Sunset Manor Apartments
Blackfoot, ID

Project-Based Section 8 Housing Assistance Program

Office of Audit, Region 10
Seattle, WA

Audit Report Number: 2016-SE-1002
June 23, 2016

To:	Thomas W. Azumbrado Director, Multifamily Hub, San Francisco Regional Office, 9AHMLAP
	//**signed**//
From:	Ronald J. Hosking, Regional Inspector General for Audit, XAGA
Subject:	Sunset Manor, Limited Partnership, Blackfoot, ID, Did Not Administer Its Section 8 Program in Accordance With HUD Rules and Regulations

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of the Sunset Manor Apartments.

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 Web site. Accordingly, this report will be posted at http://www.hudoig.gov.

If you have any questions or comments about this report, please do not hesitate to call me at 913-551-5870.

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Sunset Manor, Limited Partnership, Blackfoot, ID, Did Not Administer Its Section 8 Program in Accordance With HUD Rules and Regulations

Highlights

What We Audited and Why

We selected Sunset Manor Apartments for audit because of a complaint made to the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's hotline. The complaint alleged that the project's owner collected housing assistance payments for unoccupied units, did not correctly calculate a tenant's income, and made unsupported disbursements. In addition, the complaint alleged that the owner violated identity-of-interest rules. Our objective was to determine whether the complaint was valid and whether the project's owner made unauthorized distributions and repayment of advances; maintained complete, accurate, and current books and records for the project; and participated in improper procurement practices.

What We Found

With the exception of the identity-of-interest allegation, the complaint was valid. The project's owner collected housing assistance payments for unoccupied units, incorrectly calculated a tenant's income, made unsupported and ineligible disbursements, took unauthorized distributions and repayment of owner advances while the project was in a non-surplus cash position, did not maintain complete and accurate records, and did not always procure goods and services in accordance with HUD rules and regulations.

What We Recommend

We recommend that HUD require the project's owner to (1) reimburse HUD for $6,118 in ineligible housing assistance payments and reimburse the project's tenant $792 for overcharged rent; (2) reimburse the project $106,030 for unauthorized distributions and repayment of loan advances, insufficient funds fees, and work that was not necessary for the operation of the project; and (3) provide support for unsupported disbursements and cost justifications for six service contracts and reimburse the project's operating or security deposit account, as applicable, up to $338,751 for any unsupported or unreasonable amounts. Further, we recommend that the owner obtain training on HUD's Section 8 program rules and regulations.

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Background and Objective

Sunset Manor Apartments (project) is a 48-unit apartment project for low-income elderly people located at 106 Main Street, Blackfoot, ID. The project was operated under Section 202 of the National Housing Act and regulated by the U.S. Department of Housing and Urban Development (HUD) with respect to rental charges and operating methods. The legal operating entity is Sunset Manor, Limited Partnership (Sunset Manor), and the general partner is Bingham County Senior Citizens Center, Inc., a nonprofit corporation. Under section 202, non-profit entities are not allowed to receive distributions of surplus cash from the property. The project was refinanced twice under Section 207; on August 15, 2006, and again on April 1, 2014. Under this section, the owner is allowed to receive distributions of surplus cash.

From January 2010 through September 2014, the project was managed by three different management agents. It became self-managed in October 2014. The project is subject to a Section 8 housing assistance payments agreement and a regulatory agreement with HUD. A significant portion of its rental income, ranging from about $116,000 to almost $177,000 per year from 2010 through 2014, was received from HUD through Section 8 housing assistance payments regulated by the agreements. The project-based Section 8 housing assistance payments program provides rental assistance to low-income individuals and families, enabling them to live in affordable, decent, safe, and sanitary housing. HUD makes the assistance payment to the owner of an assisted unit on behalf of an eligible family (including single persons), defined as having income at or below 80 percent of the area median income adjusted for family size.

On October 10, 2014, we received hotline complaint number 78944. The complaint alleged that the project's owner collected housing assistance payments for unoccupied units, did not correctly calculate a tenant's income, and made unsupported disbursements. In addition, the complaint alleged that the project violated identity-of-interest rules.

Our objective was to determine whether the allegations in the hotline complaint were valid and whether the owner made unauthorized distributions and repayment of advances; maintained complete, accurate, and current books and records; and participated in improper procurement practices.

Results of Audit

Finding 1: Sunset Manor Made Unauthorized Distributions and Repayment of Owner Advances While the Project Was in a Non-Surplus-Cash Position

Sunset Manor made unauthorized distributions and repayment of owner advances while the project was in a non-surplus-cash position. This condition occurred because Sunset Manor's management did not think it was making distributions, misinterpreted HUD's advice, and did not have written policies and procedures. As a result, the project had more than $100,000 less to operate and pay for future repairs to keep it decent, safe, and in good repair.

Sunset Manor Made Unauthorized Distributions and Repayments of Owner Advances

Sunset Manor made three unauthorized distributions from April 2014 to January 2015. According to Sunset Manor's regulatory agreement with HUD, it may not take distributions from project funds except from surplus cash calculated after the end of an annual or semiannual fiscal period. However, Sunset Manor made distributions totaling $5,000 in 2012, $2,322 in 2014, and $2,384 in 2015 (see table below). The project had a limited amount of surplus cash available in 2012 but none in the other years.

Sunset Manor made 11 unauthorized repayments of advances from August 2012 to November 2014. It initially borrowed $15,000 from the general partner because the project did not have sufficient funds to pay for maintenance repairs in anticipation of an inspection by HUD's Real Estate Assessment Center. Also, when Sunset Manor refinanced the project's mortgage, it did not have $29,485 needed for the upfront refinance closing costs. The general partner loaned the funds for that and $66,481 for other expenses to Sunset Manor.

Sunset Manor repaid the general partner $104,429 for these advances (see table below). However, as of fiscal year ending 2011, Sunset Manor's surplus cash was only $12,853, so any distributions and repayment of advances in excess of this amount were ineligible.

Year	Distributions	Repayments	Available surplus cash	Unauthorized distributions	Unauthorized repayments
2012	$5,000	$20,750	$12,853		$12,897
2013		44,163			44,163
2014	2,322	39,516		$2,322	39,516
2015	2,384			2,384	
Total				**$4,706**	**$96,576**

Sunset Manor's Management Did Not Think It Was Making Distributions, Misinterpreted HUD's Advice, and Did Not Have Written Policies and Procedures To Follow

The project's management did not think it was making distributions when it made the distributions. Management officials explained that they thought they were repaying advances the owner had made to the project but they could not provide documentation to show that these payments were repayments of advances.

Although HUD approved all of the Real Estate Assessment Center inspection repairs to be paid from the reserve for replacement account, HUD's project manager told Sunset Manor she wanted the project to make only one withdrawal request for the release of the funds for those repairs. Because small contractors in Blackfoot could not wait to be paid, the general partner loaned the money to Sunset Manor to pay those contractors as the work was completed. The general partner told us it made the advances with the stipulation that Sunset Manor would reimburse the advances once it received the project's reserve for replacement funds from HUD since HUD had previously stated that it expected owners to assist financially with the project if needed and would be reimbursed $100 or $200 per month from project funds as the project could afford to pay. From that, the project's management believed it was normal procedure on HUD projects for owners to be reimbursed. It also did not realize that any repayment of advances would have to be approved by HUD. Therefore, the general partner loaned the money to Sunset Manor to pay vendors and contractors as work was completed and then paid itself a refund from the reserve for replacement account once HUD released the funds.

In addition, management did not have written policies and procedures for making distributions or repaying owner advances. However, management was in the process of developing these policies and procedures with the assistance of a new board member who is a certified public accountant.

The Project Had Less Money To Operate

The project had more than $100,000 less to operate and pay for future repairs to keep it decent, safe, and in good repair. It also ended its last 3 fiscal years with a cash deficiency.

Recommendations

We recommend that the Director of HUD's San Francisco Office of Multifamily Housing Programs require Sunset Manor to

1A. Reimburse the project $101,282 from non-project funds ($4,706 for unauthorized distributions and $96,576 for unauthorized repayments of loan advances) and if necessary, make prior-period adjustments to the financial statements to disclose the information in accordance with generally accepted accounting principles.

1B. Develop and implement written policies and procedures to ensure that distributions are made only from surplus cash and that it obtains approval from HUD before making repayment of advances when the project is in a non-surplus-cash position.

Finding 2: Sunset Manor Did Not Always Solicit Written Cost Estimates

Sunset Manor did not always solicit written cost estimates for contractors to which it paid more than $10,000 in 1 calendar year. This condition occurred because Sunset Manor misunderstood HUD's requirements and wanted to continue its relationship with its existing vendors. Additionally, Sunset Manor did not have adequate policies and procedures in place for procuring contractors to whom it would pay more than $10,000 in a year. As a result, it could not ensure that it obtained services at the lowest possible cost and that the $219,309 spent on the six contractors was reasonable.

Sunset Manor Did Not Solicit Written Cost Estimates

Sunset Manor paid more than $10,000 each in 1 calendar year for elevator, management, housing assistance specialist, and plumbing services. It also paid more than $10,000 each year for 2 consecutive years for book keeping services and for 3 consecutive years for general contracting services. It did not solicit written cost estimates from at least three contractors or suppliers for any of these services.

According to HUD Handbook 4381.5, when an owner or management agent contracts for goods and services involving project income, it is expected to solicit written cost estimates from at least three contractors or suppliers for any ongoing supply or service contract that is expected to exceed $10,000 per year.

Service provided	Paid in 2012	Paid in 2013	Paid in 2014	Total
General contracting	$36,065	$20,722	$33,795	$90,582
Elevator services	14,527			14,527
Management agent		22,887		22,887
Book keeping		21,115	24,141	45,256
Management agent-housing assistance specialist			25,587	25,587
Plumbing			20,470	20,470
Totals	**$50,592**	**$64,724**	**$103,993**	**$219,309**

Sunset Manor Misunderstood HUD's Requirements, Wanted to Continue Its Relationship With Its Existing Vendors, and Did Not Have An Adequate Process For Procurement

Sunset Manor's understanding of the $10,000 procurement threshold was that it had to solicit written cost estimates only if an individual job during the year was going to be more than $10,000. It did not realize that it was required to obtain written cost estimates for multiple jobs or services provided by one vendor that added up to more than $10,000 in 1 year.

Sunset Manor also wanted to continue its relationship with its existing vendors instead of soliciting other price quotes. Three of the contractors that it improperly procured during our audit period were either existing or previous contractors for another job at the project. Sunset Manor improperly procured another two contractors because two existing project contractors referred them. In addition, Sunset Manor's policies and procedures did not include a process for procuring contractors which it would pay more than $10,000 in one year.

Sunset Manor Could Not Ensure That It Obtained Services at the Lowest Possible Cost

Sunset Manor could not ensure that $219,309 spent on its contractors was reasonable and that it obtained services at the lowest possible cost.

Recommendations

We recommend that the Director of HUD's San Francisco Office of Multifamily Housing Programs require Sunset Manor to

2A. Provide cost justifications for the six service contracts by obtaining written cost estimates from at least three contractors for each contract and reimburse the property's operating account from non-project funds up to $219,309 for any amounts that are unreasonable.

2B. Obtain training to ensure that it properly implements HUD rules and regulations regarding procurement.

2C. Develop and implement policies and procedures for procuring contractors which it will pay more than $10,000 in a year.

Finding 3: Sunset Manor Made Unsupported and Ineligible Disbursements

Sunset Manor made unsupported and ineligible disbursements from project funds. This condition occurred because Sunset Manor misunderstood HUD's requirements regarding disbursements and lacked oversight of the project's management agent and book keeper. As a result, Sunset Manor could not show that the $112,064 in unsupported disbursements was used for the benefit of the project. In addition, $4,587 was unavailable for operations. Further, it could not ensure $7,378 of security deposit funds was appropriately used.

Sunset Manor Paid Vendors for Invoices That Were Not Always Approved and Were Not Always Specific in Describing the Charges

Of the 251 disbursements reviewed, 64 were not supported. The project paid invoices that were not always approved and not always specific in describing the charges. For example, not all maintenance invoices specified the work performed, the number of hours spent, or the hourly rate. In addition, not all invoices had associated work orders or documented that services were complete.

HUD Handbook 4370.2, Financial Operations and Accounting, paragraph 2-6(E), and Sunset Manor's policies and procedures contain the requirements for making disbursements.

Sunset Manor Paid Vendors for Work That Was Not Necessary for the Operation or Maintenance of the Project

Of the 251 disbursements reviewed, 13 were ineligible since they were not necessary for the operation or maintenance of the project. Examples include overpayments, groceries, personal items, tools purchased by a contractor, and maintenance services performed in a previous management agent's residence.

Unnecessary costs	Number of occurrences	Value
Overpayments (excess of invoice, excess of Internal Revenue Service mileage rate, duplicate payment, and services already included in a contract)	9	$2,546
Groceries	1	113
Personal items	1	30
Tools purchased by a contractor	1	1,733
Maintenance performed at previous management agent's residence	1	165
Total	**13**	**$4,587**

Sunset Manor Could Not Demonstrate That Some Disbursements Made From Its Security Deposit Account Were Appropriate

Project management could not demonstrate that 18 of the 21 disbursements made to the project's operating account from the security deposit account totaling $7,270 were appropriate. Management claimed that these disbursements were for back rent owed to the project or for cleaning fees and repairs for damages caused by the tenants. However, management could not provide documentation to support this claim. In addition, Sunset Manor made a payment of $108 to the project's operating account from the security deposit account, even though it had already refunded that amount from the security deposit account to the tenant.

Sunset Manor Misunderstood HUD's Requirements Regarding Disbursements and Lacked Oversight of the Project's Management Agent and Book Keeper

The project's management incorrectly thought the management agent was allowed to invoice the project for repairs and materials procured without having to provide underlying receipts or other supporting documentation for invoices because the management agent was considered an outside contractor. Additionally, oversight was lacking as Sunset Manor relied on its management agent and book keeper, who did not always follow HUD rules and Sunset Manor's policies and procedures.

As a result, Sunset Manor could not show that $112,064 in disbursements was used for the benefit of the project. In addition, $4,587 was unavailable for operations. Further, it could not ensure that $7,378 in security deposit funds was appropriately used.

Recommendations

We recommend that the Director of HUD's San Francisco Office of Multifamily Housing Programs require Sunset Manor to

3A. Provide supporting documents for the $112,064 in unsupported disbursements and repay the project operating account from non-project funds for any amounts that remain unsupported.

3B. Repay the project $4,587 from non-project funds for the costs that were not necessary for the operation or maintenance of the project.

3C. Provide support showing that the project was entitled to the $7,378 from the security deposit account or reimburse the security deposit account from the operating account for any amounts to which the project was not entitled.

3D. Obtain training to ensure that it properly implements HUD rules and regulations regarding disbursements from project funds.

3E. Develop and implement controls to ensure that it follows HUD rules and its own policies and procedures for paying invoices.

Finding 4: Sunset Manor Did Not Always Claim Housing Assistance Payments and Calculate Tenant Income in Accordance With HUD's Rules and Regulations

Sunset Manor did not always claim housing assistance payments and calculate tenant income in accordance with HUD's rules and regulations. It claimed housing assistance payments for tenants that had moved out and did not fully include one tenant's medical expenses in her income calculation. This condition occurred because Sunset Manor lacked knowledge of HUD rules and regulations and did not monitor the housing assistance payment process. As a result, it received $6,118 in ineligible housing assistance payments for vacant units and overcharged a tenant $792.

Sunset Manor Claimed Housing Assistance Payments for 13 Tenants After They Had Moved Out of the Project

We reviewed the project's files and records for the 36 tenants who moved out during our audit period. Sunset Manor claimed housing assistance payments for 13 of the 36 tenants after they moved out of the project. The move-out dates reported to HUD did not match the dates and circumstances documented in the tenants' files and other records. Documents that conflicted or were inconsistent with the reported move-out dates included the move-out inspection checklist, lease termination notice, security deposit letter, obituary article, rent roll, and transaction entries in the project's books.

The housing assistance payments contract states that if a family vacates its unit, owners are not entitled to housing assistance payments unless the owner immediately notifies HUD of the vacancy or prospective vacancy and the reason for the vacancy. According to HUD, Sunset Manor did not notify HUD or ask for this entitlement during 2012-2014. In addition, HUD Handbook 4350.3, REV-1, CHG-3, section 9-12, states that owners are entitled to an assistance payment only for the actual number of days during the month in which the tenant occupied the unit.

Below are three examples of the questionable move-out dates that the project used to claim housing assistance payments.

Sunset Manor reported one tenant's move-out date as August 14, 2014, on the form HUD-52670 (Housing Owner's Certification and Application for Housing Assistance Payments) it submitted to HUD. However, the tenant's move-out date should have been June 9, 2014. The project's books showed that the last rent received from this tenant was on May 8, 2014, and an obituary article showed that the tenant passed away on May 26, 2014, at the project. Since HUD allows owners to prorate and receive housing assistance payments for 14 days after a tenant's death, the latest move-out date reported for a housing assistance payment claim should have been June 9, 2014. Sunset Manor claimed ineligible housing assistance payments in the amount of $833 for this tenant (from June 10 through August 14, 2014).

Sunset Manor reported another tenant's move-out date to HUD as August 30, 2014. However, the tenant's move-out date should have been June 15, 2014. The project's books showed that the last rent received from this tenant was on May 8, 2014. Management told us it held the unit for 30 days after discovering that the tenant had abandoned the unit. Its discovery of the abandonment was not documented in the file, and there was no correspondence in the file after April 2014. Although move-out documentation was required to be signed, dated, and placed into the tenant file, we had to request a copy of the move-out checklist and the move-out HUD-50059A (Owner's Certification of Compliance with HUD's Tenant Eligibility and Rent Procedures). The checklist had an incomplete date on the top and a signed date of July 15, 2015, about a year after the reported move-out date. The project's management said it mistakenly dated the checklist July 15, 2015, rather than July 15, 2014. Since Sunset Manor held the unit for 30 days after discovering it was abandoned and the move-out inspection checklist was dated July 15, the unit was vacated no later than June 15, 2014. Therefore, it claimed ineligible housing assistance payments in the amount of $933 for this tenant (from June 16 through August 30, 2014).

Sunset Manor reported a third tenant's move-out date on the HUD 52670 as December 5, 2013. However, the tenant's move-out date should have been November 1, 2013. Sunset Manor paid a move-out cleaning invoice for this unit, dated November 19, 2013. Additionally, the last rent for this tenant was recorded on October 3, 2013, the tenant's written move-out notification stated that the intended move-out date was November 30, 2013, and the move-out inspection checklist noted that the tenant moved out 30 days before the intent to vacate. Therefore, Sunset Manor claimed ineligible housing assistance payments in the amount of $400 for this tenant (from November 2 through December 5, 2013).

The ineligible housing assistance payments received for the 13 tenants are shown in the table below.

Unit number	Ineligible housing assistance
106	$ 380
111	84
113	221
115	32
201	288
203	361
206	833
208	13
302	198
306	933
308	400
310	656
316	1,719
Total	**$ 6,118**

Sunset Manor Miscalculated One Tenant's Income

Sunset Manor miscalculated one of the nine tenant income calculations reviewed. It incorrectly calculated the tenant's income by not including the tenant's full year's medical expenses. HUD Handbook 4350.3, paragraph 5-10(D), Medical Expense Deduction, states that if the family is eligible for a medical expense deduction, owners must include the unreimbursed medical expenses and that medical expenses include all expenses the family anticipates to incur during the 12 months following certification or recertification that are not reimbursed by an outside source, such as insurance. In this case, Sunset Manor did not multiply the monthly medical insurance policy payment by 12 months when it processed the tenant's recertification effective February 1, 2013.

Sunset Manor Lacked Knowledge of HUD Rules and Regulations and Did Not Monitor Its Housing Assistance Payment Process

Sunset Manor thought it could collect housing assistance payments for 30 days on units from which the tenant had moved but for which the tenant had not provided a 30-day written notice of intent to vacate. Additionally, it did not have a process for monitoring its housing assistance payment process and did not have written policies and procedures to follow when processing move-outs. The incorrect calculation of tenant income was due to human error and was not a systemic issue. As a result, Sunset Manor received $6,118 in ineligible housing assistance payments for vacant units and overcharged a tenant $792.

Recommendations

We recommend that the Director of HUD's San Francisco Office of Multifamily Housing Programs require Sunset Manor to

4A. Reimburse HUD $6,118 for ineligible housing assistance payments.

4B. Reimburse the overcharged tenant $792.

4C. Obtain training on HUD rules and regulations regarding Section 8 housing assistance payments.

4D. Develop and implement policies and procedures for monitoring its housing assistance payment claims and processing move-outs.

Finding 5: Sunset Manor's Books and Accounts Were Not Always Complete, Accurate, and Current

Sunset Manor's books and accounts were not always complete, accurate, and current. Specifically, its waiting list was not complete, its accounting system incorrectly identified checks written to the general partner as being deleted, voided, or missing, it contained incorrect information for other checks, and its bank reconciliations were not always accurate. This condition occurred because Sunset Manor did not have adequate written policies and procedures for its management agents to follow. As a result, it could not ensure that the tenants were properly and fairly housed, and did not always know the financial position of its operating account.

Sunset Manor's Waiting List Was Not Complete

Sunset Manor had no waiting list until it started keeping a manual list in September 2014. However, even that list did not always contain the date and time of selection to confirm that the tenants were correctly selected and housed at the appropriate time. Sunset Manor did not record the date and time for 8 of the 10 tenants who were selected from the waiting list and housed during our audit period. HUD Handbook 4350.3, REV-1, paragraph 4-18(D), requires that the manual waiting list provide an easily viewable record of the date and time of application and date and time of selection from the waiting list.

Sunset Manor's Accounting System Incorrectly Identified Five Checks Written to the General Partner as Voided, Deleted, or Missing

We found five checks totaling $37,250 that were written to the general partner and cleared the bank but were voided, deleted or missing from the accounting system. The following schedule shows the details for all five checks.

				Date recorded as		
Check #	Amount	Date issued	Date cleared	Voided	Deleted	Listed as missing
7670	$ 1,500.00	11/17/2011	11/22/2011	12/5/2011		
7803	$ 1,000.00	7/19/2012	7/23/2012	11/22/2012	9/11/2013	
7827	$ 18,250.00	8/31/2012	9/4/2012			Yes
7898	$ 1,500.00	12/13/2012	12/14/2012		9/4/2012	Yes
7930	$ 15,000.00	2/4/2013	2/5/2013	9/4/2014	9/4/2014	

Sunset Manor's Accounting Records Contained Incorrect Information

The accounting system contained incorrect information for 20 checks. The following are examples of checks cashed by the bank that did not match the check number, vendor, or amount in the accounting system:

- Check 7673 cleared the bank, payable to cash for $172.04, but in the accounting system check register, it was recorded as payable to the general partner for $1,500.

- Check 7919 cleared the bank on January 14, 2013, payable to Idaho Power for $2,029, but in the accounting system, it was recorded as a missing check. Check 7917 was recorded in the system as the check issued to Idaho Power instead. Check 7917 had not cleared the bank as of December 22, 2014.

- Check 7920 cleared the bank on January 4, 2013, payable to Melinda's Management Company, LLC, for $1,567, but in the accounting system check register, it was recorded as payable to Shirley & Company for $675. The check register showed check 7918, payable to Melinda's Management for $1,567. However, this check had not cleared the bank as of December 22, 2014. The accounting system showed check 7922 as missing. However, it cleared the bank on January 10, 2013, payable to Shirley & Company for $675.

Sunset Manor's Bank Reconciliations Were Not Always Accurate

Of the 60 months' bank reconciliations reviewed, 11 months included discrepancies beginning October 2012. In performing reconciliations, Sunset Manor's accounting software uses the ending balance from the previous month's reconciliation as the beginning balance for the current month's reconciliation. This is similar to what is done on the bank statement where the bank uses the ending balance from the last statement as the beginning balance on the current statement. Therefore, the beginning balance from Sunset Manor's reconciliation should match the ending balance from its previous reconciliation as well as the beginning balance used by the bank. However, in 10 of the 11 reconciliations, the beginning balance in Sunset Manor's reconciliation was not the same as the beginning balance shown in the bank statements. In 8 of the 11 reconciliations, the beginning balance in the reconciliation was not the same as the prior month's ending balance.

Sunset Manor Did Not Have Adequate Written Policies and Procedures for the Management Agents To Follow

The project was managed by three different property management agents from fiscal years 2010 to 2014. Since there were no policies and procedures, there was no consistency as to how each management agent maintained the project's records. This inconsistency created the many financial record discrepancies noted. The discrepancies generally started at the end of fiscal year 2011. The general partner was unaware of the inaccuracy of the accounting activities until we brought the matter to its attention. The general partner discovered during our audit that the previous property management agents and their contracted employees were not skilled in managing HUD properties or operating the project's QuickBooks accounting system. Also during our audit, the general partner reviewed the related HUD handbooks and worked on creating and implementing written policies and procedures.

Due to the poor record keeping, Sunset Manor could not ensure that tenants were properly and fairly housed, did not always know the financial position of its operating account to effectively manage the project, and incurred $161 in insufficient funds fees.

Recommendations

We recommend that the Director of HUD's San Francisco Office of Multifamily Housing Programs require Sunset Manor to

5A. Establish and implement written policies and procedures to record the date and time of tenant selection from its waiting list.

5B. Establish and implement written policies and procedures to ensure check numbers, amounts, and payees are accurately recorded in its accounting system.

5C. Reimburse its operating account $161 from non-project funds for ineligible insufficient funds fees.

5D. Establish and implement written policies and procedures to ensure that bank reconciliations are accurately performed.

5E. Reperform its operating account bank reconciliations, beginning with the October 2012 statements, to reflect the accurate balance in its accounting system.

Scope and Methodology

We performed our onsite audit work between January 26 and June 26, 2015, at Bingham County Senior Center located at 20 East Pacific Street, Blackfoot, ID. Our audit period originally covered January 2012 through December 2014 but was expanded to include January 2010 through January 2015.

To accomplish our objective we performed the following steps:

- Reviewed the complaint;
- Reviewed applicable laws and HUD regulations and handbooks;
- Reviewed the Sunset Manor Apartments regulatory agreement and housing assistance payments contract;
- Interviewed HUD, project-based contract administrator, and project staff members; and
- Reviewed the project's policies and procedures, books and records, and financial statements.

Sample Selection

To determine whether the complaint allegations were valid, we sampled various areas of the project's books as described below. Since we were looking for specific examples of noncompliance, taking a statistical sample with results that would be representative and projectable would not have been cost effective. Also, given the number of records to review in the various areas, a 100 percent review was also not always cost effective.

Distributions and Advances

We selected and reviewed 100 percent of the checks totaling $120,635, written by Sunset Manor to the Bingham Senior Citizen's Center from January 2012 through January 2015, to determine whether distributions and repayment of advances were appropriate.

Procurement

We selected all vendors that received more than $10,000 in any one year from 2012 through 2014 to determine whether the project followed HUD's procurement requirements. We focused on these vendors since the project is required to solicit written cost estimates for any contract or service anticipated to exceed $10,000 in a year. These services totaled $276,235.

Disbursements

For 2012 through 2014, we selected 100 percent of the payments to the four contractors that received the highest dollar amounts during our audit period totaling $222,542. We focused on the contractors that received the largest payments so we could evaluate a large portion of the funds disbursed to vendors by reviewing only a few vendors. In addition, for 2012, we reviewed all other checks that cleared the project's operating bank account in the amount of $252,504 to ensure that they were supported.

Security Deposits

For the period January 2012 through December 2014, we selected and reviewed all checks from the project's security deposit account totaling $5,460 that were issued to anyone other than tenants. For the same period, we reviewed all transfer and withdrawal transactions in the project's security deposit account totaling $23,977.

Housing Assistance Payments

We reviewed the housing assistance payments for all 36 of the units from which tenants moved from January 2012 through December 2014 to determine whether claims were made on vacant units. We reviewed the income calculations for all nine of the tenants mentioned in the complaint.

Waiting List

We selected and reviewed 100 percent of the tenants who were selected and housed from the waiting list during our audit period to determine if they were correctly selected and housed in the proper order.

Bank Reconciliations

We selected and reviewed 100 percent of the reconciliations performed from 2010 through 2014.

We did not rely on computer-processed data as the basis for our conclusions. Instead, we relied on source documentation to support our conclusions.

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:

- Controls to ensure that distributions and repayment of advances to owners are authorized and appropriate.
- Controls to ensure that contracts for goods and services are appropriately procured and documented.
- Controls to ensure that disbursements are appropriate and supported.
- Controls to ensure that security deposits are appropriately used.
- Controls to ensure that housing assistance payment calculations are correct and claimed appropriately.
- Controls to ensure that accounting records are current and accurate.

We assessed the relevant controls identified above.

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

Significant Deficiencies

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

- Sunset Manor did not have a written policy in place to ensure that it obtained approval from HUD for repayment of owner advances and ensure that distributions and repayment of owner advances were made only when the project was in a surplus-cash position (finding 1).

- Sunset Manor did not have adequate written policies in place for procuring contractors which it would pay more than $10,000 in a year (finding 2).
- Sunset Manor did not have controls in place to ensure that its management agents followed HUD rules and its own policies and procedures for paying invoices (finding 3).
- Sunset Manor did not have written policies and procedures for making housing assistance payment requests or for processing move-outs (finding 4).
- Sunset Manor did not have adequate written policies and procedures to ensure accuracy in maintaining the project's books and records (finding 5).

Appendixes

Appendix A

Schedule of Questioned Costs

Recommendation number	Ineligible 1/	Unsupported 2/
1A	$101,282	
2A		$219,309
3A		112,064
3B	4,587	
3C		7,378
4A	6,118	
4B	792	
5C	161	
Totals	**$112,940**	**$338,751**

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

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

Appendix B

Auditee Comments and OIG's Evaluation

Auditee Comments

Ref to OIG Evaluation

BINGHAM COUNTY SENIOR CITIZEN'S CENTER
P.O. BOX 849 20 EAST PACIFIC STREET
BLACKFOOT, ID. 83221
PHONE: 208-785-4714 FAX: 208-785-4715
E-MAIL: seniors4ever@qwestoffice.net

May 13, 2016

Finding 1

Comment 1

The Bingham County Senior Citizen Center or its Board Members have never received any distribution or gained monetarily in any way from owning Sunset Manor. All money paid back to the Senior Center was for loans given to the project to pay for operating expenses and necessary repairs.

Comment 2

Since October of 2014 when the project became owner managed the project has operated in a surplus cash position and has completed any and all repairs needed as well as received new flooring and paint throughout the building in the common areas.

Comment 3

To suggest the Senior Center move money over to the project is unreasonable and will only result in a much higher surplus cash position. According to the current regulatory agreement the owner is entitled to receive a distribution of all surplus cash after the end of a semiannual or annual fiscal period.

Finding 2

Comment 4

When the general contractors and plumbing services were hired it was not expected by the management agent at the time that they would be paid over $10,000.00. Everything reimbursed from the R4R account was approved by HUD and estimates were obtained to HUD's satisfaction or money would not have been released.

	I don't believe it would be possible to get 3 contractors to bid jobs that were completed years ago. We live in a very small rural community and have a difficult time getting three bids on anything we bid out.
Comment 5 **Comment 6** **Comment 7**	The Management assistant specialist was hired by CNU as well as the bookkeeper, I do not know if CNU bid those out. The amount listed included mileage as that was what CNU agreed upon with them. The Management agent was paid a higher amount in 2013 due to the REAC score and the need for numerous repairs.
Comment 3	Again, I would like to reiterate that moving money to the project for these costs will serve no purpose other than to result is a big surplus of cash for the project which will then be eligible to be utilized for disbursement to the owner.
	<u>Finding 3</u>
Comment 8	The owner realizes that the person(s) hired to keep the books during this time frame was not qualified. This situation has been rectified since October of 2014. Internal controls have been established to assure bank reconciliations are accurately performed. The security deposit account has been reconciled and all current tenant deposits are recorded correctly.
	When the Board of Directors decided to become Owner Managed they sent the Director of the Senior Center to training in Denver. The Director passed the test with a score in the 90's. The training was provided by Quadel and she received her certificate as AHM (Assisted Housing Manager). The Board then approved earlier this year for both the Director and the office manager at Sunset to attend training in Boise from Zeffert and Associates. Both of these trainings are national accredited for HUD training.
	The owner's incorrectly assumed that when HUD approved a management agent that they were qualified. They never were told by HUD that their agent should receive national accreditation as an Assisted Housing Manager
	<u>Finding 4</u>
	After our exit meeting we do agree that we received an over payment from HUD. We are currently working to correct those overpayments on our upcoming HAP payments.
	The overcharged tenant was a result of a previous management agent who did the recertification incorrectly. The tenant has since been credited the $792.00 over charge.

Comment 9

Finding 5

The waiting list was not always kept up during the time frame covered by the review. The person responsible for the wait list did not record all information because everyone who applied was moved in and there was no reason to put them on a wait list. This situation has been corrected since October of 2014.

My auditors (Deaton and Company) have assured me that the numbers are correct after adjusting journal entries were made. If you look at the ASK account Tiffany created you will see over 106,000.00 that was money owed to the senior center that was written off.

Thank You

Pamela B. Beus

Pamela Beus, Executive Director

Thomas Packer, Chairman of the Board

OIG Evaluation of Auditee Comments

Comment 1 Sunset Manor stated that it has not received any distributions or gained monetarily in any way from owning Sunset Manor. The 2014 Regulatory Agreement defines distribution as, "…any disbursal, conveyance or transfer of any portion of the Mortgaged Property, including the segregation of cash or assets for subsequent withdrawal as Surplus Cash, other than in payment of Reasonable Operating Expenses, or any other disbursement, conveyance, or transfer provided for in this Agreement." The report identified funds as distributions since neither the project nor the Senior Citizen's Center could provide documentation that these were reimbursements of loans to the project for project expenses.

Comment 2 Sunset Manor stated that it has operated in a surplus cash position since October 2014 and has completed any and all repairs needed as well as received new flooring and paint throughout the building. However, according to the financial records, surplus cash was not available at fiscal year ends 2012-2014. We did not verify whether Sunset Manor completed the repairs, installed new flooring, or painted the building. This was outside the scope of our audit and was not the reason we questioned the distributions and advances. Therefore, Sunset Manor must reimburse the project for the unauthorized distributions and unauthorized repayment of advances.

Comment 3 Sunset Manor stated that moving money over to the project is unreasonable and will only result in a much higher surplus cash position. In addition, it stated that according to the current regulatory agreement the owner is entitled to receive a distribution of all surplus cash after the end of a semiannual or annual fiscal period.

While moving money back to the project might result in higher surplus cash at the end of the year, moving the money is not unreasonable. Sunset Manor may only take a distribution at the end of an annual or semiannual period and only after surplus cash has been calculated. Until that time, the funds must be held in the project's operating account, used to operate the project, and not be segregated for future withdrawal as surplus cash. This is the only way to be certain that surplus cash is actually available for distribution each year.

Comment 4 Sunset Manor said that it did not expect that it would pay its vendors more than $10,000 when it procured the services. However, Sunset Manor did not provide written cost estimates for the services requested to show that it had an idea how much it expected the services to cost.

Comment 5 Sunset Manor stated that its management agent, CNU, hired the management assistant specialist and book keeper and Sunset Manor did not know if CNU bid those out. According to HUD Handbook 4381.5, 1.6.a, "…the property owner is ultimately responsible for a project's compliance with HUD regulations and requirements…" and "HUD expects that owners will oversee the performance of their management agents and take steps to correct deficiencies that occur." Therefore, Sunset Manor is responsible for the actions of its management agent.

Comment 6 Sunset Manor stated that the amount listed included mileage since that was what CNU agreed to. The mileage amount used was supposed to have been the IRS mileage rate in effect at the time. However, we noted that sometimes, the rate used was more than the IRS rate.

Comment 7 Sunset Manor stated that the management agent was paid a higher amount in 2013 due to the REAC score and the need for numerous repairs. However, Sunset Manor should have estimated the cost for the management agent services and should have obtained at least three written cost estimates for the services estimated to be more than $10,000 for the year.

Comment 8 Sunset Manor stated that it has established internal controls to ensure bank reconciliations are accurately performed. It also stated that it is currently working to correct overpayments from HUD, credited the tenant for the overcharge, reconciled its security deposit account, recorded all current tenant deposits correctly, is now keeping a waiting list, and that it sent the director to training. Although we did not verify whether Sunset Manor implemented the controls and completed all other actions, if done correctly, these controls and actions should help correct the problems found. HUD will need to follow up during resolution to confirm these are completed.

Comment 9 Sunset Manor stated that its auditors have provided assurance that the numbers discussed in the finding were corrected after adjusting journal entries were made. However, during our audit, we did not receive documentation supporting this assertion. In addition, when we questioned the ASK account, Sunset Manor and its independent auditors told us that they were not aware of the ASK account or what it represented because this account was not reflected in the auditor's trial balance before making adjusting journal entries. If this account was a write-off of more than $106,000 of loans that the senior center made to the project, then the entire amount paid to the senior center as reimbursement of those loans would have been distributions made while the project was in a non-surplus cash position.