	Miscellaneous expenses	$410
	Subtotal miscellaneous expenses	**$9,358**
Total		**$143,121**

[5] The schedule above is a summary of the questioned costs identified during our audit. We provided a detailed itemized listing of questioned costs with the audit report to project ownership/management and to HUD.

Appendix E

SCHEDULE OF INSPECTION RESULTS

Deficiencies			
	Unit number	**24-hour emergency repairs**	**Total**
Living room			
Call-for-aid devices	103, 214, 301, 304, 507	5	5
Wall heater	103, 507, 807	3	3
Closet doors	713	NA*	1
Kitchen			
Main service electrical panel	103 (24-hr), 713	1	2
Electrical receptacles GFIC**	205, 304, 501, 614, 803	5	5
Stove, controls, door	400	1	1
Inoperative burners, greased stove/wall	314, 612	2	2
Bathroom			
Call-for-aid devices	406	1	1
Electrical receptacles GFIC	406, 414, 614	3	3
Tub/shower controls	211, 314	2	2
Tub/shower walls, ceilings	414, 713	2	2
Mildew	314	1	1
Wall heater, screen	514	1	1
Bedroom			
Call-for-aid devices	214, 414, 514, 807	4	4
Closet doors	713	NA	1

Deficiencies			
	Unit number	**24-hour emergency repairs**	**Total**
Total 24-hour repairs		**31**	NA
Subtotal fails		NA	**34**
	Floor number		
Emergency exit			
Door lock and striker	7th	1	1
Trash room			
Doors	6th, 8th	2	2
Trash chute door	6th	NA	1
Subtotal 24-hour repairs		**3**	NA
Subtotal fails		NA	**4**
Total		**34**	**38**

* NA=not applicable
** GFIC=ground fault interrupter circuit