audit report

Issue Date April 13, 2005	
Audit Report Number 2005-PH-1010	

TO: Encarnacion Loukatos, Director, Pennsylvania Multifamily HUB, 3AHMLA

FROM: Daniel G. Temme, Regional Inspector General for Audit, Mid-Atlantic Region, 3AGA

SUBJECT: Rudolphy/Mercy-Douglass Home for the Blind, Philadelphia, PA, Did Not Charge a Cosponsor $19,582 in Commercial Rent

HIGHLIGHTS

What We Audited and Why

We audited the Rudolphy/Mercy-Douglass Home for the Blind (Owner/Project), an independent living facility for low-income persons with blindness and other disabilities, in response to a citizen complaint. The complainant alleged Project development funds and Project facilities were improperly used, payments to two payees were improper, and Project management deficiencies existed. We did not address the issue of Project management deficiencies since your office issued a Management Review report to the Project, dated less than 3 months before the complainant's first letter to us. Our objectives were to determine whether the Owner used Project development funds and Project facilities properly and whether the payments to the two payees were proper.

What We Found

We found no problem with the expenditures related to the Project development funds. However, contrary to U.S. Department of Housing and Urban Development (HUD) regulations, one cosponsor of the Project, Mercy-Douglass

Human Services Affiliate, the Management Agent, is using Project facilities to perform work not exclusively related to the administration of the Project. The Project lost commercial rent of $19,582 and future rental income will equal $18,076 per year. The additional revenue would enable the Project to make the required deposits to the Reserve for Replacement account, which are not being made, and have funds available for other Project needs.

Also, we found no problem with the expenditures to the two payees.

What We Recommend

We recommend that the Pennsylvania Multifamily HUB require the Owner to ensure the cosponsor, Mercy-Douglass Human Services Affiliate, pay past rent of $19,582 and future rent of $18,076 per year for the extra space it occupies in the Project.

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

Auditee's Response

We discussed the report with the Owner during the audit and at an exit conference on April 8, 2005. The Owner generally agreed with our finding and elected not to provide a response to our report.

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BACKGROUND AND OBJECTIVES

In August 1999, the Rudolphy/Mercy-Douglass Home for the Blind (Owner/Project), a joint venture, applied for a U.S. Department of Housing and Urban Development (HUD) Section 811 capital advance to revitalize the 120-year-old building located in the University City section of Philadelphia known as The Edith R. Rudolphy Residence for the Blind. The Edith R. Rudolphy Residence for the Blind is dedicated to providing housing and assisted living services to low-income individuals coping with blindness and other disabilities.

Section 811, Supportive Housing for Persons with Disabilities, provides Federal capital advances and project rental assistance under Section 811 of the National Affordable Housing Act (42 U.S.C. [U.S. Code] 8013) for housing projects serving persons with disabilities. The total amount of the capital advance awarded to the Owner was $1,566,600. The Owner received additional grants and funding from other sources making the total amount available for rehabilitation $2,265,042.

Our objectives were to determine whether the Owner used Project development funds and Project facilities properly and whether the payments to the two payees were proper.

RESULTS OF AUDIT

Finding 1: The Owner Did Not Charge $19,582 in Commercial Rent

Contrary to HUD regulations, one cosponsor of the Project, Mercy-Douglass Human Services Affiliate (Management Agent), is using Project facilities to perform work not exclusively related to the administration of the Project. The Owner/Project did not collect rent from the cosponsor for the additional space. As a result, the Project lost commercial rent of $19,582 and future rental income will equal $18,076 per year. The additional income would provide funds to pay the Reserve for Replacement account, which is currently not being paid, and funds for other Project needs.

HUD regulations[1] state that except for office space used by the owner/borrower exclusively for the administration of a project, project facilities may not include office space.

Management Agent personnel acknowledged they manage other properties as well as the Rudolphy building from the Project site. We allowed for reasonable space in our calculation of commercial rent due. Only space other than reasonable space for operation of the Project (Project manager's office, maintenance area, etc.) was included as commercial rent due.

The other cosponsor, Edith R. Rudolphy Residence for the Blind, is using Project facilities to perform work related to the administration of the Project. It uses office space in the building to perform its supportive services duties, such as helping the residents with their medications, providing transportation for the residents, and preparing schedules for the residents' meal services.

The Edith R. Rudolphy Residence for the Blind is a residential building consisting of 16 residential units located on the second through fourth floors. The first floor mainly consists of the kitchen area and space used by the residents and by the property manager. Both cosponsors also use space located on the first floor. The Management Agent uses a conference room and storage, while Edith R. Rudolphy personnel use two rooms as office space. Most of the basement area is used by the Management Agent as office space and storage. The basement also contains the laundry room and mechanical room.

The Management Agent obtained an appraisal of the space located in the basement and on the first floor to determine the per square foot rate. The appraisal was performed on August 11, 2002, and reported that the basement space is estimated at $8 per square foot and the first floor space is estimated at $11 per square foot. Minutes of the Board of Directors meeting on June 8, 2004,

[1] 24 CFR [Code of Federal Regulations] 891.315

indicate the issue of charging rent based on the appraisal figures was discussed. However, the Management Agent has not paid the Project for the space it uses. The Management Agent states that any rent it owes is offset by management fees owed by the Project but not paid and by advances it has made to the Project. However, this is a determination HUD should make. These are not items to be offset. If the Management Agent had paid rent, the advances may not have been necessary.

According to the floor plans provided and a tour of the Project with Management Agent personnel, we determined the Management Agent uses approximately 2,260 square feet of office/storage space at the Project site beyond what is necessary for the normal operation of the Project (see appendix C). The Management Agent owes the Project $19,582 for the space used to the present. Also, revenue of $18,076 could be generated annually by the Project if the Management Agent is required to pay rent for the space used.

Recommendations

We recommend the Director, Pennsylvania Multifamily HUB require the Owner to:

1A. Collect $19,582 from the Management Agent for the commercial rent not collected.

1B. Charge the Management Agent $18,076 for yearly rent in the future for a savings of $18,076.

SCOPE AND METHODOLOGY

To accomplish our objectives we

- Reviewed 100 percent of the disbursements from the construction requisitions.
- Examined records and related documents of Rudolphy/Mercy-Douglass Home for the Blind.
- Reviewed applicable HUD regulations and Project files.
- Conducted interviews with employees of Mercy Douglass Human Services Affiliate, Edith R. Rudolphy Residence for the Blind, and the HUD Multifamily Division.

The audit generally covered the period from August 1999 to November 2004. We conducted our fieldwork from November through December 2004. The majority of our work was conducted at the Project located at 3827 Powelton Avenue, Philadelphia, PA.

We performed our review in accordance with generally accepted government auditing standards.

INTERNAL CONTROLS

Internal control is an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved:

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

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

- Maintaining invoices, cancelled checks, and bank statements for all disbursements, and

- Using Project facilities.

We assessed the relevant controls identified above. A significant weakness exists if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet the organization's objectives.

Significant Weaknesses

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

- The Owner improperly uses Project facilities.

The deficiency is discussed in detail in the Results of Audit section of this report.

APPENDIXES

Appendix A

FUNDS TO BE PUT TO BETTER USE

Recommendation Number	Funds To Be Put to Better Use 1/
1A	$19,582
1B	$18,076
Total	**$37,658**

1/ "Funds to be put to better use" are quantifiable savings that are anticipated to occur if an Office of Inspector General (OIG) recommendation is implemented, resulting in reduced expenditures at a later time for the activities in question. This includes costs not incurred, deobligation of funds, withdrawal of interest, reductions in outlays, avoidance of unnecessary expenditures, loans and guarantees not made, and other savings.

APPENDIX B

SCHEDULE OF POTENTIAL RENTAL REVENUE

MERCY-DOUGLASS HUMAN SERVICES AFFILIATE				
Location		Square Feet (SF)	$ Per Square Foot	Potential Annual Rental Income
Basement	storage G-09	219	$ 8.00	$ 1,752.00
Basement	office G-13	286	$ 8.00	$ 2,288.00
Basement	laundry G-14	396	$ 8.00	$ 3,168.00
Basement	general storage G-17	172	$ 8.00	$ 1,376.00
Basement	living/dining H-02	365.5	$ 8.00	$ 2,924.00
Basement	bedroom H-08	136.5	$ 8.00	$ 1,092.00
Basement	bedroom H-10	136.5	$ 8.00	$ 1,092.00
Basement	multipurpose room G-03	548	$ 8.00	$ 4,384.00
	Total	**2,259.50**		**$18,076.00**