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# AUDIT REPORT



CASA DE VALLEJO

MULTIFAMILY SENIOR HOUSING PROJECT

VALLEJO, CALIFORNIA

2002 -SF- 1001

September 04, 2002

OFFICE OF AUDIT, REGION IX  
SAN FRANCISCO, CALIFORNIA

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Issue Date	September 04, 2002
Audit Case Number	2002-SF-1001

TO: Janet Browder, Director  
San Francisco Multifamily Hub, 9AHM

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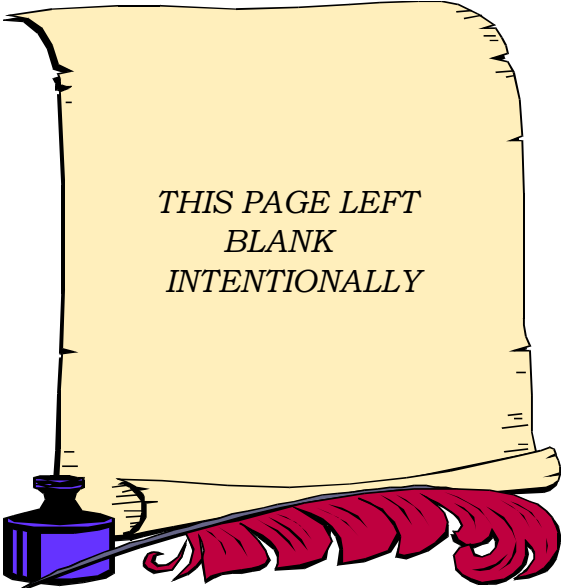
FROM: Mimi Y. Lee  
Regional Inspector General For Audit, 9AGA

SUBJECT: Casa de Vallejo  
Multifamily Senior Housing Project  
Vallejo, California

At the request of your office, we conducted an audit of Casa de Vallejo's operations. We determined the management agent generally complied with the rules and regulations governing property maintenance and its Section 8 program. However, we identified serious problems with its use of project funds and assets and its failure to properly complete the Monthly Report for Establishing Net Income. Also, the project has some deferred maintenance as noted in finding 1. Our report contains two findings addressing these issues with recommendations requiring action by your office.

In accordance with HUD Handbook 2000.06 REV-3, within 60 days please provide us, for each recommendation without management decisions, a status report on: (1) the corrective action taken, (2) the proposed corrective action and the date to be completed, or (3) why action is considered unnecessary. Additional status reports are required at 90 days and 120 days after report issuance for any recommendations without a management decision. Also, please furnish us copies of any correspondence or directives issued because of the audit.

Should you or your staff have any questions, please contact me at (415) 436-8101.



# Executive Summary

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We reviewed selected areas of Casa de Vallejo's books and records, generally covering the period January 1, 1998 through December 31, 2000. Our primary objectives were to assess the management agent's performance relating to: (1) use of project funds in accordance with the Code of Federal Regulations (CFR), Housing and Urban Development (HUD) Handbook requirements, the Regulatory Agreement, and the Housing Assistance Payments (HAP) contract; (2) maintenance of the property in a satisfactory physical condition in accordance with HUD's Uniform Physical Condition Standards; (3) performance of revenue procedures; and (4) implementation of other general management practices.

The audit disclosed serious problems in the use of project funds and failure to properly complete the Monthly Report for Establishing Net Income that need immediate attention.

The Management Agent Used Project Funds For Inappropriate Purposes

The management agent did not always use project funds for the operation and maintenance of the project in accordance with Federal regulations, the Regulatory Agreement, and the HAP contract. Specifically, we noted repeated instances where (1) rental income was used to subsidize the food and maid service programs, (2) project funds were used to pay non-project expenses (some of which were later reimbursed to the project), and (3) some of Casa de Vallejo's expenses were not supported by adequate documentation.

As a result, Casa de Vallejo's limited resources were wasted to pay for items that did not benefit the project. Rental income was used to subsidize the project's food and maid service programs in the amount of \$48,829. In addition to the \$86,930 spent on ineligible items, costs of \$8,263 remain unsupported, and the security deposit account was deficient by \$23,884 as of July 31, 2001.

The Monthly Report For Establishing Net Income Was Not Properly Completed

As a result of unauthorized distributions made in 1996, HUD and the managing general partner of Casa de Vallejo Associates entered into a Memorandum of Agreement (MOA) in February 1998. HUD now requires Casa de Vallejo to provide a *Monthly Report for Establishing Net Income* each month so HUD can monitor the project and be assured the management agent is not making further unauthorized distributions. However, the management agent did not properly complete the required report. Specifically, we noted the following types of errors: (1) all income and disbursements were not reflected on the report,

(2) some checks listed on the report as void cleared the bank, (3) the calculation of rent lost on vacant units was not properly calculated, and (4) the tenant security deposits funded in a separate account was not accurately reported. Thus, HUD cannot rely on the monthly accounting reports to monitor compliance with Federal regulations, HUD Handbook requirements, and the terms of the MOA or to evaluate project performance.

Casa de Vallejo Generally Agreed With The Audit Findings

We provided Casa de Vallejo's management with a draft audit report and obtained its written comments. We also discussed the audit results with its property manager on June 10, 2002 and provided a copy of the requested cost breakdown. Casa de Vallejo's response is included, in its entirety, as Appendix B to this report.

In general, Casa de Vallejo's management agreed with the report's findings. However, its response did not specifically address the recommendations.

In her written response, the property manager disagreed with one particular ineligible cost, but also stated the many changes Casa de Vallejo plans to implement so the reported violations will not be repeated in the future. The property manager also requested a further breakdown of specific costs to complete an appropriate response and create a reimbursement schedule.

We considered Casa de Vallejo's comments and made revisions to the report when appropriate. Our conclusions did not change significantly. Each finding summarizes Casa de Vallejo's comments and our evaluation.

Recommendations

The findings include recommendations to avoid the continuance of the above problems and to mitigate their effects. The more significant recommendations call for the management agent to discontinue its practice of using rental income to subsidize its food and maid service programs, and reimburse the project for ineligible costs of \$110,814 and unsupported costs of \$8,263. Also, HUD needs to increase its monitoring of Casa de Vallejo's monthly income and disbursements reports.

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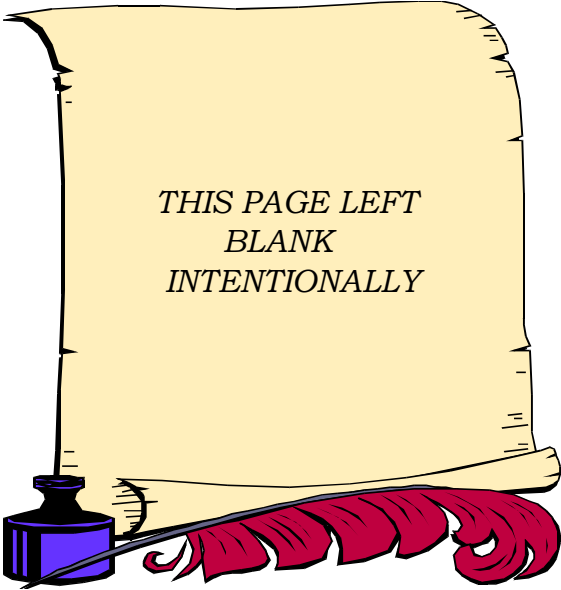
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## Abbreviations

CFR	Code of Federal Regulations
FASSMF	Financial Assessment Subsystem – Multifamily Housing
HAP	Housing Assistance Payments contract
HUD	U.S. Department of Housing and Urban Development
MOA	Memorandum of Agreement
OIG	Office of Inspector General



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# Introduction

**The major HUD programs affecting Casa de Vallejo are the Section 8 rental assistance program and HUD's mortgage insurance program. Under these programs, HUD subsidizes the cost of housing low-income elderly tenants at Casa de Vallejo, and provides mortgage insurance for the project's owners.**

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The Project Was Purchased By Its Present Owners In 1978

The present owners, Casa de Vallejo Associates, purchased Casa de Vallejo on July 7, 1978. The primary purpose for the purchase was to provide housing, care, and feeding of some of the growing elderly population of the area. Casa de Vallejo Associates is a partnership. Ownership of the property is profit-motivated.

There Is An Identity Of Interest Between The Owner And Management Agent

The property is managed by H&B Developers. Although there are two distinct partnerships, Casa de Vallejo Associates and H&B Developers, they largely consist of the same people. H&B Developers is the primary partner of Casa de Vallejo Associates. The property manager has an interest in the property as she shares a 12% interest in Casa de Vallejo Associates and she owns an interest of approximately 0.59% in H&B Developers. Also, her father is the managing general partner of Casa de Vallejo Associates and H&B Developers.

The family of the managing general partner owns 29.25% of Casa de Vallejo Associates. The managing general partner of Casa de Vallejo Associates and his daughter, Casa de Vallejo's property manager, operate and control the project. They have been operating the project as a family business and using project funds as if the project was purely a family business. Thus, there is an identity of interest between the owner and manager. In this situation, the property is actually owner managed.

The project is located in Vallejo, California and has 136 units consisting of 71 studio apartments, 19 alcove apartments, and 46 one-bedroom apartments. Each unit includes a kitchenette (sink, refrigerator, cooktop, hood, and cabinets).

Audit Objectives

The audit was initiated based on a request from HUD management due to specific concerns Casa de Vallejo had not timely responded to its latest HUD Management Review and its latest Real Estate Assessment Center Financial Statement Review. Due to these concerns, and the results of our survey work, our primary audit objectives were to determine whether:

- Casa de Vallejo was using its rental income in a manner consistent with the CFRs, HUD Handbook requirements, the Regulatory Agreement, and the HAP contract.
- Casa de Vallejo maintained the property in a satisfactory physical condition in accordance with HUD's Uniform Physical Condition Standards.
- Casa de Vallejo used sound business practices in relation to its revenue procedures.

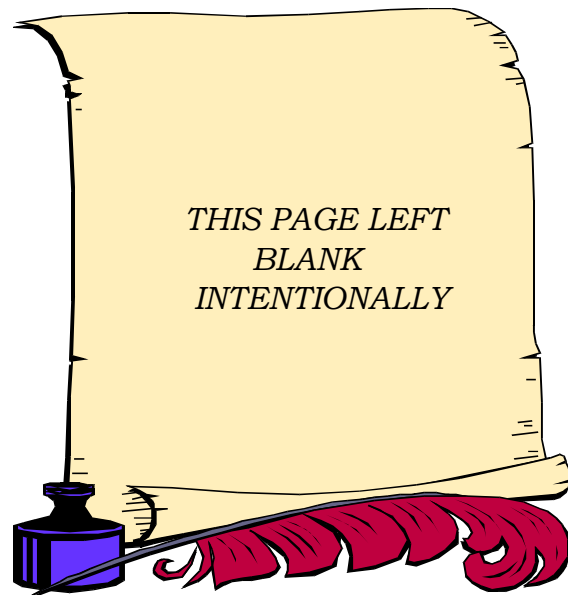
Audit Scope and Methodology

Our audit generally covered the period January 1998 through April 2001. Where appropriate, we extended the review to include other periods. We performed audit work from April 2001 through February 2002. We conducted the audit in accordance with generally accepted government auditing standards.

The primary methodologies for the audit included:

- ✓ Consideration of Casa de Vallejo's management control structure and the assessment of risk.
- ✓ Tests of selected financial activities and transactions.
- ✓ Interviews of various Casa de Vallejo employees and HUD officials acquainted with Casa de Vallejo.
- ✓ Reviews of documentation relevant to HUD's Multifamily Housing and Section 8 housing programs.
- ✓ Review of Casa de Vallejo's Section 8 program practices.

- ✓ Reviews of documentation relevant to HUD's mortgage insurance program.
- ✓ Review of Casa de Vallejo's maintenance practices.
- ✓ Review of Casa de Vallejo's *Monthly Report For Establishing Net Income*



## The Management Agent Used Project Funds For Inappropriate Purposes

The Casa de Vallejo's management agent did not always use project funds for the operation and maintenance of the project in accordance with Federal regulations, the Regulatory Agreement, and the HAP contract. Specifically, we noted repeated instances where (1) rental income was used to subsidize the food and maid service programs, (2) project funds were used to pay non-project expenses (some of which were later reimbursed to the project), and (3) some of Casa de Vallejo's expenses were not supported by adequate documentation.

As a result, Casa de Vallejo's limited resources were wasted to pay for items that did not benefit the project. Rental income was used to subsidize the project's food and maid service programs in the amount of \$48,829. In addition to the \$86,930 spent on ineligible items, costs of \$8,263 remain unsupported, and the security deposit account was deficient by \$23,884 as of July 31, 2001.

### Rental Income Was Used To Subsidize The Project's Food and Maid Service Programs

The management agent stated at various times throughout the year its operating (food and maid service) account is occasionally short of funds. When this happens, funds are transferred to the operating account from the regular (rental) account. During the period January 1998 through September 2001, the rental program subsidized the food and maid service programs in the amount of \$48,829 as follows: (1) \$8,300 for 1998; (2) \$22,529 for 1999; (3) \$12,000 for 2000; and (3) \$6,000 for the first nine months of 2001.

Federal regulations at 24 CFR 278.20 provide that mandatory food services are not to be subsidized from rental income. HUD program staff interpret this CFR cite to include mandatory maid service and food services as areas rental income should not be subsidizing.

This condition exists because the management agent disregarded Federal regulations. The management agent admitted to knowing the law requires the funds in the operating, regular, and security deposit accounts to be kept segregated. The reasons given for this disregard is the food and maid service programs are not generating enough net

income to be fully self-sufficient. Also, since 1995, the project has not applied for, nor has it received, an increase in food and maid service fees. The reasons it had not applied for an increase was because it was trying to sell the property, and as a result, did not think it would need to deal with an increase. Further, it had a strained relationship with the prior HUD project manager. It is obvious the project is not generating enough income to operate its food and maid service programs on a self-sufficient basis.

Project Funds Were Used To Pay Non-Project Expenses

During the course of our audit, we determined project funds were used to pay for ineligible costs of \$86,930. These ineligible costs included: (1) \$60,587 for loans, (2) \$11,346 for personal expenses, (3) \$6,643 for donations and contributions, (4) \$5,280 in assets distributed when the project was in a non-surplus cash position, (5) \$1,582 in excessive management fees, and (6) \$1,492 for projects unrelated to Casa de Vallejo.

Our review noted \$8,263 of unsupported costs as follows: (1) \$4,245 in payments to various project vendors, (2) \$2,753 in payments to American Express, and (3) \$1,265 in payments to project employees.

Our review also disclosed Casa de Vallejo's tenants' security deposit account is not always appropriately funded. We determined Casa de Vallejo used \$20,000 it borrowed from Clayton Ranch Investors at the end of year 2000 to fund this account. As of July 31, 2001, this account was again deficient by \$23,884.

The foregoing questioned costs are identified in Appendix A.

Funds Must Be Used For The Benefit Of The Project

These conditions existed as a result of the management agent's disregard for Federal regulations and HUD rules. Federal regulations at 24 CFR 881.601(e)(1) provide that project funds must be used for the benefit of the project.

The Agreement to Enter Into Housing Assistance Payments Contract, signed by HUD and Casa de Vallejo Associates' managing general partner, states in part: "Project funds must be used for the benefit of the project, to make mortgage payments, to pay operating expenses, to make required



deposits to the replacement reserve in accordance with paragraph (c) of this section...”

The Regulatory Agreement signed by HUD and Casa de Vallejo Associates’ managing general partner, says: “Owners shall not without the prior written approval of the Secretary...”

- b. Assign, transfer, dispose of, or encumber any personal property of the project, including rents, or pay out any funds except from surplus cash, **except for reasonable operating expenses and necessary repairs.** (Emphasis added).
- d. Remodel, add to, reconstruct, or demolish any part of the mortgaged property or subtract from any real or personal property of the project.
- e. Make or receive and retain, any distribution of assets or any income of any kind of the project except from surplus cash and except on the following conditions:
  - 1. All distributions shall be made only as of and after the end of a semiannual or annual fiscal period, and only as permitted by the law of the applicable jurisdiction...”

The February 1998 MOA between HUD and the managing general partner states any further borrowing of project funds and any further distributions outside of surplus cash are violations of the Regulatory Agreement and the matter will be referred for legal remedy.

Federal regulations at 24 CFR 881.608(b) state: “The owner must place the security deposits in a segregated, interest-bearing account. The balance of this account must at all times be equal to the total amount collected from the families then in occupancy, plus any accrued interest.”

The borrowing of project funds for a personal loan, payment of personal expenses, and expenses for properties not related to the project identified below are examples of further borrowing of project funds. The repayment of an unsecured loan, payment of donations, disposition of

The Management Agent Repaid An Unsecured Loan When The Project Was In A Non-Surplus Cash Position

project assets, and excessive management fees identified below are examples of further distributions when the project was in a non-surplus cash position.

Casa de Vallejo's Independent Public Accountant, in its report on Casa de Vallejo's 1996 financial statements, states withdrawals of cash for non-project expenses cannot be made without prior HUD approval. In response, on March 31, 1997, the management agent acknowledged it should not make payments of interest on unsecured notes. The Chief of HUD's Asset Management Branch followed up by informing the management agent on May 1, 1997 it couldn't make payments of interest on unsecured loans when the project was in a non-surplus cash position.

During November 2000, the owner borrowed \$40,000 from Clayton Ranch Investors. Half of this amount was deposited into the tenants' security deposit account. This brought the balance in this account in line with the amount that should have been in the account. The rest of the borrowed money was accounted for in Casa de Vallejo's general ledger suspense account. In February 2001, the management agent used project funds to repay the \$40,000 unsecured loan. Casa de Vallejo was in a non-surplus cash position at the end of its 2000 fiscal year. Therefore, this payment was in violation of the surplus cash requirements stated above.

This distribution of project funds without a prior surplus cash determination is a violation of the Regulatory Agreement and the provisions of the MOA.

Project Funds Were Loaned To An Attorney

Using project funds, Casa de Vallejo's management agent loaned more than \$20,000 to an attorney. On September 30, 1999, a journal entry was made to record \$20,587 taken from the regular bank account and transferred and allocated between the miscellaneous financial expenses, legal expenses (account 6340), and accounts receivable accounts. The management agent stated \$5,000 was for a legal retainer and \$15,000 was a loan to the attorney. The management agent further stated \$587 was for some sort of interest it could not explain.

The *Industry User Guide for the Financial Assessment Subsystem – Multifamily Housing* (FASSMF) provides instructions for accessing and using the FASSMF. This publication states in Appendix A, general ledger account 6340 is to be used for legal fees related to the project such as fees incurred for eviction procedures. It further states legal fees related to the mortgagor entity are to be recorded in account 7120. However, HUD Handbook 4370.2 REV-1, Chapter 4-4, states expenses may be charged to the 7000 series accounts only with prior written approval from HUD.

The legal services to be provided were related to the sale or refinancing of the property. Therefore, these expenses are mortgagor expenses and are the responsibility of the owners of the project. These expenses should have been recorded on Casa de Vallejo's books as mortgagor expenses, subject to prior approval by HUD. Casa de Vallejo did not account for these expenses as mortgagor expenses.

The loan to the attorney and the interest are non-project expenses as well. On our final day of fieldwork, November 11, 2001, the management agent stated the project had been reimbursed \$10,000 and we verified that amount.

This borrowing of funds from the project accounts is a violation of the Regulatory Agreement and the provisions of the MOA.

Project Funds Were Used To Pay Personal Expenses For The Management Agent And The Property Manager

The management agent used project funds to pay for several personal expenses. During our review, we noted \$11,346 in personal expenses were paid using project funds. As a result of our audit, \$2,438 has been reimbursed to the project.

Casa de Vallejo policy states employees are responsible for the costs of dependent health and dental care. Employees with dependents have been responsible for paying for their dependents' health and dental care. Contrary to Casa de Vallejo policy, the management agent used project funds from 1998 through 2000 to pay \$7,915 for medical and dental insurance premiums for the property manager's son. The project accounts should be reimbursed \$7,915 for these personal expenses.

Our review also noted project funds of \$3,431 were used to purchase various personal items for the benefit of the management agent and the property manager. These personal items included items such as refrigerator service and a new refrigerator for the property manager, cigarettes, clothing, books, gifts, and miscellaneous items for the property manager and the management agent. During and subsequent to our fieldwork, we verified reimbursement of \$2,438 to the project's accounts for some of these personal expenses. Thus, \$2,438 of the \$3,431 has been reimbursed to the project for these personal items.

None of the \$11,346 in personal expenses paid using project funds benefited the project. Thus, these expenditures are a violation of 24 CFR 881.601(e)(1) and the HAP contract. They also violate the Regulatory Agreement since the personal expenses are not reasonable operating expenses, which the project should incur. The project's accounts should be reimbursed for the remaining \$993.

Charitable Donations And  
Political Contributions  
Were Made With Project  
Funds

The management agent made several charitable donations and political contributions with project funds. We identified political contributions of \$4,006 in 1998 and \$5,026 in 1999 for which the management agent reimbursed the project on November 18, 1999, and \$3,039 in 2000 for which the management agent reimbursed the project on March 15, 2001. We also identified charitable donations of \$2,156 for 1998 and \$1,500 for 1999 for which the management agent reimbursed the project on November 18, 1999. All of these disbursements and reimbursements occurred prior to our audit.

In his May 10, 2001 letter to the managing general partner of Casa de Vallejo Associates, the HUD Asset Management Team Leader explained donations and contributions are not allowable project expenses. These expenses should come from the management agent's funds. Further, the team leader required evidence the management agent reimbursed the project for any donations made.

However, we identified \$6,643 of donations the management agent made with project funds that have not yet been reimbursed to the project. These donations are summarized in the following table.

Organization	Purpose	Amount
Various Agencies	Donations	\$1,465
Vallejo Chamber of Commerce	Membership Investment	1,073
Christian Church Homes	Bakery Training Program	1,000
Christian Help Center	Turkeys at Thanksgiving	1,000
Martin Luther King Jr. Committee	Donation	500
Vallejo Chamber of Commerce	Fund-raising Golf Tournament	500
Vallejo Neighborhood Housing Services	Sponsorship donation for a fashion show fund-raiser	500
Sutter Solano Medical Center	Fashion show/luncheon	355
Little League Team	Sponsorship	250
Total		\$6,643

We agree with HUD’s determination the use of project funds to pay for charitable donations and political contributions are unallowable project expenses. Thus, HUD should require the management agent to return \$6,643 to the project’s accounts.

This is a violation of the Regulatory Agreement, which states without the prior written approval of HUD, project funds may be used only for reasonable operating expenses and necessary repairs. Donations are not an example of either reasonable operating expenses or necessary repairs.

The Management Agent Disposed Of Project Assets

The management agent disposed of two project vehicles without HUD approval. One vehicle was sold to H&B Developers at a reasonable price. However, the other vehicle, a van, was given away to the property manager. The van was fully depreciated, but it still had value.

Nineteen months prior to giving the van to the property manager, project funds in the amount of \$1,308 were paid for cosmetic repairs to the van. The repair was needed because the property manager hit a post in the project garage. The

management agent did not make an insurance claim so that insurance rates would not be raised. Then, two months prior to giving the van to the property manager, project funds were used to pay for \$3,089 in major engine repairs to the van. We determined the Kelly Blue Book value of the vehicle as of October 12, 2001 (the date we reviewed this transaction) was \$5,280. Accordingly, the project accounts should be reimbursed for \$5,280.

The Management Agent Was Paid Excessive Fees

HUD regulates the management fee paid with project funds on residential, commercial, and garage rental income. In 1998 and 1999, this fee was 6 percent of rental income. Regardless of this limitation, the management agent was overpaid \$1,013 in 1998. However, this was offset by a \$310 underpayment in 1999.

In 2000, the management fee allowed was increased to 6.505 percent on residential rental income but was limited to \$41.50 per unit per month or \$5,644 per month. Management fees on commercial and garage rental income remained at 6 percent. However, instead of charging 6.505 percent of rental income, the management agent began charging a flat fee each month of \$5,644 regardless of rental income. As a result, the management agent was overpaid \$219 on residential rental income and \$93 on commercial and garage rental income in 2000. The management agent was also overpaid \$460 over the period January 2001 through July 2001.

The April 2000 management fee payment included an unidentified overpayment of \$107. Therefore, over the period of our review, the management agent was paid \$1,582 in excess management agent fees, which should be reimbursed to the project accounts.

Project Funds Were Used To Pay Expenses Of Projects Not Related To Casa de Vallejo

During our review, we noted two instances in which the management agent used a total of \$3,646 in project funds to pay expenses incurred by projects not related to Casa de Vallejo.

The management agent spent \$1,492 for flooring for the house of a friend. The management agent stated the purpose of this payment was so the owner could bring the house up to code in order that a Casa de Vallejo employee, about to

become homeless, could live there under the Section 8 program. The \$1,492 was reimbursed to the project as a result of our review.

We also noted the management agent used project funds to pay for \$2,154 in construction bills for a friend who was new to the area and could not get credit from local supply companies. However, the \$2,154 was reimbursed to the project prior to our audit.

The use of project funds to pay for expenses unrelated to Casa de Vallejo are also violations of 24 CFR 881.601(e)(1), the Regulatory Agreement, and the HAP contract.

Some Of Casa de Vallejo's Expenditures Were Not Supported By Adequate Documentation

Casa de Vallejo was unable to provide adequate supporting documentation for \$8,263 in transactions for goods and services. Specifically, we determined \$4,245 in payments to project vendors, \$2,753 in payments to American Express, and \$1,265 in payments to employees, were not supported by adequate documentation such as receipts. Accordingly, we question these costs for the reasons indicated below.

Project Vendors. We determined \$4,245 in payments to various project vendors were not adequately supported. The only documentation provided in support of these transactions was the Casa de Vallejo check written to pay these amounts. In one instance, the property manager attached a note to the check indicating the payment was for rental of parking spaces. However, there were no third-party invoices or other documentation showing what services were provided and whether the services were necessary and reasonable for the operation of the project.

- C.R. Fireline, \$1,599;
- Lipsey's Muffler and Tire Repair, \$1,076;
- Rental of employee parking spaces, \$600; and
- NEBS, \$970.

American Express. Payments to American Express in the amount of \$2,753 were only supported by American Express bills. The following individual charges were not supported by receipts from the company detailing the items purchased. Therefore, individual items purchased were not identified

and we were unable to determine whether they were necessary and reasonable for the operation of the project.

- Purchases at Kinko's, Office Depot, PT TLC Computer, and Sleeter/Quickbooks in the amount of \$888;
- Office Depot in the amount of \$685;
- Office Depot and Costco in the amount of \$987; and
- Circuit City in the amount of \$193.

Employees. The management agent made payments to employees in the amount of \$1,265 without supporting documentation.

- A \$465 payment was made to Petty Cash to reimburse the account for payments of \$320 to the project's assistant manager and \$145 to another person. There was no documentation to support these payments.
- The vending supplies account was booked for \$800 in payments made to the project's assistant manager without any supporting documentation.

The Tenants' Security Deposit Account Was Not Always Fully Funded

Casa de Vallejo borrowed \$20,000 to bring the year-end tenants' security deposit asset account to a greater level than its liability account as of December 31, 2000. This way, its FY 2000 financial statements would show an appropriate amount funded in a separate security deposit account. Similarly, the general ledger as of July 31, 2001 showed the amount funded in a separate account was deficient by \$23,884.

When we discussed this issue, the property manager stated that throughout the year, the rental, food, and maid service accounts are occasionally short on cash. When this occurs, they borrow from the security deposit accounts through a bank transfer to cover the shortage. Then, they deposit the money back into the account as soon as they can.

Security deposits are not project assets until a tenant vacates and the owner determines rent is due or there are damages to the unit. At that time, the deposit is used to pay for the rent due and any damages to the unit with any excess deposits returned to the tenant. If there is no rent due and no damages to the unit, the deposit is returned to the tenant. When the project uses security deposits for



inappropriate purposes, the project may not be able to return the security deposits balance to tenants through the Security Deposit account.

This borrowing of funds from the tenants' security deposit account is a violation of 24 CFR 881.608(b).

The Project Violated  
Various Rules and  
Regulations

As a result of the preceding issues, Casa de Vallejo Associates is in violation of 24 CFR 278.20, 881.601(e)(1), 881.608(b), paragraph 8 of the Regulatory Agreement, Section II, Part 2.6(b)(1) of the HAP contract, and the provisions of the February 1998 MOA.

The Improper Practices  
Wasted Critical Resources

One effect of the improper expenditures was the funds used to pay for these expenditures were no longer available for the operation and maintenance of the project. This led to low cash balances and an ever-increasing net loss position. These project actions also affect HUD by raising the risk of loan default because the project may be headed to a financially unstable position.

The management agent used project funds for uses other than project related expenses; as a result, the project began to suffer both financially and physically. Casa de Vallejo's cash balance has steadily declined from 1998 to 2000. Its balance sheet showed a cash balance of \$88,539 for 1998, \$2,258 for 1999, and zero for 2000.

Casa de Vallejo's rental income is intended for use in maintaining the property. Rental income should have been used to replace the roof and paint the exterior of the building. A tenant had to be removed from one particular unit to another five times within a six to eight month period because of a leak in the roof. The management agent has identified the needed repair to HUD, but Casa de Vallejo does not have the money to pay for the repair.

Also as a result of improper use of project rental income, the management agent violated Federal regulations in borrowing tenants' security deposits. Thus, the tenants' security deposit account was not always fully funded.

  
Auditee Comments

Casa de Vallejo generally agreed with the finding and made the following comments.

- Casa de Vallejo has requested an increase, from HUD, in the amount it may charge its tenants for food and maid service in order to create a self-sufficient program.
- Casa de Vallejo requested further information on the loans, personal expenses, and assets distributed so it can create an appropriate reimbursement schedule.
- Donations and contributions are not project expenses and the practice has been discontinued. However, Casa de Vallejo believes its donations to the Vallejo Chamber of Commerce are a combination of business promotion and advertising for the facility.
- Funds borrowed from the tenants' security deposit account will be returned and will not be used in the future for anything other than as identified in the HUD Handbook and California law.
- In the future, Casa de Vallejo will abide by the terms of the Regulatory Agreement and will seek HUD guidance and approval as necessary.
- Repayment of unsecured loans will not occur in the future without HUD approval. Part of the loan to the attorney was repaid to the project and part of the money is being held as a retainer fee for legal expenses incurred by the sale of the project.
- In the future, project assets will be reviewed for value prior to disposition.
- Casa de Vallejo is reviewing its process of calculating the monthly management fee so appropriate fees will be charged in the future.
- Project funds will no longer be used to pay expenses of projects not related to Casa de Vallejo.

- In order that all future expenditures are supported by complete and accurate documentation prior to distribution of funds, new bookkeeping staff is in place and is being trained.
- Casa de Vallejo has recently received a Mark-to-Market rent increase and believes this will help improve the project's financial situation. A business reorganization of the facility and management at the same time will create an environment in which the violations of the various rules and regulations cannot continue.

## OIG Evaluation of Auditee Comments

We reviewed Casa de Vallejo's response and its supporting exhibit and have made modifications to the report where appropriate. However, these changes did not significantly change our conclusions or recommendations.

In its response to the draft report, Casa de Vallejo identified the changes it intends to make to ensure the reported violations do not continue to occur in the future. However, Casa de Vallejo management believes its contributions to the Vallejo Chamber of Commerce are a combination of business promotion and advertising for the facility. Furthermore, with the invoice billing for the contribution, the Chamber of Commerce describes some of its activities in political terms (i.e. "The Chamber is continuing to tackle some key issues in economic development, governmental policy, education and added member benefits"). These activities indicate at least some of the dues go for lobbying costs. The invoice, stating this is a "Membership Investment" indicates this is club dues, not a bona fide advertising expense. We believe if Casa de Vallejo needs to advertise, it could find a better, less expensive medium than the Vallejo Chamber of Commerce.

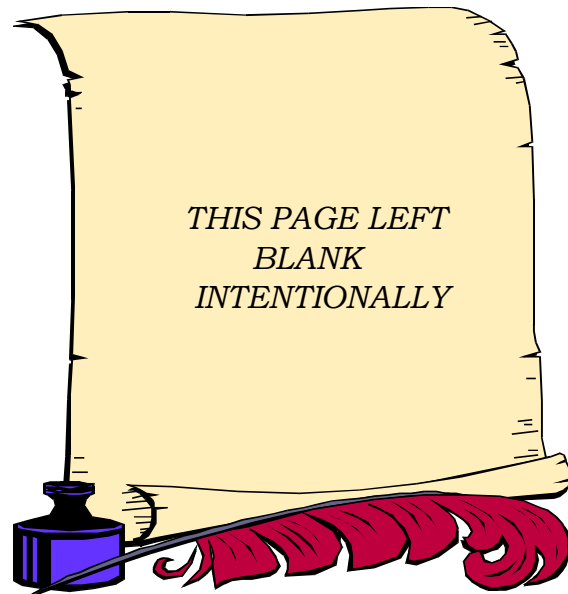
Casa de Vallejo also states \$5,000 of the \$20,587 loaned to the attorney is being held as a retainer toward legal fees expected to be incurred by the sale of Casa de Vallejo. However, expenses incurred by the sale of the property are mortgagor expenses and should be paid by the property owner, not with project funds.

Recommendations

We recommend the Director of the San Francisco Multifamily Hub:

- 1A. Direct Casa de Vallejo Associates to comply with 24 CFR 278.20, 881.601(e)(1), and 881.608(b), paragraph 8 of the Regulatory Agreement, the HAP contract, and the MOA.
- 1B. Direct Casa de Vallejo to stop subsidizing its food and maid service with its rental income and tenants' security deposits. Also, consider approving an increase in food and maid service fees the project is allowed to charge tenants.
- 1C. Direct the project owner to stop using project funds for non-project expenses. Also, require the owner to reimburse Casa de Vallejo \$86,932 for ineligible expenses paid with project funds less the \$13,930 already reimbursed to the project (see Appendix A) as a result of our audit.
- 1D. Require the project owner to either reimburse Casa de Vallejo \$8,263 for unsupported expenses paid with project funds or provide support showing funds were used for eligible project expenses.
- 1E. Refer Casa de Vallejo for legal remedy for violations of the Regulatory Agreement and the MOA if the owner does not immediately repay the project or continues to borrow from project funds and distribute assets when the project is in a non-surplus cash position.
- 1F. Direct Casa de Vallejo to maintain the required balance in its tenants' security deposit account at all times. Although the tenants' security deposit account was deficient by \$23,884 as of July 2001, this amount may have changed since that time. Therefore, the director should determine the amount by which the account is currently deficient and require the project

to reimburse that amount to the tenants' security deposit account.



## The *Monthly Report For Establishing Net Income* Was Not Properly Completed

As a result of unauthorized distributions made in 1996, HUD and the managing general partner of Casa de Vallejo Associates entered into a Memorandum of Agreement in February 1998. HUD now requires Casa de Vallejo to provide a *Monthly Report for Establishing Net Income* each month so HUD can monitor the project and be assured the management agent is not making further unauthorized distributions. However, the management agent did not properly complete the required report. Specifically, we noted the following types of errors: (1) all income and disbursements were not reflected on the report, (2) some checks listed on the report as void cleared the bank, (3) the calculation of rent lost on vacant units was not properly calculated, and (4) the tenant security deposits funded in a separate account was not accurately reported. Thus, HUD cannot rely on the monthly accounting reports to monitor compliance with Federal regulations, HUD Handbook requirements, and the terms of the MOA or to evaluate project performance.

All Income And  
Disbursements Were Not  
Reflected On The Report

A Memorandum of Agreement between the Chief of HUD's San Francisco Asset Management Branch and the managing general partner of Casa de Vallejo Associates states the *Monthly Report For Establishing Net Income* (report) must be submitted to HUD by Casa de Vallejo beginning in January 1998. HUD Handbook 4370.1 REV-2 provides forms and instructions for completing the monthly accounting reports. Those instructions state in part, "...advances provided to meet operating expenses..." should be included on line 2.d. of the report, and "...distributions paid or repayment of advances from project cash..." must be included on line 3d. Schedule B, *Schedule of Disbursements* is included with the form and states, "All disbursements from project cash must be shown."

Contrary to the criteria stated above, the management agent did not properly complete the required form HUD-93479 *Monthly Report for Establishing Net Income*. We reviewed the monthly reports for January 2000 through April 2001 and noted errors on each. The management agent did not always properly include all income and all disbursements on the November 2000, February 2001, and March 2001 reports.

Specifically, report line 2.d, *Amounts Received During the Month – Other*, should include any income other than rent and subsidy. The November 2000 report included garage rents and vending income on line 2.d. This line should have also included the \$40,000 Casa de Vallejo received as an unsecured loan from Clayton Ranch Investors. The March 2001 report, likewise, should have included on this line the \$3,000 Casa de Vallejo received from the management agent for the purchase of the project’s dump truck.

Report line 3.d, *Disbursements Made During the Month – Other*, should include disbursements other than for routine operations and flexible subsidy/Management Improvement and Operating plan items. Thus, the February 2001 report should have included the \$40,000 repaid from project funds to Clayton Ranch Investors.

Some Checks Listed As  
Void Cleared The Bank

Some checks listed on the *Schedule of Disbursements* were listed as void, but later cleared the bank. The December 2000 report included 146 checks listed as void. As a result, we reviewed the bank statements for December 2000 through May 2001 and compared the cleared checks listed to the *Monthly Report for Establishing Net Income* for December 2000 through April 2001 to determine if any checks listed on the report as void cleared the bank.

Of the 146 checks listed as void on the December 2000 report, six later cleared the bank in an aggregate amount of \$46,077. Five of these checks, worth a total of \$46,072, were listed on the January 2001 report with payee name and amount as valid checks. Eight checks listed on the December 2000 report with payee name and amount as valid checks with an aggregate value of \$9,395, were listed on the January 2001 report as void. Each of these checks later cleared the bank.

Further, check number 8886, written on February 26, 2001 to repay the unsecured loan to Clayton Ranch Investors in the amount of \$40,000 (see previous section of report above), was listed as void on Casa de Vallejo’s February 2001 monthly report. However, this check cleared the bank on the same day it was written.



Rent Loss On Vacant  
Units Was Not Properly  
Calculated

The *Monthly Report for Establishing Net Income* indicates the amount to be reported on line 6, *Rent Loss on Vacant Units*, should be the actual rent lost. However, the management agent did not properly calculate this amount on any of the monthly reports we reviewed. Instead, it calculated total potential residential rent and subtracted total residential income received (from tenants and subsidies) to arrive at total vacancies. This method does not consider those tenants who miss a payment, who pay their rent late, or who are making payments on a promissory agreement. Thus, the dollar amount for vacancies shown on the report may include a portion of tenant accounts receivable.

Security Deposits Funded  
In A Separate Account  
Was Not Properly  
Reported

Line 10.b of the report requires the management agent to report the amount of tenants' security deposits funded in a separate account. Rather than stating the actual amount in the account as of the report date, the management agent reported the amount it determined *should be* in the account on each report we reviewed.

There Were Various  
Reasons For The Problems  
Noted

The principal reasons for the problems noted include:

- The *Monthly Report for Establishing Net Income* includes specific instructions on what income and disbursements to report. The wording on the form itself also indicates what amounts should be reported. However, the management agent did not follow the instructions.
- Mistakes were made by the assistant bookkeeper. The property manager said the assistant bookkeeper made mistakes transferring information from the checkbook register to the monthly accounting report. The assistant bookkeeper is no longer an employee of the project.
- The management agent disregarded Federal regulations when it used tenants' security deposits to subsidize Casa de Vallejo's operations.

The Purpose Of The Report Is To Allow HUD To Monitor The Project

The purpose of the report is to allow HUD to monitor compliance and evaluate project performance. Among other areas, the monitor should pay particular attention to income, collections, and disbursements. However, as result of the problems noted, HUD was unaware of the following.

- The project borrowed \$40,000 and used half of it to fund its tenants' security deposit account.
- The management agent sold a project vehicle in December 2000 without the required written HUD approval.
- Checks on the reports in the amount of \$55,467 were not properly listed. Each of these checks was listed on one report with check number, payee, and amount paid and on another report as void.
- The actual dollar amount of Rent Loss on Vacancies was improperly reported. The rent loss amount reported did not consider missed payments, late payments, or payments made on a promissory agreement.
- Although the project was in a non cash-surplus position at the end of its FY 2000, the management agent used project funds to pay back the \$40,000 unsecured loan in February 2001.
- The tenants' security deposit account was habitually under funded and as of July 31, 2001, was deficient by \$23,884.

Since HUD was unaware of these problems, it could not properly monitor the project's compliance with laws and regulations nor evaluate its performance.

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Auditee Comments

Casa de Vallejo agreed with our finding and is trying to correct the violations by implementing standard in-house guidelines for processing this form. It is also coordinating with the HUD program staff to determine if using reports

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directly from its accounting software will provide adequate and accurate information.

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OIG Evaluation of  
Auditee Comments

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We agree with Casa de Vallejo's proposed actions, but HUD program staff should resolve the recommendations.

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Recommendations

We recommend the Director of the San Francisco Multifamily Hub:

- 2A. Require Casa de Vallejo to include **all** project income, regardless of source, on its *Monthly Report for Establishing Net Income*.
- 2B. Require Casa de Vallejo to report **all** disbursements from project funds and accurately list **all** checks on the reports.
- 2C. Ensure Casa de Vallejo correctly computes and reports the project's Rent Loss on Vacancies.
- 2D. Require Casa de Vallejo to report the project's **actual** amount funded in its tenants' security deposit account.
- 2E. Reiterate to Casa de Vallejo it **must** receive written HUD approval to dispose of project property.
- 2F. Monitor the project's *Monthly Report for Establishing Net Income* and the *Schedule of Disbursements* more closely and require supporting documents including, but not necessarily limited to, the following.
  - General ledger accounts for each month for bank activity, income, disbursements, and security deposits.
  - Copies of the front and back of all void checks each month.

- A breakdown of the Rent Loss on Vacant Units to include only the amount lost on individual vacant units.
- Supporting documentation for specific disbursements not detailed enough on the monthly report to determine allowability.

2G. Consider suspending Housing Assistance Payments until such time as the project manager/owner complies with the requirements if the project manager/owner continues to disregard these requirements.

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# Management Controls

In planning and performing our audit, we considered the management controls used by H&B Developers in Casa de Vallejo operations to determine our auditing procedures, not to provide assurance on the controls. Management controls include the processes effected by an entity's management and other personnel, designed to provide reasonable assurance for achieving objectives for program operations, validity, and reliability of data, compliance with applicable laws and regulations, and safeguarding resources.

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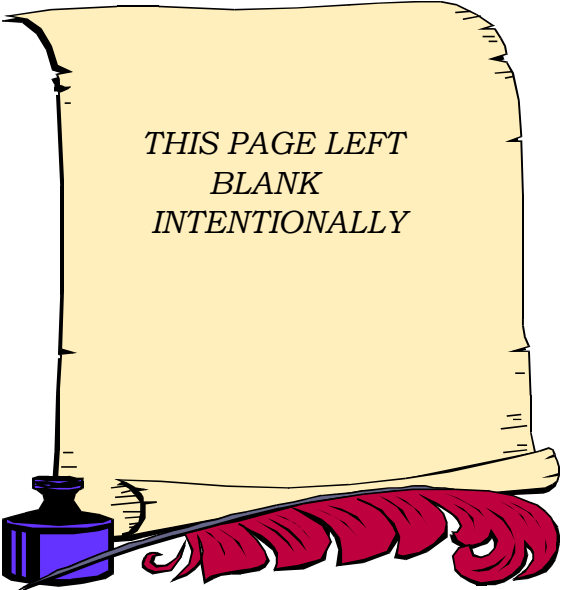


## Relevant Management Controls

We determined the following management controls were relevant to our audit objectives:

- Maintenance Controls
- Cash Controls
- Subsidy Controls

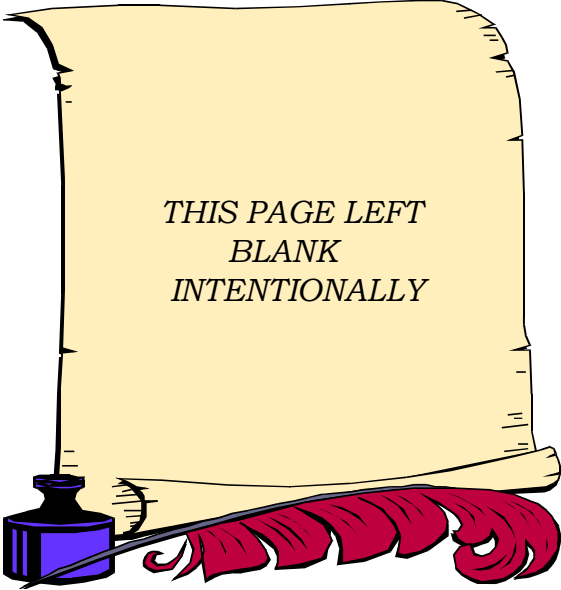
We obtained an understanding of the control structure for the above systems and determined the risk exposure to design audit procedures. We concluded the audit would be performed more efficiently by doing substantive tests without reliance on management controls. Therefore, we did not necessarily make a complete assessment of control design or determine whether all policies and procedures had been placed in operation.



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# Follow Up On Prior Audits

This is the first Office of Inspector General's (OIG) audit of Casa de Vallejo's Section 8 rental assistance program and HUD's insurance program.

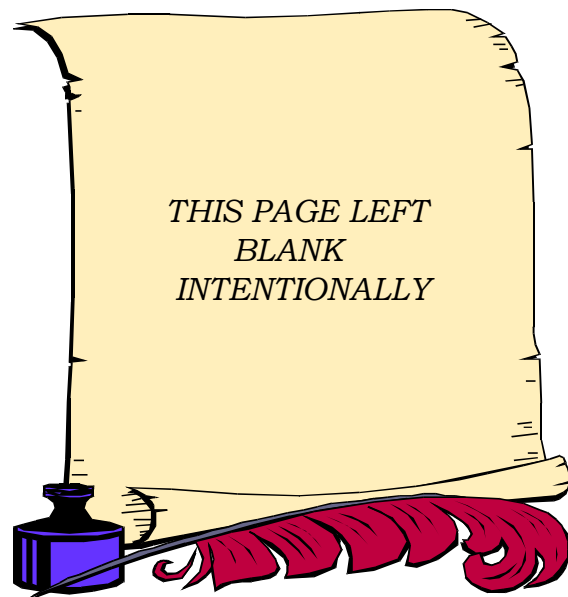




## Schedule of Questioned Costs

Issue	Type of Questioned Costs		
	Ineligible <sup>1/</sup>	Unsupported <sup>2/</sup>	Reimbursed During Audit <sup>3/</sup>
Loans	\$ 60,587		\$ 10,000
Personal Expenses	11,346		2,438
Donations	6,643		
Disposition of Project Assets	5,280		
Excessive Management Fees	1,582		
Projects Not Related to Casa de Vallejo	1,492		1,492
Payments to Project Vendors		\$ 4,245	
Payments to American Express		2,753	
Payments to Project Employees		1,265	
Tenants' Security Deposit Account	23,884		
<b>Total</b>	<b>\$ 110,814</b>	<b>\$ 8,263</b>	<b>\$ 13,930</b>

- 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 costs charged to a HUD-financed or HUD-insured program or activity and eligibility cannot be determined at the time of audit. The costs are not supported by adequate documentation or there is a need for a legal or administrative determination on the eligibility of the costs. Unsupported costs require a future decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of Departmental policies and procedures.
- 3/ We verified Casa de Vallejo's management agent reimbursed the project \$13,930 as a result of our audit.



# Auditee Comments



## Casa de Vallejo

1825 Sonoma Blvd. • Vallejo, Ca 94590 • (707) 644-7737

May 24, 2002

Ms. Mimi Lee  
 District Inspector General for Audit  
 U.S. Department of Housing and Urban Development  
 Office of Inspector General  
 450 Golden Gate Avenue, Box 36003  
 San Francisco, CA 94102-3448

RE: Casa De Vallejo Draft Audit Report

Dear Ms. Lee:

I am in receipt of your audit findings and have reviewed the information. This letter will serve as Casa De Vallejo's response to this report for inclusion in its final draft.

### **1. Management Agent Used Project Funds for Inappropriate Purposes.**

- a. Rental Income Was Used to Subsidize the Project's Food and Maid Service Programs – We have requested a much needed increase for both of these programs from HUD. Documentation is attached as Exhibit "A". As part of this plan, we are restructuring the program to include a complete reorganization of staff and budgetary items. Both of these adjustments are expected to provide increased revenues as well as decreased expenses. With this restructuring we are looking forward to a self-sufficient program that will no longer require support funds from the rental account.
- b. Project Funds Were Used To Pay Non-Project Expenses – A further breakdown of the specific costs (i.e. Loans, personal expenses and assets distributed) will be necessary to prepare a complete and appropriate response and reimbursement schedule. Regarding the amounts shown for donations and contributions, we understand that such disbursements are not considered a project expense and will be discontinued immediately. Funds borrowed from tenants' security deposit account (which is maintained as a separate interest bearing account) will be reimbursed and not disbursed for anything other than as identified in the HUD Handbook of as State of California law dictates.
- c. Funds Must Be Used For the Benefit Of The Project – Casa De Vallejo will abide by the Regulatory Agreement's direction regarding the use and disbursement of project funds and will request necessary guidance and approvals from HUD as needed and required by said Agreement.
- d. The Management Agent Repaid An Unsecured Loan When The Project Was In A Non-Surplus Cash Position – Monies were borrowed to sustain Casa De Vallejo's operating account. These funds were repaid without HUD's approval of the disbursement. As stated above, no further transactions of this nature will transpire without proper HUD authorization.
- e. Project Funds Were Loaned To An Attorney – This was a partial loan. \$10,000 of the \$20,000 borrowed has been repaid and documentation was faxed to the Inspector General's Office. \$5,000 has been held as a retainer towards the legal fees expected to be incurred by

the sale of Casa De Vallejo. The other \$5,000 is still outstanding. No further loans of project funds will be made.

- f. Charitable Donations And Political Contributions Were Made With Project Funds – We were advised of HUD's position regarding donations and/or contributions and have discontinued this practice. The one exception we have to the listing provided would be the Membership in the Vallejo Chamber of Commerce. This is not a donation or contribution. This is viewed a combination of business promotion and advertising for the facility for which we have benefited by referrals of seniors and their families.
- g. The Management Agent Disposed Of Project Assets – In future, any project asset will be reviewed for possible "reasonable value" prior to disposition. Due diligence will be used to recoup any "reasonable value" back to the project.
- h. The Management Agent Was Paid Excessive Fees – We are reviewing our process of figuring the monthly management fees in accordance with the Management Agreement so that appropriate fees are charged consistently.
- i. Project Funds Were Used To Pay Expenses Of Projects Not Related To Casa De Vallejo - We understand that disbursements not considered a project expenses are not allowed. This practice will be discontinued immediately.
- j. Some Of Casa De Vallejo's Expenditures Were Not Supported By Adequate Documentation – The enforcement of policy stating that "all project expenditures will be supported by complete/accurate documentation prior to disbursement of funds" will be upheld. New bookkeeping staff is in place and being trained accordingly.
- k. The Tenant's Security Deposit Account Was Not Always Fully Funded – This was identified and answered in item "b" above.
- l. The Project Violated Various Rules and Regulations/The Improper Practices Wasted Critical Resources – Management has reviewed and discussed the Auditor's findings, and we are working to instigate policies and practices that will not allow these situations to occur in the future. We had recently requested and have been approved for a Market-to-Market rent increase. Our last rent increase was 1995 which did not help to improve our poor financial situation. This was in addition to some poor management choices and decisions. We are currently the process of a complete business reorganization of the facility and management. We have reviewed and updated our budgets, readjusted our food and maid service programs, including requesting HUD's approval for a monthly fee increase request, and addressing policy changes and protections to better insure our adherence to the Regulatory Agreement and HAP Contract requirements.

## **2. The Monthly Report For Establishing Net Income Was Not Properly Completed.**

We have reviewed both the Auditor's findings and accuracy concerns and are attempting to address and correct them by implementing standard in-house guidelines for processing this documentation. We will also be checking with HUD to determine if using reports directly from our Quickbooks Accounting software will provide the required information/documentation necessary while ensuring a higher level of accuracy. This would be particularly appropriate for the Schedule "B" Schedule of Disbursements and Schedule "C" Schedule of Accounts Payable. We can also offer additional report types as backup to the Schedule "A" Monthly Report for Establishing Net Income. These could include our Profit & Loss, Balance Sheet and/or Monthly Budget Reports. All of this is available to insure complete accuracy and compliance with the guidelines established.

In closing, we are going through several major changes. H & B Developers, the management entity, recently hired a new General Manager. Under his guidance Casa De Vallejo has hired a new Manager,

Bookkeeper, Chef, Assistant Chef and Maintenance Supervisor. We have processed our Market to Market rent increase which increased our income an average of 20%. We have updated our monthly operating budget to incorporate not only the increased income but also a re-adjustment of expenses following HUD guidelines and the numerous concerns expressed by our Auditors. We submitted and are awaiting final approval for an increase in the monthly fees for our Food and Maid Service. (Neither of these fees had been raised since 1995.) Both of these programs are being reorganized providing far more cost efficiently (this will prevent the need for rental funds to subsidize these programs) as well as providing a higher quality product and service to our residents.

It is our intent to correct the past errors to the best of our ability and to establish a management system that will ensure our continued adherence to the Regulatory Agreement and HAP Contract. We have already taken steps, as indicated above, toward a better run and financially responsible facility. We are in contact with HUD regularly to make certain that we are proceeding in the right direction.

Sincerely,



Shirley A. Herbert  
Manager

Enclosures

EXHIBIT "A"



*Casa de Vallejo*

1825 Sonoma Blvd. • Vallejo, Ca 94590 • (707) 644-7737

May 13, 2002

Jean Cassimus  
U.S. Department of Housing & Urban Development  
450 Golden Gate Avenue  
Box 36003  
San Francisco, CA 94102-3448

VIA FACSIMILE

**RE: Casa De Vallejo Food/Maid Service Proposed Rate Increase**

Dear Jean:

As a follow up to our phone conversation on the 10<sup>th</sup> of this month, I have composed a package detailing the rate increase we are proposing and its impact. I think you'll agree after review that this plan satisfies both our desire to realize an overdue increase as well as raising guest satisfaction.

As you might suspect, I am eager to get your blessing and implement the changes. I really believe this will benefit all. I will follow up with a phone call tomorrow to explain further the details of the plan and address any questions you might have.

Yours truly,

Thomas Brown  
General Manager

Enclosures: (4)

### **Casa De Vallejo Food Service Program (proposed)**

The new program will increase rates by 13%. The Casa De Vallejo's last increase was 7 years ago in 1995. The current monthly cost of \$150.00 will be increased by \$20 to \$170.00. In addition to a rate increase, the food service schedule will change from 11 meals a week to 10 meals a week. Sunday brunch will be removed. This is necessary to avoid the added labor expense of a six-day work schedule.

To increase the quality, the majority of cost and effort will be directed toward the evening meal. The early meal will be maintained at a reduced scope. Along the lines of a continental breakfast. This will best match the needs of our residents while maintaining our fiduciary goals.

#### Comparison Matrix

	<u>Current Program</u>	<u>Proposed Program</u>
Cost/Month	\$ 150.00	\$ 170.00
Meals/Week	11	10
Meals/Month	44	40
Cost/Meal	\$ 3.40	\$ 4.25

**Casa De Vallejo Maid Service Program (proposed)**

Maid service would be increased as follows:

	<u>Current Program</u>	<u>Proposed Program</u>
Cost/Month		
Studio	\$ 52.00	\$ 56.50
Alcove	\$ 57.00	\$ 62.00
1 Bed Rm.	\$ 62.00	\$ 67.50



**Casa De Vallejo**  
**Y-T-D Food Service Actual vs Current Schedule vs. Rate Increase**  
**January through December 2001 Expenses**

	Jan - Dec 01 Actual	Current Rates (136 Units) @ \$150/tp 4cpl@8 132sgls	W/Increase (136 Units) @ \$170/tp 4cpl@8 132sgls	W/Increase (151 Units) @ \$170/tp 4cpl@8 147sgls
<b>Income</b>				
53000 Service Income				
53100 - Food Service Income (1 Meal/Day)	224,219	252,000	285,600	316,200
53110 - Outside Food Service Income	5,507	5,507	5,507	5,507
Vacancy (6%)	0	12,600	14,280	15,810
<b>Total Income</b>	<b>229,726</b>	<b>244,907</b>	<b>276,827</b>	<b>305,897</b>
<b>Expense</b>				
69000 - Service Expenses				
69200 - Management Fee - Food Svc	13,747	14,694 (6%)	16,610 (6%)	18,354 (6%)
69300 - Salaries - Food Service	89,878	89,878	89,878	89,878
69310 - Food Consultation Fees	0	1,200	1,200	1,200
69330 - Food Supplies	94,549	94,549	104,549	104,549
69331 - Misc. Supplies - Food Svc	11,316	11,316	11,316	11,316
69340 - Payroll Taxes - Food Svc	8,052	8,052	8,052	8,052
69350 - Workman's Comp - Food Svc	5,051	5,051	5,051	5,051
69360 - Employee's Benefit - Food Svc	14,323	14,323	14,323	14,323
69380 - Outside Services - Food Svc	5,123	5,123	5,123	5,123
69400 - Equipment - Repair & Replace	1,164	1,164	1,164	1,164
69410 - Repair & Maint. - Food Svc	0	1,800	1,800	1,800
69502 - Utilities - Electric/Food 10%	5,879	5,879	5,879	5,879
69512 - Utilities - Water/Food 10%	3,418	3,418	3,418	3,418
69532 - Utilities - Gas/Food 10%	5,203	5,203	5,203	5,203
69600 - Telephone - Food Svc 5%	319	319	319	319
69702 - Trash Removal - Food Svc 10%	1,173	1,173	1,173	1,173
69900 - Miscellaneous Exp - Food Svc	0	500	500	500
<b>Total Expense</b>	<b>259,186</b>	<b>253,643</b>	<b>276,538</b>	<b>277,302</b>
2/19/02				
<b>Net Income</b>	<b>(29,470)</b>	<b>(16,736)</b>	<b>1,289</b>	<b>28,595</b>

**Casa De Vallejo**  
**Y-T-D Maid Service Actual vs. Current Schedule vs. Rate Increase**  
 January through December 2001 Expenses

	Jan - Dec 01 Actual	Current Rates (136 Units)	W/increase (136 Units)	W/increase (151 Units)
<b>Income</b>				
53000 - Service Income	71 studios \$52	71 studios \$52	71 studios \$56.5	101 studios \$56.5
	19 alcoves \$57	19 alcoves \$57	19 alcoves \$62	19 alcoves \$62
	46 one bdrm \$62	46 one bdrm \$62	46 one bdrm \$67.5	31 one bdrm \$67.5
	<b>83,241</b>	<b>91,524</b>	<b>99,534</b>	<b>107,724</b>
53200 - Maid Service Income	0	4,376	4,977	5,386
Vacancy (5%)	83,241	86,348	94,557	102,338
<b>Total Income</b>				
	<b>83,241</b>	<b>86,348</b>	<b>94,557</b>	<b>102,338</b>
<b>Expense</b>				
69000 - Service Expenses				
69480 - Management Fee - Maid Svc	4,591	5,217 (6%)	5,673 (6%)	6,140 (6%)
69500 - Salaries - Maid Service	61,912	61,912	61,912	61,912
69501 - Utilities - Electric/Maid 5%	2,940	2,940	2,940	2,940
69511 - Utilities - Water/Maid 5%	1,709	1,709	1,709	1,709
69520 - Supplies - Maid Service	6,343	6,343	6,343	6,343
69531 - Utilities - Gas/Maid 5%	2,602	2,602	2,602	2,602
69540 - Payroll Taxes - Maid Service	5,715	5,715	5,715	5,715
69550 - Workman's Comp - Maid Svc	3,604	3,604	3,604	3,604
69560 - Employee's Benefit - Maid Svc	10,660	10,660	10,660	10,660
69570 - Outside Services - Maid Svc	1,523	1,523	1,523	1,523
69580 - Equip Repair & Repl - Maid Svc	2,239	2,239	2,239	2,239
69590 - Repair & Maintenance - Maid Svc	101	101	101	101
69610 - Telephone - Maid Svc 5%	484	484	484	484
69701 - Trash Removal - Maid Svc 5%	745	745	745	745
69910 - Miscellaneous Exp - Maid Svc	0	500	500	500
	<b>105,567</b>	<b>106,293</b>	<b>106,749</b>	<b>107,216</b>
2/19/02				
<b>Net Income</b>				
	<b>(22,326)</b>	<b>(19,345)</b>	<b>(12,192)</b>	<b>(4,878)</b>

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## Distribution Outside of HUD

Chairman, Committee on Governmental Affairs, 340 Dirksen Senate Office Building, United States, Senate, Washington, DC 20510

Ranking Member, Committee on Governmental Affairs, Hart Senate Office Building, United States, Senate, Washington, DC 20510

Chairman, Committee on Government Reform, 2185 Rayburn Building, House of Representatives, Washington, DC 20510

Ranking Member, Committee on Government Reform, 2204 Rayburn Building, House of Representatives, Washington, DC 20510

Subcommittee on Oversight and Investigations, Room 212 O'Neil House Office Building, Washington, DC 20515

Director, Housing and Community Development Issue Area, United States General Accounting Office, 441 G Street NW, Room 2474, Washington, DC 20548

Deputy Staff Director, Counsel, Subcommittee on Criminal Justice, Drug Policy & Human Resources, B373 Rayburn Office Building, Washington, DC 20515

Chief, Housing Branch, Office of Management & Budget, 725 17<sup>th</sup> Street, NW, Room 9226, New Executive Office Building, Washington, DC 20503

Casa de Vallejo, 1825 Sonoma Boulevard, Vallejo, California 94590