Majestic Management, LLC
St. Louis, MO

Public Housing Program

Office of Audit, Region 7
Kansas City, KS

Audit Report Number: 2017-KC-1003
September 26, 2017

To: Daniel Sherrod, Director of Public Housing Hub, 5FPH

//**signed**//

From: Ronald J. Hosking, Regional Inspector General for Audit, 7AGA

Subject: Majestic Management, LLC, St. Louis, MO, a Management Agent for the East St. Louis Housing Authority, Mismanaged Its Public Housing Program

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of Majestic Management's management agent activities for HUD's public housing program.

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

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

Audit Report Number: 2017-KC-1003
Date: September 26, 2017

Majestic Management, LLC, St. Louis, MO, a Management Agent for the East St. Louis Housing Authority, Mismanaged Its Public Housing Program

Highlights

What We Audited and Why

We audited Majestic Management, LLC, in St. Louis, MO, because we noted significant deficiencies during previous audits (audit reports 2017-KC-1001 and 2017-KC-1002). Our objective was to determine whether Majestic Management made only eligible and supported payments for payroll, complied with procurement requirements, and properly performed initial tenant certifications and annual tenant recertifications.

What We Found

Majestic Management improperly charged payroll costs to the projects. It transferred more money from the projects to itself than was needed to fund payroll, paid shared employees without adequate documentation, paid its employees bonuses even though it did not hit performance benchmarks, improperly accrued and paid employees for leave time, and paid employees while they were suspended without pay. In addition, Majestic Management did not comply with procurement requirements. It did not obtain price quotes or maintain adequate records and improperly used companies owned by employees or their spouses. As a result, it deprived projects of at least $109,665 in operating subsidies needed to run the projects, and the U.S. Department of Housing and Urban Development (HUD) and the East St. Louis Housing Authority had no assurance that the projects benefited from more than $1 million spent without adequate support.

Majestic Management did not properly perform initial certifications and annual recertifications. It did not properly run income reports and follow up on discrepancies in the reports, verify tenants' identity and status, determine tenants' income, and assign the correct unit size.

What We Recommend

We recommend that HUD require the Authority and Majestic Management to support or reimburse the projects more than $1 million for the unsupported payroll costs and improper procurements, reimburse the projects $109,665 for ineligible payroll costs, and recompute the tenant rent for the households with exceptions. We also recommend that Majestic Management be required to improve its controls, train its staff, and repay excessive annual leave.

Table of Contents

Background and Objective

Majestic Management, LLC, has been a property management company since 2003. According to its website, the company's mission is to develop communities and enhance family lifestyles by providing an optimal living environment facilitated by a quality management experience. Majestic Management operated 17 U.S. Department of Housing and Urban Development (HUD)-insured projects between 2013 and 2016. By the end of 2015, it had stopped managing all of these projects except for one in Kansas City, MO. We audited Majestic Management's multifamily program activities in audit reports 2017-KC-1001 and 2017-KC-1002.

In May 2012, the East St. Louis Housing Authority, in East St Louis, IL, entered into a contract with Majestic Management to manage the low-income public housing units in asset management projects (AMP) 3, 7, and 8. In June 2013, the Authority entered into a contract with Majestic Management to manage the low-income public housing units in AMP 1.

Asset management projects

AMP	Number of units	Project name	Address
AMP 1	240	Samuel E. Gompers Homes	1450 North 6th Street
AMP 3	292	Roosevelt Homes	1328 North 44th Street
		Forest Village	4313 Forest Boulevard
AMP 7	248	Norman E. Owens	1161 Division Avenue
		Orr-Weathers Row Houses	1400 Missouri Avenue
AMP 8	61	Turnkey-Scattered Sites	Single-family homes throughout the city

The Authority's contract designated Majestic Management to act as management agent for the Authority to manage, administer, and operate the low-income public housing developments in compliance with all requirements of the contract; the Authority's policies and annual contributions contract; and all applicable Federal, State, and local laws, regulations, and procedures. Majestic Management was responsible for collecting rent, maintaining the units and tenant files, entering into contracts for the benefit of the projects, and spending an operating budget provided by the Authority to operate the designated projects.

The public housing program was established to provide decent and safe rental housing for eligible low-income families, the elderly, and persons with disabilities. Approximately 1.2 million households live in public housing units, managed by nearly 3,300 public housing agencies. HUD administers Federal aid to local housing agencies that manage the housing for low-income residents at rents they can afford. The Public Housing Operating Fund provides operating subsidies to housing agencies to assist in funding the operating and maintenance expenses of their dwellings. The subsidies are required to help maintain services and provide minimum operating reserves. From January 2014 through December 2016, the Authority received operating subsidies of nearly $12.3 million for the four AMPs.

Public housing operating subsidy

Year	AMP 1	AMP 3	AMP 7	AMP 8
2014	$1,104,684	$1,325,679	$1,150,398	$232,008
2015	1,131,730	1,446,834	1,232,696	234,280
2016	1,230,965	1,632,193	1,346,041	232,007
Totals	**3,467,378**	**4,404,705**	**3,729,135**	**698,294**

Majestic Management used two companies owned by employees or their spouses to perform work on the projects it managed for the Authority.

Majestic Management used Supreme Cleaning and Maintenance to perform work at its projects. This company is owned by Majestic Management's director of operations and property manager's husband. Majestic Management hired this company to complete unit turnaround for the projects it managed.

Majestic Management used DJ's Lawn Service to perform lawn care services during the summer of 2015. This company is owned by the grounds supervisor at Majestic Management. He was tasked with cutting, trimming, and blowing clippings for between 52 and 76 single-family scattered sites for the projects while he was working full time at Majestic Management.

Our objective was to determine whether Majestic Management made only eligible and supported payments for payroll, complied with procurement requirements, and properly performed initial tenant certifications and annual tenant recertifications.

Results of Audit

Finding 1: Majestic Management Paid Unsupported and Ineligible Payroll Costs

Majestic Management improperly charged payroll costs to the projects. This condition occurred because Majestic Management had inadequate oversight of its payroll processing. As a result, $568,023 in unsupported and $109,665 in ineligible payroll expenses reduced the amount of operating subsidies available to run the projects.

Unsupported and Ineligible Payroll Costs Charged to the Projects

Majestic Management improperly charged payroll costs to the projects. We reviewed all of the more than $2.4 million in payroll costs paid using Authority funds during calendar years 2014 through 2016. In addition, we reconciled transfers to fund payroll with payroll records. Majestic Management transferred more money from the projects to itself than was needed to fund payroll, paid employees who were not dedicated solely to Authority operations without adequate documentation, paid employees bonuses when it did not hit performance benchmarks from its contract, improperly accrued and paid employees for leave time, and paid employees while they were suspended without pay.

Excessive Transfers to Fund Payroll

Majestic Management transferred to its payroll account $29,264 more than was required to fund the payroll. It transferred and wrote checks for more than $2.59 million, while pay reports from its payroll processing company showed that about $2.56 million was needed to fund payroll costs. Many times the extra amount equaled the amount needed for that pay period's manual checks, health insurance, or a vehicle repair; however, these amounts should have been excluded from the transfer since these expenses were not paid out of the payroll account. This payroll account belonged to Majestic Management; therefore, the remaining funds were not available to the projects to fund operations. This account was used by Majestic Management for other businesses purposes other than just for the projects, therefore we cannot say what the additional funds were used for.

Employees Paid as Direct Employees Without Documentation

Majestic Management paid $601,810 to nine employees who were not dedicated solely to Authority operations without adequate documentation showing that the employees performed Authority functions.

Majestic Management paid four employees $206,618 using Authority funds while these employees also performed work for Majestic Management's multifamily projects. According to 2 CFR (Code of Federal Regulations) 200.430, charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must be supported by a system of internal controls, which provides reasonable assurance that the charges are accurate, allowable, and properly allocated. Majestic Management was unable to provide support for the hours worked by the four employees while they also performed work for its multifamily projects. From April through December 2015, one employee was paid for at least 80 hours each 2-week pay period by Majestic Management for work at the Authority while also generally being paid for at least 80 hours at Majestic Management's multifamily projects. The Authority once funded both paychecks for the same pay period, resulting in an extra payment totaling $1,400. Majestic Management's contract with the Authority allowed the salaries of onsite employees to be charged to the projects only to the extent to which the employees were directly engaged in the operations of the projects. These employees were paid as direct employees without adequate documentation. (See appendix D for shared employees' additional responsibilities.)

Majestic Management paid five other employees $395,192 from the projects' operating accounts when their salaries should have been partially or fully paid from the management fee. HUD's Management Agent Handbook 4381.5, section 6.38, states that the salaries of the agent's supervisory personnel may not be charged to project accounts. While this handbook is for multifamily housing, the Supplement to HUD Handbook 7475.1, REV, CHG-1, states that public housing agencies may refer to Handbook 4381.5 for additional guidance on determining which expenses should be paid from fees. The supplement also says that salaries for staff performing finance, accounting, and payroll functions must be paid from the management fee. Majestic Management should have paid for its three supervisors (over property managers, maintenance, and grounds) and its current and prior accountants from its management fee rather than charging their salaries fully to the projects' accounts. This handbook further states that if frontline management functions for several properties are performed out of a single office, the management agent must prorate the total associated costs among the projects served in proportion to the actual use of services. Rather than billing any portion of these employees' duties that qualified as frontline activities to the projects based on actual use and paying the rest out of the management fee, Majestic Management charged their entire salaries to the projects.

<u>Bonuses Paid</u>

Majestic Management paid $32,716 in bonuses to 29 employees when it did not hit performance benchmarks from its contract. Majestic Management's contract with the Authority allowed for a fee adjustment if Majestic Management met certain benchmark criteria; however, it did not earn a performance-based bonus from the Authority. In December 2014, Majestic Management paid almost $5,000 to its employees. A Majestic Management employee said that it was a Christmas bonus. Also, in August 2015, Majestic Management paid all employees a bonus equal to their regular paycheck totaling more than $27,000. It said that the bonus was approved by the prior executive director but did not provide support for this claim.

<u>Improperly Accrued and Paid Leave</u>

Majestic Management improperly accrued and paid $40,011 to employees for leave time. It allowed employees to carry over more than the maximum amount of leave, accrue leave at a faster rate than allowable, take paid sick leave and annual leave when they did not have adequate leave balances, take paid personal days that did not reduce leave balances, receive overtime pay rather than compensatory time off, and receive excessive paid holidays.

Majestic Management allowed two employees to accrue more than 320 hours of annual leave. It followed the Authority's human resource policy, which states that employees are allowed to carry over a maximum of 320 hours of annual leave. The policy states that an employee with less than 5 years of service will accrue 6.666 hours per month for a total of 80 hours earned per year. Majestic Management improperly allowed one employee to accrue 648 hours and another employee to accrue 476 hours of annual leave during the audit period. In addition, it paid employees for their accrued annual leave upon departure or termination. Its contract with the Authority for three of the four projects ended after our audit period. Therefore, the employees may have been paid for this excessive accrued leave. We cannot be sure as the check registry we requested from Majestic Management was only for our audit period and did not include 2017 payments.

Majestic Management paid 14 employees $5,352 for sick leave when the employees did not have the leave available. The Authority's human resource policy states that if an illness requires absence from the job and no sick leave is available, the employee may use available annual leave and if all sick leave and annual leave have been exhausted, the employee may request leave without pay. Majestic Management paid employees for up to 134 hours of sick leave in excess of the employee's sick leave balance without reducing the employee's annual leave balance.

Majestic Management also paid 18 employees $7,100 for annual leave when the employees did not have the annual leave available. The Authority's human resource policy does not have a provision for taking annual leave in excess of the employees' annual leave balance. Majestic Management allowed one employee to take 170 hours of annual leave in excess of her annual leave balance.

Majestic Management paid 12 employees $3,483 for personal leave that did not reduce their sick leave balances. The Authority's human resource policy states that each employee is entitled to use 40 hours of accrued sick leave in each calendar year as personal leave.

Majestic Management paid six exempt employees $20,746 in overtime pay during the audit period. The Authority's human resource policy states that exempt staff may not receive overtime pay but will receive compensatory time off, which may be accrued up to a total of 80 hours. The accrual of compensatory time was not documented on pay stubs.

Majestic Management paid 17 employees $2,270 for holidays exceeding the Authority's human resource policy. The policy states that regular full-time employees are entitled to 12 holidays and 2 half-day holidays for a total of 13 days or 104 hours. During 2016, Majestic Management paid 17 employees for 112 hours of holiday pay.

Employees Paid While Suspended

Majestic Management paid two employees $6,274, although they told the Authority that they had been suspended without pay for disregarding policy. One employee was suspended without pay for 10 days and did not receive a normal pay check for that period. However, the employee received two paychecks the following period, each for the regular amount of pay. Another employee was suspended without pay for 30 days but received normal pay throughout the suspension. Additionally, each employee received a bonus of $216.57 during or immediately following the suspensions.

Inadequate Oversight

Majestic Management had inadequate oversight of its payroll processing. It did not adequately review time cards, leave requests, or payroll transfers.

Majestic Management's review of time cards was inadequate. The supervisory property manager reviewed employee time cards to determine hours worked. The president stated that she also reviewed the timecards; however, we saw only the supervisory property manager's signature on the cards reviewed. In addition, Majestic Management was unable to provide time records for salaried employees so it was unclear what was reviewed for these employees. Had these time cards been reviewed by the president, she should have caught the excessive charges of hours from employees not dedicated solely to the project's operations since she was responsible for their multifamily and management agent work as well. The time card information was provided to the payroll provider, who would then advise Majestic Management of the amount of funding required to fund payroll for the period.

Majestic Management's review of leave requests was inadequate. Property managers approved time-off requests without knowing leave balances, based solely on their own staffing needs. In addition, the time cards did not show employee leave balances. Majestic Management's accountant relied on the leave balances provided on pay stubs to keep track of leave balances and adjust leave balances when necessary. Majestic Management did not keep its own records of employee leave balances and instead relied on the payroll provider by obtaining employee leave balances from the previous period's pay stub. It did not make manual adjustments, despite negative sick and annual leave balances documented on pay stubs for several consecutive pay periods.

The president's final review of payroll information was not sufficient to catch errors. Her review did not identify the overfunding of the payroll account, the overpayment of employees for leave or work hours, or the improper allocation of pay to the funding source. Her review instead focused on approving a transfer from the Authority that matched the amount of funding needed according to the payroll provider. The president's final review required her to log onto the bank account and approve the total amount that the accountant had entered to fund payroll. However, the review was not sufficient to ensure that the transfer amount included all proper adjustments.

Reduced Funds Available for Operations

Majestic Management charged $568,023 in unsupported and $109,665 in ineligible payroll expenses to the projects, reducing the amount of operating subsidies available to run the projects. The operating subsidy is provided to the projects every month to assist in operating and maintaining the projects in safe and sanitary conditions. The subsidies help maintain services, such as unit turnover, lawn care, pest control, and utilities, and provide minimum operating reserves. These excessive costs reduced the funds available to perform these services at the projects. As shown in the table below, we reduced the unsupported amount by the amount that was already counted in the ineligible amount so as to not double count payroll costs.

Unsupported and ineligible payroll costs charged to the projects

Deficiency	Unsupported amount	Ineligible amount
Excessive transfers to fund payroll		$29,264
Employees not dedicated to project operations	$601,810	
Passed through pay for multifamily operations		1,400
Bonuses paid		32,716
Improperly accrued and paid leave		40,011
Employees paid while suspended		6,274
Deduction for ineligible bonuses and leave and pay	(33,787)	
Totals	**568,023**	**109,665**

Conclusion

The Authority's operating funds were depleted by $677,688, which was paid for unsupported and ineligible payroll costs. These improper costs resulted from Majestic Management's inadequate controls over the payroll function. Majestic Management did not have a payroll oversight process to ensure that only eligible and supported payroll costs were paid from project funds.

Recommendations

We recommend that the Director of HUD's Chicago Office of Public Housing

1A. Require the Authority to require Majestic Management to develop and implement a process to ensure that it makes any needed adjustments to employee payroll and transfers accurate amounts from the project accounts for payroll.

1B. Require the Authority to require Majestic Management to design and implement a process to ensure that actual staff hours are accurately tracked and only dedicated employees are paid from project funds.

1C. Require the Authority and Majestic Management to support $568,023 spent on payroll allocated to the projects or repay the projects from non-Federal funds.

1D. Require the Authority and Majestic Management to reimburse from non-Federal funds the $109,665 in ineligible expenses that Majestic Management charged to the projects.

1E. Require the Authority and Majestic Management to repay any excessive annual leave that Majestic Management paid to its employees from project funds when its contract terminated in 2017.

Finding 2: Majestic Management Did Not Comply With Procurement Requirements

Majestic Management did not follow HUD's procurement requirements. This condition occurred because Majestic Management misinterpreted HUD's procurement regulations. As a result, the Authority could not be assured that it received the best value for the $487,422 Majestic Management spent on goods and services.

Goods and Services Not Properly Procured

Majestic Management did not follow applicable procurement requirements. It did not obtain price quotes or maintain adequate records and improperly used companies owned by employees or their spouses.

Noncompliance With Procurement Requirements

Majestic Management did not obtain price quotes for small purchases and did not maintain records detailing the history of these purchases. It made 4,563 payments totaling $5.9 million between 2014 and 2016. We reviewed 154 payments made to 22 vendors totaling $487,422 over the small purchase threshold or which constituted potential conflicts of interest. The small purchase threshold was under $2,000 until May 19, 2015 at which time it increased to $3,000. Majestic Management did not properly procure goods and services associated with any of the transactions reviewed. Its contract with the Authority required it to follow HUD's and the Authority's procurement policies. HUD's procurement requirements at 2 CFR 200.320 and the Authority's policy require at least three bids or quotes and the retention of procurement records. These requirements are in place to help ensure that goods and services are obtained at the most reasonable prices using fair and open competition. Majestic Management did not obtain quotes or bids for the payments and instead provided only invoices and canceled checks as support for the payments reviewed. In addition to being unsupported, due to the lack of bids, some of the items paid for appeared to be for the benefit of the management agent; specifically, the worker's compensation policy. This policy benefited Majestic Management's nonfrontline staff and its multifamily staff.

Conflicts of Interest and Employee-Owned Entities

Majestic Management improperly used companies that were employee owned or posed a conflict of interest. HUD regulations at 2 CFR 200.318 prohibit management agents from participating in the selection, award, or administration of a contract supported by Federal funds if a conflict of interest, financial or otherwise, real or apparent, would be involved. HUD regulations further define a conflict of interest as arising when the management agent, any member or his or her immediate family, or his or her partner has a financial or other interest in the firm selected for the award. Majestic Management's contract with the Authority required Majestic Management to comply with the Authority's and HUD's procurement policies and procedures prohibiting conflicts of interest. It is unclear from interviewing Majestic Management staff who was or is responsible for the selection, award or administration of the contracts during our audit period. Majestic Management improperly used at least two companies that posed potential conflicts of interest. It produced correspondence showing that the Authority may have been aware of one of the companies, its construction company, which completed a substantial amount of work at its projects. However, there was no evidence provided showing that this arrangement was more advantageous to the projects than an arms-length transaction, and this entity was not properly procured to perform work.

HUD Procurement Regulations Misinterpreted

Majestic Management misinterpreted HUD procurement regulations. It believed that as long as an invoice was under the small purchase threshold, it did not need bids. When we asked for bids, quotes, and contracts related to procurements, Majestic Management employees stated that because each payment was for multiple invoices, each of which was less than the small purchase threshold, bids were not obtained. Majestic Management employees stated that even for recurring contract work performed by a sole vendor, such as vacant unit turnover, plumbing repairs, and glass repair, bids were not obtained because each invoice was less than the small purchase threshold. Employees also stated that bids were obtained from specific preferred vendors for work such as vacant unit turnover and unit painting and cleaning. Majestic Management did not produce quotes or bids as support for the competitive bidding process.

No Assurance That Projects Benefited From Procurements

HUD had no assurance that the Authority received the best value for the $487,422 spent on goods and services. Federal funds were at risk of misuse, and goods and services may not have been obtained at the most reasonable price. See the table below.

Category	Number of payments	Dollar amount
Payments over $2,000 before 5/19/2015	61	$224,818
Payments over $3,000 after 5/19/2015	20	84,394
Supreme Cleaning and Maintenance	65	167,583
DJ’s Lawn Service	8	10,628
Totals	**154**	**487,422**

Improper procurement practices restricted competition and placed Federal funds at risk of misuse. In addition, goods and services may not have been obtained at the most reasonable price. Majestic Management restricted competition when it noncompetitively procured goods and services without obtaining quotes. Its failure to follow proper procurement processes may have resulted in projects’ overpaying for goods and services. Federal procurement requirements help to ensure that purchases are made through full and open competition at the most reasonable prices.

Conclusion

Majestic Management was unable to support that it procured $487,422 spent on goods and services at a reasonable cost and from eligible vendors. Its misinterpretation of the procurement regulations resulted in improper procurement practices, including restricted competition, and placed Federal funds at risk of misuse.

Recommendations

We recommend that the Director of HUD's Chicago Office of Public Housing

2A. Require the Authority to provide training on procurement requirements in public housing to all Majestic Management employees working at the projects.

2B. Require the Authority and Majestic Management to support that the $487,422 spent on goods and services for the projects was a reasonable cost and the goods and services were procured from eligible vendors or repay the projects from non-Federal funds.

2C. Require the Authority to review all other payments to the sampled vendors to confirm that the costs were reasonable and the goods and services were procured from eligible vendors or repay the projects from non-Federal funds.

Finding 3: Majestic Management Did Not Properly Perform Tenant Certifications

Majestic Management did not properly perform initial certifications and annual recertifications. This condition occurred because Majestic Management did not have an adequate internal tenant review process to identify errors and omissions and did not understand HUD's Enterprise Income Verification (EIV) requirements. As a result, ineligible tenants may have received subsidized housing, and tenants paid the wrong amounts for monthly rent.

Improperly Performed Certifications

Majestic Management did not properly run EIV reports and follow up on discrepancies in the reports, verify tenants' identity and status, determine tenants' income, and assign the correct unit size.

<u>EIV Report Deficiency</u>

Majestic Management did not properly run EIV reports. As the management agent for the Authority, it had contractual obligations to comply with the program requirements. Federal regulations and HUD guidance require public housing agencies to run EIV reports at the annual and interim reexamination and within 120 days of admission. The EIV income report can identify potential issues, including identity verification failure, income discrepancy, debts owed to public housing agencies, and receipt of multiple subsidies. In addition, the contract between the Authority and Majestic Management required the management agent to use the EIV system to correct errors.

Of the 12 tenant files reviewed, Majestic Management did not run EIV reports for 6 households at admission or annual reexamination. The EIV report would have showed that the tenants received multiple subsidies, had the wrong Social Security numbers, or owed debts to public housing agencies. These discrepancies may have affected the eligibility of the families.

In addition, Majestic Management did not follow up on discrepancies that were flagged in the EIV reports. It either did not pull the EIV reports, which would have shown discrepancies, or it did not resolve the discrepancies in the EIV reports that it pulled. Of the 12 tenant files reviewed, EIV reported income discrepancies for 3 households, multiple subsidies for 2 households, debts owed to public housing agencies for 2 households, and failed identity verification for 3 households. Majestic Management should have resolved these discrepancies at the time of admission or reexamination.

<u>Improper Identity and Status Verification</u>

Majestic Management did not properly verify identity and status for two households. HUD uses the Social Security number, along with the name and date of birth of an individual, to validate identity and obtain employment and income information to ensure that duplicate assistance is not paid. HUD guidance requires public housing agencies to verify information relating to eligibility, assets, income, deductions from income, admission preferences, and compliance with applicant selection criteria. One tenant file did not contain a driver's license or birth certificate for a household member to confirm the tenant's date of birth. Another tenant file was missing a Social Security card or other supporting documents to confirm the tenant's Social Security number. Both tenant files also did not contain documents verifying the full-time student status of a household member.

<u>Incorrect Calculation of Household Income</u>
Majestic Management did not properly determine tenants' income for five households. HUD regulations require the responsible entity to verify the accuracy of the income information received from the household. Majestic Management did not properly verify tenants' income. EIV reports showed that some tenants underreported their income by as much as 78 percent.

In addition, Majestic Management did not correctly calculate income deductions and additions. HUD regulations define what is included and excluded from the household income. Public housing agencies must obtain and document in the tenant file third-party verification of reported household annual income. Majestic Management overstated a household's child support and failed to include Temporary Assistance for Needy Families in the household income. It also did not verify childcare costs for a household and did not consider income of all household members.

<u>Tenant Overhoused</u>
Majestic Management overhoused one tenant. It allowed a household of two tenants to occupy a three-bedroom unit. HUD regulations require public housing agencies to conduct a reexamination of household composition at least annually, the results of which may be used to require the household to move to an appropriate-size unit. Majestic Management conducted an annual reexamination and determined that the household needed to move into a two-bedroom unit. However, the household continued living in a three-bedroom unit.

Inadequate Review Process and Lack of EIV Knowledge
Majestic Management did not have an adequate internal tenant review process to identify errors and omissions and did not understand HUD's EIV requirements.

Until recently, Majestic Management did not include a tenant file checklist to identify errors and omissions in its files. In addition, it had no consistent approach for reviewing tenant files. In June 2017, the Authority developed a tenant file checklist for Majestic Management to use to ensure a more consistent review process.

Majestic Management did not understand HUD requirements related to the EIV system and its use, despite recent training. It sometimes used EIV at the annual and interim reexaminations but not at admission. Majestic Management's employees received EIV training from an outside vendor in September 2016. However, according to a Majestic Management employee interviewed after the training, EIV was not allowed to be used until after the tenant was admitted. This practice violated HUD guidance requiring public housing agencies to run the EIV reports within 120 days of admission. Therefore, we questioned the effectiveness of the training. The EIV reports would have helped Majestic Management determine the eligibility of the tenants and avoid errors

Housing of Ineligible Families and Incorrect Rent
As a result of the deficiencies noted above, ineligible tenants may have received subsidized housing, and tenants paid the wrong amounts for monthly rent.

Majestic Management may have provided housing to ineligible tenants. By not verifying the tenant's identity and following up on EIV report discrepancies, Majestic Management may have allowed ineligible families to live in units that instead could have been used for qualified tenants. In addition, by not properly calculating and verifying tenants' income and deductions, it received incorrect monthly rent amounts from the tenants. Also, since it did not move a family of two to a smaller size unit, a three-bedroom unit was not available for a larger family needing housing.

Conclusion

Majestic Management may have allowed ineligible tenants to receive subsidized housing and eligible tenants to pay the wrong amount for monthly rent. These deficiencies resulted from its inadequate tenant review process and lack of knowledge of the EIV system and its use. When used properly, HUD's EIV system is an effective tool in preventing fraud and abuse within HUD's rental assistance programs. In June 2017, the Authority developed a tenant file checklist for Majestic Management to use to ensure a more consistent review process, and in September 2016, Majestic Management received EIV training.

Recommendations

We recommend that the Director of HUD's Chicago Office of Public Housing

3A. Require the Authority to monitor Majestic Management to ensure that the recent training was effective and the new checklist is in use and effective.

3B. Require the Authority to recompute the rents for the households noted above and as necessary for errors made by Majestic Management, reimburse tenants for overcharged rent from operating funds or rent credit, and enter into repayment agreements with tenants if they were undercharged based on nondisclosure of income.

Scope and Methodology

We performed our onsite audit work between February and July 2017 at Majestic Management's office located at 1401 East Broadway, East St. Louis, IL. Our audit period was January 1, 2014, through December 31, 2016.

To accomplish our objective, we reviewed

- Applicable regulations and HUD guidance.
- Majestic Management's contracts with the Authority.
- Majestic Management's policies and procedures, organizational chart, and employee listing.
- Majestic Management's and the payroll provider's payroll supporting documentation.
- Majestic Management's procurement supporting documentation.
- Majestic Management's tenant files.
- The projects and Majestic Management's bank records.

In addition, we interviewed employees of Majestic Management, the Authority, and HUD.

<u>Sample Selection</u>
We reviewed all of the 1,966 pay statements totaling $2.4 million in payroll costs for all project employees during our audit period from January 2014 through December 2016. We scheduled the pay statements and analyzed them for the following:

- Payment of overtime to exempt employees
- Employees with annual leave balances in excess of the maximum allowed
- Payment of personal time that did not reduce employees' sick balances
- Payment for sick or annual leave used in excess of hours available in the employees' leave balance
- Payment for holiday hours in excess of the policy
- Payment for bonuses
- Payment to employees who were not dedicated solely to the Authority's operations without adequate documentation
- Payment to employees who were suspended without pay

We selected a sample of payments made from the projects' operating accounts to review for proper procurement practices. The population consisted of all payments during the audit period shown on the check register, which totaled more than $5.9 million. We selected all 92 payments totaling $347,836, which occurred before May 19, 2015, when the small purchase threshold was $2,000, and 33 payments totaling $130,251, which occurred after May 19, 2015, when the small purchase threshold was raised to $3,000. We omitted utility companies and contractors in the Authority's contractors' procurement logs from our sample. We also selected from the check register all 65 payments totaling $167,583 to Supreme Cleaning and Maintenance, a company owned by the son-in-law of Majestic Management's president, and all 8 payments totaling $10,628 to DJ's Lawn Service, a company owned by Majestic Management's grounds supervisor. The total sample consisted of 174 vendor payments to 27 vendors totaling $554,645. Dollar and count figures do not total because 24 of the Supreme Cleaning and Maintenance payments were included in two categories.

Upon reviewing the sample, we determined that we were going to focus only on the payments to vendors for services. Therefore, we removed 20 procurement payments because they were for repair work done by a utility company, maintenance supplies, or gas for the maintenance vehicles or were to a vendor that the Authority procured. After removing these 20 payments, the procurement sample was reduced to 154 payments totaling $487,422. We reviewed the items selected to determine whether Majestic Management followed procurement requirements, including obtaining at least three quotes, documenting the reason for selection of the vendor, and avoiding conflicts of interest.

We focused on the above payments to evaluate items we believed were most susceptible to abuse. Since we were looking for specific examples of noncompliance, we believed this sampling methodology to be the most effective. The results of procedures applied to items selected using this method apply only to the selected items and cannot be projected to the portion of the population that was not tested.

We selected a sample of 12 tenant files to review. The population consisted of tenants living in the 841 public housing units managed by Majestic Management as of December 31, 2016. We selected a targeted sample of 12 tenants living in public housing units managed by Majestic Management who showed up on the following EIV reports:

- From the EIV public housing agency debts owed report, we selected the three tenants with the largest amounts of debts owed to public housing agencies.

- From the EIV multiple subsidy report, we selected the three tenants from the report who appeared to receive housing subsidies in more than one unit for themselves or their dependents.

- From the EIV income discrepancy report, we selected the three tenants with the largest income discrepancies.

- From the EIV identity verification report, we selected the three tenants who failed Social Security number verification.

We reviewed the sampled tenants to determine whether Majestic Management properly used the EIV system and verified tenant income, identity, and status. We focused on the above tenant files to evaluate because we believed they were the most susceptible to errors. Since we were looking for specific examples of noncompliance, we believed this sampling methodology to be the most effective. The results of procedures applied to items selected using this method apply only to the selected items and cannot be projected to the portion of the population that was not tested.

We relied in part on computer-processed data contained in Majestic's Management's electronic check register to achieve our audit objective. Although we did not perform a detailed assessment of the reliability of the data, we performed a minimal level of testing and found the data to be adequately reliable for our purposes. The tests for reliability included but were not limited to comparing computer-processed data to invoices, checks, bank statements, procurement and payroll records, and other supporting documentation.

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:

- Policies and procedures to ensure that Majestic Management used its public housing operating funds in accordance with HUD requirements.
- Policies and procedures to ensure compliance with HUD's public housing requirements.
- Internal control structures to provide adequate oversight of its program or the projects.

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:

- Majestic Management did not implement adequate oversight of its payroll processing to ensure that it charged only the proper amount of payroll costs to the projects it managed (finding 1).
- Majestic Management did not have adequate controls to ensure that it complied with HUD's procurement and EIV requirements (findings 2 and 3).
- Majestic Management did not have an adequate internal tenant review process to identify errors and omissions during initial certifications and annual recertifications (finding 3).

Appendixes

Appendix A

Schedule of Questioned Costs

Recommendation number	Ineligible 1/	Unsupported 2/
1C		$568,023
1D	$109,665	
2B		487,422
Totals	**109,665**	**1,055,445**

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

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

Appendix B

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation	Auditee Comments

MAJESTIC MANAGEMENT
...WHERE QUALITY REIGNS SUPREME.

2815 Olive Street.
St. Louis, Missouri 63103
(314) 535-2220 *Phone*
(314) 531-3391 *Fax*

September 12, 2017

Ms. Carrie Gray
Assistant Regional Inspector General for Audit
Office of Audit (Region 7)
400 State Avenue Suite 501
Kansas City, KS 66101

Dear Ms. Gray:

Comment 1

Attached is Majestic Management response to the review performed by Office of Inspector General (OIG) in regards to Majestic Management's activities for HUD's public housing program.

Comment 2

Comment 3

Majestic Management's president initially contacted HUD in 2016 when made aware of an employee conducting fraudulent activities. OIG has reviewed all aspects of the Majestic Management Company for weaknesses in controls which could relate to fraudulent activity. During the course of the multiple audits by OIG, Majestic Management has worked with consultants to help update policies, controls, train staff and assist with business decisions.

Comment 4

The audit of Majestic Management acting as management agent for East St. Louis Housing Authority resulted in three findings. Majestic Management has reviewed the detail of each finding and disagrees with the full amount disclosed in OIG's report.

Comment 5

Comment 4

Comment 6

Comment 7

Comment 8

MAJESTIC MANAGEMENT
...WHERE QUALITY REIGNS SUPREME.
2815 Olive Street.
St. Louis, Missouri 63103
(314) 535-2220 *Phone*
(314) 531-3391 *Fax*

Majestic Management is a minority and women owned business and has been in operations over 14 years. Majestic strives to provide the highest quality, safe and secure housing for residents. Majestic Management entered into the contract with ESLHA in 2012. Majestic is responsible for collecting rent and security deposits and maintaining the unit and tenant files. Majestic Management budget consisted of 1/12 of operating subsidy each month. This meaning any rent collected is not used by the management company but held as a reserve for the site. The rent is maintained by ESLHA and any security deposits are returned by ESLHA. OIG mentions on page 3 the management company was responsible for security deposit returns. Majestic Management believes by not using rent to support the site the reserve could accumulate to assist the site at a larger level. Majestic Management also strives to work within the budget provided to show the efficiency in providing a better living environment at a reasonable cost.

Finding 1: Majestic Management Paid Unsupported and ineligible payroll costs

Majestic Management disagrees with the full amount mentioned in OIG's report.

Excessive Transfers to Fund Payroll
Majestic Management has a single account for payroll. Funds are transferred from the developments into the single source account for withdrawals from the payroll company. Majestic Management believes OIG review of the transfers were only the bi-weekly payroll transfers. OIG was given support when requested for the additional transfers. Additional transfers were done for employee payouts when leaving the company. Attached Item #1. Majestic Management acknowledge the payroll company issued a dollar discount for each bi-weekly withdrawal, also, the amount for the vehicle repair as well as the wire transfer fee by the bank.

Employees Paid as Direct Employees Without Documentation
Majestic Management agrees the internal controls for the employees working at multiple sites could have been stronger. Majestic Management did not require the employees to track time daily. The employees were to provide days they were on leave or sick. At the end of each pay cycle time was given and reported to the payroll company. Attached Item #2. In 2017, Majestic Management update their policy and staff were required to clock in or provide timesheets based on position. Attached Item #3. Majestic Management agrees an employee was paid inadvertently from the Authority's funds. The amount is owed back to the site.

Comment 9

Comment 10

Comment 11

Comment 12

Comment 13

MAJESTIC MANAGEMENT

...WHERE QUALITY REIGNS SUPREME.

2815 Olive Street.
St. Louis, Missouri 63103
(314) 535-2220 *Phone*
(314) 531-3391 *Fax*

OIG standpoint on unallowable employee charges is based on Handbook 4381.5 for multifamily properties. ESLHA is public housing authority. Majestic Management included supervisor personal and key positions dedicated to the success of the property in their budget. The supervisory staff were located at the site and performed site work on a daily routine. The budgeted positions were presented to ESLHA and approved by the board. Attached Item #4.

Bonuses Paid

Majestic Management agrees the Christmas bonus should be repaid. The bonus check in 2015 had been approved by the prior executive director. Attached Item #5. Staff for Majestic Management had not gotten a cost of living increase in 2014 and it was decided to give staff a one-time additional check. From the attached file the prior executive director approved a one-time 3% increase. Majestic Management paid an additional check, 80 hours times' rate. Majestic Management agrees the difference between the two should be reimbursed to the property. Majestic Management believes there is confusion in communication from the agreed bonus of 2015 and now. However, Majestic Management agrees the amount should be repaid.

Improperly Accrued and Paid Leave

Majestic Management agrees the controls regarding payroll were not strong. If an employee previously worked for Majestic Management and became an ESLHA employee under Majestic Management the leave time should have restarted as a first year employee. Majestic Management did not have the control in place to assign the task of reconciling leave time. Majestic Management reconciled leave time in 2017 with the updating of the employee handbook. Attached Item #6. Majestic Management does not agree to the full amount stated in OIG audit as owed back to the property. When OIG reviewed each paystub some may have displayed a negative balance in the leave or sick column. This amount was noted by OIG as improperly accrued. Majestic Management worked with the payroll company to keep updated records of leave time. The payroll company acknowledge on occasion the record presented may have not been correct. Attached Item #7. In some cases, after the employee's preliminary period leave time was not added. The paystub would have showed a negative amount. OIG listed the amount as improperly accrued.

Majestic Management reviewed the amount identified by OIG for sick leave used but not available. Majestic Management agrees there was sick leave paid that was not available. Majestic Management agrees the amount of $4,163.78 was improperly accrued and paid.

MAJESTIC MANAGEMENT
...WHERE QUALITY REIGNS SUPREME.
2815 Olive Street.
St. Louis, Missouri 63103
(314) 535-2220 *Phone*
(314) 531-3391 *Fax*

Comment 14

Majestic Management reviewed the amount identified by OIG for annual leave used but not available. As stated before, OIG reviewed when the paystub stated negative rather than requesting to review the employee's actual accrued time. In most cases there was an error on the paystub. One pay period the stub would show negative the next positive. Majestic Management is working with the payroll company to ensure time is correct each pay period. After Majestic Management review of annual leave Majestic Management agrees $2,083.24 was improperly accrued and paid.

Majestic Management agrees the amount categorized as personal leave should have been reduced from the employee's accrued leave. The amount of $3,483 was improperly paid.

Comment 15

OIG states six exempt employees were paid overtime although exempt employees should have received compensatory time. OIG reviewed the employees from the current organizational chart. Two of the six employees were promoted to an exempt position. After being promoted the employees did not received overtime. One employee was never promoted to an exempt position. Two employees are hourly employees but were miscommunicated to OIG when asked to list who were the exempt employees. The two employees have never received compensatory time and are paid overtime for working standby hours. The last employee had been paid overtime but should have gotten compensatory time. Majestic Management agree $1,420.39 was improperly paid. Attached Item #8.

Comment 16

OIG stated Majestic Management holidays exceeded the Authority's human resource policy. OIG reviewed the last paystub for each employee for 2016 which showed holiday pay of 112 hours. OIG did not consider pay period cycles. Attached Item #9. The last pay cycle for 2015 displays 96 holiday hours. Due to the pay cycle going into the New Year and the holiday being paid in 2016 the hours are accumulated to the 2016 balance. Majestic Management disagrees with the amount mentioned in OIG's report.

Comment 17

Employee Paid While Suspended

Majestic Management sent documents to ESLHA to suspend two employees. One employee had not been suspended due to job function. Majestic Management, at the time did not have another employee to backfill the position. The other employee was not suspended but later terminated. Majestic Management and the employee were in litigation. Once the litigation concluded, Majestic Management terminated the employee's employment. Attached Item #10.

Comment 18

Comment 19

MAJESTIC MANAGEMENT
...WHERE QUALITY REIGNS SUPREME.
2815 Olive Street.
St. Louis, Missouri 63103
(314) 535-2220 *Phone*
(314) 531-3391 *Fax*

Conclusion
Majestic Management agrees the amount of $37,084.95 is ineligible payroll costs.

Response to Recommendations

1A. Majestic Management has already taking steps to better improve the payroll process. Majestic Management has updated the employee handbook. Attachment Item #6. Also, reconcile the amount that is transferred with the amount that is taken by the payroll company.

1B. Majestic Management has implemented a process to ensure that actual staff hours are accurately tracked and only dedicated employees are paid from the funds. Majestic Management property inventory for public housing has been reduced to one public housing site. This means the staff for Majestic has been significantly reduced. The current staff members are now required to clock in and out from the site while performing work.

1C. Majestic Management has added additional controls to the payroll process. Although, controls were not in place to track time on a daily basis, time was recorded at the end of each payroll cycle. This process was a Majestic Management process which was updated in 2017 to track time daily.

1D. Majestic Management reviewed the detail of OIG finding and agrees the amount of $47,688.44 is owed to the sites.

1E. Majestic Management reviewed leave at the beginning of 2017 to ensure time going forward is recorded correctly.

Finding 2: Majestic Management Did Not Comply With Procurement Requirements

Majestic disagrees with the finding of not complying with the procurement requirements.

Noncompliance with Procurement Requirements
Majestic Management maintains the stance of following the procurement process and staying within the purchasing thresholds. OIG reviewed check amounts. The check amounts to the vendor consisted of multiple invoices. The sum of the multiple invoices exceeded the threshold of the purchasing guidance. Majestic Management received invoices from vendors throughout the month. Instead of having multiple check runs for

MAJESTIC MANAGEMENT
...WHERE QUALITY REIGNS SUPREME.

2815 Olive Street.
St. Louis, Missouri 63103
(314) 535-2220 *Phone*
(314) 531-3391 *Fax*

Comment 20

each received invoice, Majestic Management would lump invoices together and pay within 30 days of receipt. Attached Item #11. Majestic Management was trained if an invoice was reasonable and under the threshold only one quote need solicited. Attached Item #12. For some vendors Majestic Management continued the use from ESLHA of the vendor due to uniqueness of material being purchased. For instance, one vendor housed the cores for the doors for all ESLHA sites. Majestic Management continued the use of the vendor. Workers comp expense were initially shopped by Majestic Management and Majestic Management continued the use of the company while managing the ESLHA site. Each year the company would audit employee charging to ensure cost were allocated correctly. Attached Item #13.

Comment 21

Conflict of Interest and Employee-Owned Entities
Majestic Management either provided notice or communicated notice to the Authority of the "Conflict of Interest". Attached Item #14. Each company followed the same procedure as the other companies by providing bids or quotes for possible work at the sites. Attached Item #15.

Comment 22

Conclusion
Majestic Management worked to better the Authority sites. The vendors selected were reasonable and the Authority benefited from the work performed.

Comment 23

Response to Recommendation
2A. Majestic Management agrees additional training is needed that will provide clarity to the procurement process.

Comment 24

2B. The invoices provided document the work performed by each vendor. Majestic Management solicits work from the surrounding area by advertisement and different forms of communications. Majestic Management believes the cost for service was reasonable.

2C. Majestic Management stands its ground as following the procurement process. With additional training and clarity Majestic Management will update processes as needed.

Finding 3: Majestic Management Did Not Properly Perform Tenant Certifications

Majestic Management agrees staff did not properly perform initial certifications and annual recertifications for some tenants.

Comment 25

Comment 26

MAJESTIC MANAGEMENT
...WHERE QUALITY REIGNS SUPREME.
2815 Olive Street.
St. Louis, Missouri 63103
(314) 535-2220 *Phone*
(314) 531-3391 *Fax*

Conclusion
Majestic Management made corrections to the tenant files and forward to the Authority for further review. Attached Item #16. Majestic Management received training September 2016 and is currently using a checklist provided by the Authority in 2017. Majestic Management continues to look for ways to improve the steps not properly performed.

Response to Recommendations
3A. Majestic Management is currently using the checklist and performing random checks to ensure the steps are being followed.

3B. The files have been transferred to the Authority for further review.

Majestic Management as of August 2016 no longer oversee 3 of the 4 sites mentioned in OIG audit. With the one remaining site Majestic Management continues with the same strategy of providing the best efficient service at the most reasonable cost.

OIG Evaluation of Auditee Comments

Comment 1 Majestic Management's response included numerous exhibits, which due to volume, are not printed in our report. The exhibits are available upon request.

Comment 2 The comments indicated that we had reviewed all aspects of Majestic Management for weaknesses in controls that could relate to fraudulent activities. However, we have not reviewed all aspects of the company. We focused only on certain aspects of its multifamily program activities in audit reports 2017-KC-1001 and 2017-KC-1002. The objective of 2017-KC-1001 was to determine whether Majestic Management charged only the appropriate fees in managing the projects, properly procured goods and services, and disbursed project funds only for eligible and supported expenses. The objective of 2017-KC-1002 was to determine whether New Horizons properly verified tenant eligibility, requested assistance only for tenants living in the units, retained tenant files for the required period, and properly collected and deposited tenants' rents. The current audit was limited to a review of payroll, procurement, and tenant certifications at the East St. Louis Housing Authority.

Comment 3 We cannot comment on whether Majestic Management, throughout the course of the multiple audits, has worked with consultants to help update policies and controls, train staff, and assist with business decisions. We did not review this information during our audit since it relates to audits that have already been completed. All audit resolution information for the prior audits will be dealt with by HUD and Majestic Management.

Comment 4 The comments indicated that Majestic Management had reviewed the detail of each finding and disagreed with the full amount disclosed in the report. However, further comments indicated agreement with certain amounts, so this comment was unclear.

Comment 5 The comments indicated that information contained in the background section of the audit report was incorrect concerning Majestic Management's responsibility for rent and security deposits. The information we provided in the background section of the audit report came straight from the contract Majestic Management entered into with the East St. Louis Housing Authority. However, we deleted this item from the final report as it was not relevant to the audit findings.

Comment 6 Majestic Management stated that it believed we reviewed only the biweekly payroll transfers. However, we reviewed both the biweekly transfers and any manual checks written as indicated on documentation provided by the payroll provider. The spreadsheet provided by Majestic Management showed that it agreed with most of the identified overpayments of payroll transfers.

Comment 7 In the attachments, Majestic Management provided emails it sent to the payroll provider every biweekly period showing how many hours were worked by the employees. However, this information did not show that the employees' hours were tracked by Majestic Management to make sure that time paid was actually worked, given the employees' other responsibilities outlined in appendix D.

Comment 8 The comments stated that Majestic Management had updated its policy and its staff was required to clock in or provide timesheets based on position starting in 2017. This was outside our audit period so we did not review the policy or the process employees currently follow; therefore, we cannot comment on this statement. Majestic Management should work with the Authority and HUD to provide documentation to show that the steps taken are satisfactory.

Comment 9 Majestic Management's comments stated that our position on unallowable employee charges was based on Handbook 4381.5 for multifamily properties, while the Authority is a public housing authority. However, as was stated in the audit report, "HUD's Management Agent Handbook 4381.5, section 6.38, states that the salaries of the agent's supervisory personnel may not be charged to project accounts. While this handbook is for multifamily housing, the Supplement to HUD Handbook 7475.1, REV, CHG-1, states that public housing agencies may refer to Handbook 4381.5 for additional guidance on determining which expenses should be paid from fees." Therefore, referencing the Handbook is applicable to Majestic Management's work at the Authority. In addition, the supervisors were not listed on the schedule of project positions and salaries until the 2016 budget. We do not know whether this schedule was approved by HUD. We believe Majestic Management should have paid for its three supervisors (over property managers, maintenance, and grounds) and its current and prior accountants from its management fee rather than charging their salaries fully to the projects' accounts. The Handbook further states that if frontline management functions for several properties are performed out of a single office, the management agent must prorate the total associated costs among the projects served in proportion to the actual use of services. Rather than billing any portion of these employees' duties that qualified as frontline activities to the projects based on actual use and paying the rest out of the management fee, Majestic Management charged their entire salaries to the projects. During audit resolution, HUD will determine whether any or all of the employees' salaries should have been charged to the projects.

Comment 10 The comments appear to claim that the bonuses were approved by the prior executive director and that they may have been paid in the wrong amounts. However, we were provided nothing official from the Authority showing that it had approved the bonuses. Therefore, both bonuses totaling $32,716 need to be paid back to the projects.

Comment 11 The comments stated that Majestic Management reconciled leave time in 2017 with the updating of the employee handbook; however, the leave reconciliation did not appear to take in to account what happened before this year, such as time already paid for by the Authority to employees who did not have the time accrued. Also, since this reconciliation happened outside our audit period, we did not review the accuracy of any adjustments made. Majestic Management should work with the Authority and HUD to provide documentation to show that it has reconciled all employees leave balances.

Comment 12 The comments indicated that we may have reviewed each pay stub to determine leave or sick balances, which we did because this was what Majestic Management told us it did to keep track of leave balances. We did consider negative leave balances as improperly paid leave because we were not provided any documentation to the contrary.

Comment 13 The comments stated that Majestic Management agreed that there was sick leave paid that was not available. It agreed that the amount of $4,164 was improperly accrued and paid; however, our audit report stated that Majestic Management improperly paid 14 employees $5,352 for sick leave. Majestic Management should work with the Authority and HUD to provide documentation to show that it has repaid the excess sick pay and to prove that the remainder was not excess.

Comment 14 Majestic Management stated that we reviewed only pay stubs with negative leave balances rather than requesting to review the employee's actual accrued time. We did review the pay stubs because this was how Majestic Management told us it kept track of leave balances. Majestic Management agreed that the amount of $2,083 was improperly accrued and paid for annual leave; however, our audit report stated that Majestic Management improperly paid 18 employees $7,100 for annual leave. Majestic Management should work with the Authority and HUD to provide documentation to show that it has repaid the excess annual leave and to prove that the remainder was not excess.

Comment 15 The comments stated that we determined exempt employees from the current organizational chart. We based our evaluation of exempt employees on information that Majestic Management provided us. In addition, we followed up with Majestic Management several times, requesting the dates on which these employees became exempt, and did not get a response. We, therefore, used the dates on which we saw a change in the employees' payroll allocation or pay rate to estimate the date of their position change. Majestic Management should work with the Authority and HUD to provide documentation to show when employees became exempt and to prove that overtime was correctly charged to the Authority.

Comment 16 The comments indicated that we reviewed the last pay stub for each employee for 2016, which showed total holiday pay of 112 hours, and that we did not consider that the pay stubs included holidays from 2 years, 2015 and 2016. The item 9 referenced in the comment contained pay stubs for employees for pay date December 23, 2015, which show 96 total holiday hours for the year to date. However, the pay stubs for the January 8, 2016, pay period covering December 19, 2015, to January 1, 2016, showed that Majestic Management paid employees for 32 holiday hours. There should have been only 24 paid holiday hours during this period, including full days on Christmas and New Year's Day and half days on Christmas Eve and New Year's Eve.

Comment 17 Majestic Management stated that it sent documents to the Authority to suspend two employees. The item 10 referenced for this comment was a letter from Majestic Management recommending suspension of the two employees. However, this was not the same letter we received from the Authority. The letter we received from the Authority was similar but dated later than the letter provided and stated that the employees would be reprimanded and serve unpaid suspensions. As we have not been provided any documentation concerning litigation, we cannot comment on those statements. Majestic Management should work with the Authority and HUD to resolve this issue.

Comment 18 Since we were not provided adequate documentation to support Majestic Management's responses to the recommendations for finding 1, we cannot comment on the statements. Majestic Management should work with the Authority and HUD to provide documentation to resolve the recommendations.

Comment 19 Majestic Management stated that it followed the procurement process and stayed within the purchasing thresholds. However, procurement requirements direct the entity to look at its aggregate needs for a particular service or supply. Majestic Management violated the Federal procurement requirements because it used only individual invoice amounts instead of aggregate amounts to determine the purchasing methods it was required to use.

Comment 20 Majestic Management stated that, according to its training, if an invoice was reasonable and under the threshold, only one quote was needed or solicited. However, the items presented in attachment 12 showing procurement requirements stated that the procurement method would be chosen based on the nature and anticipated dollar value of the total requirement. It also included the micropurchase requirement and the small purchase requirement. The term "dollar value of the total requirement" supports the need to look at the aggregate need for a particular service or supply, not just individual invoices.

Comment 21 Majestic Management's comments about continuing to use vendors due to uniqueness of materials was not documented or supported by anything we received during the audit. In addition, although Majestic Management used an insurance supplier for workers compensation before managing at the Authority, it does not follow that this practice was the most cost efficient for the Authority or that the process followed procurement requirements.

Comment 22 Majestic Management's comments indicted that it either provided notice or communicated notice to the Authority of the conflicts of interest and that the companies provided bids for possible work. However, we could not confirm that the Authority knew of the conflict of interest with Supreme Cleaning and Maintenance as none of the Authority files reviewed contained the letter Majestic Management provided from the former executive director. In addition, in attached item 14, Majestic Management explained that DJ's Lawn Care was discussed openly with the former executive director. However, Majestic Management provided no documentation to support this discussion. Within its attachments 14 and 15, Majestic Management provided estimates and proposals for several items but generally did not identify which sample items they related to. Majestic Management did not provide this information to us during the audit. Majestic Management should work with the Authority and HUD to resolve this issue.

Comment 23 Majestic Management's comments state that the vendors selected were reasonable and the Authority benefited from the work performed. We did not find evidence during our audit that would validate that costs were reasonable. We also cannot say whether the Authority benefitted from the work, as the scope of this audit did not include inspections of the units.

Comment 24 Since we were not provided adequate documentation to support the responses to the recommendations for finding 2, we cannot comment on the statements. Majestic Management should work with the Authority and HUD to provide documentation to resolve the recommendations.

Comment 25 Majestic Management stated that it made corrections to the tenant files and forwarded them to the Authority for further review. Majestic Management should work with the Authority and HUD to determine whether all tenant files have been corrected.

Comment 26 Majestic Management stated that it had already addressed the recommendations for finding 3. Since we were not provided adequate documentation to support this response, we cannot comment on the statements. Majestic Management should work with the Authority and HUD to provide documentation to resolve the recommendations.

Appendix C

Criteria

<u>Finding 1 – Payroll</u>

<u>Code of Federal Regulations</u>
Regulations at 2 of CFR 200.430 state that charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must
(i) Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated;

<u>HUD Guidance</u>
Supplement to HUD Handbook 7475.1, REV, CHG-1, references HUD Management Agent Handbook 4381.5 in section 7.10, stating that public housing agencies may refer to chapter 6 of the Multifamily Management Agent Handbook, HUD Handbook 4381.5, for additional guidance on determining which expenses should be paid from fees. The supplement also says that salaries for staff performing finance, accounting, and payroll must be paid from the fee.

HUD Management Agent Handbook 4381.5, section 6.38, states that the salaries of the agent's supervisory personnel may not be charged to project accounts, with the exception of supervisory staff providing oversight for centralized accounting and computer services for the project.

<u>East St. Louis Housing Authority's Human Resource Policy</u>

Holidays
At the beginning of each year, a list of holidays, which will be observed during that calendar year, will be distributed to all employees. Regular full time employees are entitled to paid leave on the following holidays:

New Year's Day, Martin Luther King Day, Presidents Day, Memorial Day, Independence Day, Labor Day, Columbus Day, Veteran's Day, Thanksgiving Day, Friday after Thanksgiving, Christmas Eve (1/2 day), Christmas Day, New Year's Eve (1/2 day), Employee's Birthday.

Annual Leave
All regular full time employees are entitled to paid annual leave. Annual leave is earned effective after the first full calendar month of employment as an eligible employee, regardless of the day of the month the employment period began.

New employees are entitled to use annual leave only after completion of the probationary period.

Annual leave is earned as follows:

Length of Service	Hours Earned Per Month	Hours Earned Per Year
Less than 5 years	6.666	80

Length of service is defined as the eligible uninterrupted period of employment.

Annual leave may be accumulated up to a maximum of 320 hours for all staff, except the Executive Director. Employees may carry over to the next calendar year a maximum of 320 hours of annual leave. Any annual leave accrued in excess of 320 hours will be forfeited by the employee as of December 31st of each year.

Sick Leave
All regular full time employees are entitled to paid sick leave. The leave accrues at the rate of eight (8) hours per month, after a full calendar month of employment is completed or ninety-six (96) hours annually. Sick leave is available for use only after the first payroll date following the close of a full calendar month of employment.

If an illness requires absence from the job and no sick leave is available, the employee can use available annual leave. If all sick leave and annual leave have been exhausted, the employee may request leave without pay for personal illness.

Personal Leave
Each employee is entitled to use (40 hours) of accrued sick leave in each calendar year as personal leave. Personal leave may be taken in minimum of four hour increments. Only (40 hours) of personal leave may be taken in any calendar year.

ESLHA [East St. Louis Housing Authority] provides personal leave with the recognition that employees have personal business which occasionally must be taken care of during the business day and encourages employees to take personal leave as it is needed throughout the year.

Contract
The term "Allowable Expenses" shall mean the following costs and expenses listed below that are incurred by the Management Agent:

a. Salaries, wages, fringe benefits, training costs, recruiting and hiring costs, payroll taxes, workers compensation insurance and other costs related to on-site employees of the Management Agent to the extent directly engaged in the operation of the Development.

The annual fee adjustment is a percentage adjustment that will be additive, depending on the Management Agent's performance against specific operational benchmarks in two (2) areas: ESLHA benchmarks and property financial goals.

Finding 2 – Procurement

Code of Federal Regulations
Regulations at 2 CFR 200.320 – Methods of procurement to be followed.

The non-Federal entity must use one of the following methods of procurement.

(a) Procurement by micro-purchases. Procurement by micro-purchases is the acquisition of supplies or services, the aggregate dollar amount of which does not exceed $3,000 (or $2,000 in the case of acquisitions for construction subject to the Davis-Bacon Act). To the extent practicable, the non-Federal entity must distribute micro-purchases equitably among qualified suppliers. Micro-purchases may be awarded without soliciting competitive quotations if the non-Federal entity considers the price to be reasonable.

(b) Procurement by small purchase procedures. Small purchase procedures are those relatively simple and informal procurement methods for securing services, supplies, or other property that do not cost more than the Simplified Acquisition Threshold. If small purchase procedures are used, price or rate quotations must be obtained from an adequate number of qualified sources.

Regulations at 2 CFR 200.318 (c)(1) state that the non-Federal entity must maintain written standards of conduct covering conflicts of interest and governing the performance of its employees engaged in the selection, award, and administration of contracts. No employee, officer, or agent must participate in the selection, award, or administration of a contract supported by a Federal award if he or she has a real or apparent conflict of interest. Such a conflict of interest would arise when the employee, officer, or agent; any member of his or her immediate family; his or her partner; or an organization which employs or is about to employ any of the parties indicated has a financial or other interest in or a tangible personal benefit from a firm considered for a contract.

Regulations at 2 CFR 200.333, Retention requirements for records.
Financial records, supporting documents, statistical records, and all other non-Federal entity records pertinent to a Federal award must be retained for a period of three years from the date of submission of the final expenditure report or, for Federal awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report, respectively, as reported to the Federal awarding agency or pass-through entity in the case of a subrecipient.

East St. Louis Housing Authority Public Housing Board Communication Resolution 28-15 (May 19, 2015) – Procurement Policy and Procedures Revision #6
The Housing Authority of the City of East St. Louis amended its Procurement Policy under Section II Procurement Authority and Administration - Limits of Responsibility/Authority to comply with the language referenced under 2 CFR Chapter 1, Chapter II, Part 200, et.al Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards. This amendment increased approval thresholds to $3,000.

ESLHA Procurement Policy
Small Purchase. General. Any procurement not exceeding $100,000 ($150,000 after 3/17/2016) may be made in accordance with the small purchase procedures authorized in this section. Contract requirements shall not be artificially divided so as to constitute a small purchase under this section.

Small purchases over $2,000 ($3,000 after 3/17/2016). For small purchases in excess of $2,000 ($3,000 after 3/17/2016), but not exceeding $100,000 ($150,000 after 3/17/2016), no less than three (3) qualified sources shall be solicited to submit price quotations, which may be obtained orally, by telephone, or in writing. Document the procurement file with a justification whenever ESLHA has attempted but been unable to obtain at least three quotes. A sole quotation received may be accepted only in unusual circumstances, such as an emergency threatening public health and safety.

Small Purchases. A comparison with other offers shall generally be sufficient determination of the reasonabless of price and no further analysis is required. If a reasonable number of quotes is not obtained to establish reasonabless through price competition, the Contracting Officer shall document price reasonabless through other means, such as prior purchases of this nature, catalog prices, the Contracting Officer's personal knowledge at the time of purchase, comparison to the Independent Cost Estimate (ICE), or any other reasonable basis.

Open and Effective Competition. The objectives of open and effective competition are:

- To instill confidence in the public about the integrity and cost effectiveness of public sector procurement;
- To maximize the most economically beneficial outcome for the ESLHA;
- To ensure that all suppliers wishing to conduct business with the ESLHA are given a reasonable opportunity to do so; and
- To ensure that bid documents and contracts reflect the requirements and desired outcome of the ESLHA and that all participants are subject to equivalent terms, conditions and requirements.

Record Retention. Records are to be retained for a period of three (3) years after final payment and all matters pertaining to the contract are closed and shall follow the policy and procedures as is defined by the ESLHA Records Retention Policy.

No employee, officer, Board member, or agent of the ESLHA shall participate directly or indirectly in the selection or in the award or administration of any contract if a conflict, real or apparent, would be involved. Such conflict would arise when a financial or other interest in a firm selected for award is held by:

1. An employee, officer, Board member, or agent involved in making the award;
2. His/her relative (including father, mother, son, daughter, brother, sister, uncle, aunt, first cousin, nephew, niece, husband, wife, father-in-law, mother-in-law, son-in-law, daughter-in-law, brother-in-law, sister-in-law, stepfather, stepmother, stepson, stepdaughter, stepbrother, stepsister, half-brother, or half-sister);
3. His/her partner; or,
4. An organization which employs, is negotiating to employ, or has an arrangement concerning prospective employment of any of the above.

Contract

Subject to the provisions of Section 25 and ESLHA's Procurement Policy and Procedures and 24 CFR §85.36 (hereinafter, collectively the "Procurement Procedures"), the Management Agent shall solicit for subcontractor and shall subcontract for such supplies, materials, equipment, and non-personal services as may be necessary for maintenance, repair, and professional services, in accord with Section 3 of the Housing and Community Act of 1968, as amended.

The term "Allowable Expenses" shall mean the following costs and expenses listed below that are incurred by the Management Agent:

d) Costs and fees, excluding the Management Fee, of persons who perform services required in connection with the operation of the Development. If such persons are affiliated with the Management Agent, such costs and fees shall not exceed market rates.

ESLHA will not pay for Management Agent purchases that are not needed for the operation of the Development or are not authorized by the annual Operating Budget. ESLHA reserves the right to deduct from amounts due Management Agent (i) any amount of purchases that are not authorized by the annual Operating Budget, (ii) any amount that ESLHA is required to pay to HUD for the improper purchase of certain supplies, materials, equipment, professional services, or capital improvements because Management Agent failed to comply with Procurement Procedures, or (iii) any amount that ESLHA is required to pay to HUD because Management Agent failed to follow the general principles for determining allowable costs in OMB [Office of Management and Budget] Circular A-87.

The Management Agent, in the exercise of its management functions under this Agreement, has a duty of complete loyalty to ESLHA, which includes an obligation not to have any interests which are adverse to the interest of ESLHA. "Adverse interests" include the representation of it or its employees' interests or the interest of clients that have or could have interests in conflict with those of ESLHA unless ESLHA has been notified previously in writing of an actual or potential conflict and has consented in writing to such representation. This duty also includes a continuous obligation to disclose to ESLHA all circumstances of its relations with clients and third parties and any interests existing at the time this Agreement is signed or during its term that could be viewed as adverse by ESLHA. The Management Agent will be deemed to represent conflicting interests when, for the benefit of a client, it is the Management Agent's duty to promote something which it should oppose in the performance of its obligations with another former, present or potential client. In addition, the Management Agent would be deemed to have a conflict of interest when its conduct is described as a conflict of interest under the rules of ethics of its profession, or under Federal law and regulations of HUD or of the State of Illinois, and/or ESLHA's policies. If the Management Agent is a corporation or partnership, it will be a violation of this provision if any of the Management Agent's Associates, as defined in Section 27 (n), is involved in any conflict of interest described herein. The Management Agent will avoid even the appearance of a conflict of interest.

Finding 3 – Tenant Files

Code of Federal Regulations

Regulations at 24 CFR 5.233 require processing entities to use HUD's EIV system in its entirety:

(i) As a third party source to verify tenant employment and income information during mandatory reexaminations or recertifications of family composition and income; and

(ii) To reduce administrative and subsidy payment errors in accordance with HUD administrative guidance.

Regulations at 24 CFR 5.240(c) state that the responsible entity must verify the accuracy of the income information received from the family and change the amount of the total tenant payment, tenant rent, or Section 8 housing assistance payment or terminate assistance, as appropriate, based on such information.

Regulations at 24 CFR 5.609(b) state that annual income includes, but is not limited to

(1) The full amount, before any payroll deductions, of wages and salaries, overtime pay, commissions, fees, tips and bonuses, and other compensation for personal services; (etc.)

(6) Welfare assistance payments.

(i) Welfare assistance payments made under the Temporary Assistance for Needy Families (TANF) program are included in annual income only to the extent such payments:
   (A) Qualify as assistance under the TANF program definition at 45 CFR 260.31; and
   (B) Are not otherwise excluded under paragraph (c) of this section.
(ii) If the welfare assistance payment includes an amount specifically designated for shelter and utilities that is subject to adjustment by the welfare assistance agency in accordance with the actual cost of shelter and utilities, the amount of welfare assistance income to be included as income shall consist of:
   (A) The amount of the allowance or grant exclusive of the amount specifically designated for shelter or utilities; plus
   (B) The maximum amount that the welfare assistance agency could in fact allow the family for shelter and utilities. If the family's welfare assistance is ratably reduced from the standard of need by applying a percentage, the amount calculated under this paragraph shall be the amount resulting from one application of the percentage.

Regulations at 24 CFR 960.257(a) require a public housing agency to conduct reexamination.
(1) For families who pay an income-based rent, the PHA [public housing agency] must conduct a reexamination of family income and composition at least annually and must make appropriate adjustments in the rent after consultation with the family and upon verification of the information.
(2) For families who choose flat rents, the PHA must conduct a reexamination of family composition at least annually, and must conduct a reexamination of family income at least once every three years.

Regulations at 24 CFR 960.257(a)(4) state that a public housing agency may use the results of the reexaminations to require a family to move to an appropriate-size unit.

Regulations at 24 CFR 960.259 state that a public housing agency must obtain and document in the family file third-party verification of the following factors or must document in the file why third-party verification was not available:
(i) Reported family annual income;
(ii) The value of assets;
(iii) Expenses related to deductions from annual income; and
(iv) Other factors that affect the determination of adjusted income or income-based rent.

HUD Guidance
Office of Public and Indian Housing (PIH) Notice PIH 2010-19 requires public housing agencies to run, print, and maintain in the tenant file a copy of the EIV income report within 120 days of admission. All public housing agencies are required to review the EIV income report of each family before or during mandatory annual and interim reexamination of family income and composition to reduce tenant underreporting of income and improper subsidy payments.

Notice PIH 2010-19 (extended by Notice PIH 2015-02) states that public housing agencies are required to compare the information on the EIV report with the family-reported information. If the EIV report reveals an income source that was not reported by the tenant or a substantial difference in the reported income information, the agency is required to take actions.

Notice PIH 2012-10 states that HUD uses the Social Security number (along with the name and date of birth) of an individual to validate his or her identity, obtain employment and income information via computer matching programs, and ensure that duplicate assistance is not paid.

The Public Housing Occupancy Guidebook requires public housing agencies to verify information relating to eligibility, assets, income, deductions from income, admission preferences, and compliance with applicant selection criteria.

Contract

Pursuant to this Agreement, the Management Agent will be responsible for being familiar and complying with all laws, ordinances, and regulations, as they may be amended from time to time, applicable to the Services required to support this Agreement and all of ESLHA's obligations with respect to the administration, operation and maintenance of the Development so that ESLHA will be in full compliance with all of its obligations under its ACC with respect to the Development.

The Management Agent will utilize the Enterprise Income Verification (EIV) and Public Indian Housing Information Center (PIC) system to generate and correct errors per HUD guidelines.

Appendix D

Listing of Majestic Management's Shared Employees' Additional Responsibilities and Reasons for Questioning Payroll Costs

AMP 1 Property Manager

- Received pay from the Authority for 80 hours per pay period. There was no support showing that she worked these hours for the Authority because during this time, she also performed other work for Majestic Management, including providing information for our audit of multifamily properties.
- Served as office manager for Majestic Management and property manager of a multifamily property managed by Majestic Management. According to the company's website, she "handles the day to day operations of the main office of Majestic Management which includes new employee orientation, training & development, payroll, application screening, leasing, & marketing of properties."
- Received excess annual leave. According to the Authority's policy, she should have accrued at most 106 hours of annual leave (16*6.666 hours per month) from the Authority in almost 16 months if she was a full-time Authority employee, yet the Authority paid her for 120 hours, and her pay stubs reflected an available balance of 396 hours as of December 31, 2016.

AMPs 7 and 8 Property Manager

- Received pay from the Authority for 80 hours per pay period. During 2015, she was also generally paid by Majestic Management for 80 hours of work per pay period for multifamily operations. We did not receive documentation such as timesheets to support this heavy workload. During 2016, she no longer received pay from Majestic Management for the multifamily work, although she still had multifamily responsibilities.
- Served as president of Majestic Maintenance and Construction.
- Served as director of operations for Majestic Management. According to the Majestic Management website, she "oversees the day-to-day operations for all properties for Majestic Management LLC… works one on one with individual property managers, assistant property managers, maintenance/janitorial staff, social service coordinators, and property vendors for the properties currently managed under the Majestic Management portfolio…. ensures the operating functions for each property are run in accordance with state and local governments, and all Housing and Urban Development/ Contract Administrator mandates."
- Was responsible for operating New Horizons, a project consisting of five group homes in Kansas City. These responsibilities included software maintenance, depositing and posting rents, screening tenants, and managing tenant files. In addition, she was on the board of directors for the New Horizons property.
- Received pay from the Authority for full-time regular work hours beginning March 28, 2015, despite stating to us that she started work at the Authority immediately following maternity leave in May or June of 2015.

- Received excess annual leave. According to Authority policy, she should have accrued at most 140 hours of vacation (21*6.666 hours per month) from the Authority in 21 months if she was a full-time Authority employee, yet the Authority paid her for 216 hours, and her pay stubs reflected an available balance of 448 hours as of December 31, 2016.

<u>AMPs 7 and 8 Assistant Property Manager</u>

- Received pay from the Authority for 80 hours per pay period. There was no support showing that she worked these hours for the Authority because during this time, she also performed the below-listed work for Majestic Management's multifamily properties.
- Ran MRB Construction, a company which provided maintenance at the New Horizons project in Kansas City.
- Served as property manager for New Horizons in Kansas City, making trips there two to four times per month to collect rent, perform maintenance, and collect any recertification or income information that was due.

<u>Prior Accountant for AMPs 1, 3, 7, and 8</u>

- Received pay from the Authority for 45-80 hours per pay period, while also being paid for 80-96 hours for the same pay period from Majestic Management. There was no support showing that she worked this double workload.
- Performed the accounting for up to 17 HUD-insured multifamily projects managed by Majestic Management.
- Charged time directly to the Authority despite there being no support for what portion of her work qualified as a frontline expense of the projects. According to the Supplement to HUD Handbook 7475.1, REV, CHG-1, expenses for finance, accounting, and payroll staff should be paid from the management fee.

Appendix E

Unsupported and Ineligible Payroll Costs

	Unsupported amounts		Ineligible amounts					
Employee	Shared employees	Management fee	Passed through pay	Bonuses paid	Improperly accrued and paid leave	Suspended pay	Deduction for ineligible bonuses, leave, and pay	Total unsupported or ineligible
1				$1,049	$333			**$1,381**
2				217	364			**581**
3					77			**77**
4					1,061			**1,061**
5				217	1,144			**1,360**
6				1,280	548			**1,828**
7		$130,177		1,721	12,726		$14,448	**130,177**
8		105,351		1,609	4,101		5,710	**105,351**
9				1,257	1,694			**2,950**
10				1,280	2,457			**3,737**
11					388			**388**
12					83			**83**
13				217	1,345			**1,561**
14		79,741		1,480	399		1,879	**79,741**
15		4,055		219			219	**4,055**
16				1,417	491			**1,908**
17				1,129	95			**1,223**
18				1,697	859			**2,557**
19				1,280	768			**2,048**
20				1,059	484			**1,543**
21				1,641				**1,641**
22				217		$5,194		**5,410**
23	$50,926			1,200	3,098		4,298	**50,926**
24				1,049	36			**1,086**
25				832	86			**918**
26	52,638				166		166	**52,638**
27				1,417	432			**1,848**
28					450			**450**
29	81,778		$1,400	1,730	178		3,309	**81,778**
30				1,017	120			**1,137**
31				1,297	822	1,080		**3,199**

	Unsupported amounts		Ineligible amounts					
Employee	Shared employees	Management fee	Passed through pay	Bonuses paid	Improperly accrued and paid leave	Suspended pay	Deduction for ineligible bonuses, leave, and pay	Total unsupported or ineligible
32				217				**217**
33					462			**462**
34					1,955			**1,955**
35					272			**272**
36	21,276							**21,276**
37		75,867		2,140	1,618		3,758	**75,867**
38				1,579				**1,579**
39				1,257	649			**1,906**
40					250			**250**
Totals	**206,618**	**395,192**	**1,400**	**32,716**	**40,011**	**6,274**	**33,787**	**648,423**