Issue Date
November 19, 2004
Audit Case Number
2005-FW-1002

TO: Elva Castillo
Director, Multifamily Program Center, 6JHMLAX

Margarita Maisonet
Director, Enforcement Center, CV

FROM: D Michael Beard
Regional Inspector General for Audit, 6AGA

SUBJECT: Domicile Property Management, Inc.
Multifamily Management Agent
San Antonio, Texas

INTRODUCTION

As part of the Office of Inspector General's initiative to combat equity skimming in the multifamily housing programs, we have completed an audit of Domicile Property Management, Inc. (Domicile). The Office of Investigation requested us to do the audit. Our objectives were to determine whether Domicile used HUD assisted property funds in compliance with the regulatory agreements and applicable HUD requirements.

To accomplish our objectives, we interviewed Domicile's owner, his employees as necessary, his attorneys, and HUD staff. We reviewed Domicile's records and HUD assisted property records including general ledgers, bank statements, cancelled checks and supporting documentation, and audited financial statements.

Our review started on September 21, 2000, and concluded July 25, 2003. We performed the review at Domicile's office and the San Antonio HUD office. We discussed our initial findings with the United States Attorney's office on September 17, 2001. Based on the interest of the assigned Assistant United States Attorney, we expanded the review and examined 100 percent of the HUD assisted property disbursements between January 1, 1997, and December 31, 2000. Because Domicile was slow to produce records, we issued a subpoena on December 13, 2001. We took custody of the records on March 6, 2002. We conducted our audit in accordance with generally accepted government auditing standards.

In accordance with HUD Handbook 2000.06 REV-3, within 60 days please provide us, for each recommendation without a management decision, 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 recommendation 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 (817) 978-9309.

SUMMARY

In violation of the properties' regulatory agreements, Domicile diverted property income totaling $771,103 to pay its own expenses and paid $1,469,926 from property accounts without documentation to show the payments were for necessary and reasonable operating costs. Further, Domicile did not abide by the 1995 settlement agreement for a previous HUD claim, involving project overcharges during 1992 and 1993. Under that agreement, Domicile paid $272,113 but did not report and pay an additional $49,262 for self-funded health insurance. Because of Domicile's current diversions and failure to pay the previous settlement obligation, they deprived the properties of operating funds reducing HUD's security interests and increasing HUD's risks.

We discussed each of the matters presented with Domicile's owner during the audit and requested his written responses. We are providing his responses in the finding and our evaluation of his responses. We did not receive responses on the excess management agent fees, ineligible telephone charges, and unsupported costs. His full response is attached in Appendix C.

BACKGROUND

Mr. John Condit owns Domicile Property Management Inc. Domicile's office was located at 601 Howard Street, San Antonio, Texas 78212. Domicile managed 35 HUD assisted properties; 27 with HUD insured mortgages and 8 with HUD direct loans. The properties are located in Texas, Oklahoma, and Kansas. A list of the properties as of July 31, 2003, showing the property name, Housing Act section, whether the mortgagor is a nonprofit, fiscal yearend (FYE), and the loan status is shown in Appendix B.

As of March 25, 2003, Domicile stopped managing three of the properties, Alexandra, Kings Cove and Knightbridge. One property, Mulberry Court, is in foreclosure, two, Kings Cove and Silverwood, are in default and nine, Alexandra, Alice Village, Aurora, Clinton Parkway, Kings Cove, Knightsbridge, Mercedes Palms, Mission Village, and Mulberry Court, were in a nonsurplus cash positions as of fiscal yearend 2001. The remaining properties were current.

The HUD Office of Inspector General's initiative to combat equity skimming consists of audits such as this one where auditors consult with the appropriate United States Attorney's office and HUD Assistant General Counsel to recover project funds used in violation of the regulatory agreement. Under Title 12, United States Code (USC), Section 1715z-4a, HUD may recover double the amount of project assets used for purposes other than those permitted by the regulatory agreement, plus the cost of any audit, litigation, and attorney's fees. We provided a prosecution/litigation package to the HUD Assistant General Counsel on July 25, 2003, and to the United States Attorney's office, Western District of Texas, on August 27, 2003. On August 10, 2004, we received approval from the United States Attorney's office to release this audit report.

On August 28, 2003, we learned that United States Marshals enforced a seizure order issued by the Lubbock Division of the United States District Court of the Northern District of Texas against Domicile's owner in an unrelated matter. A receiver has been appointed by the United States District Court to take over his assets. The receiver has taken steps to freeze his assets, including appointing McDougal Properties to take over Domicile Property Management, Inc.

FINDING

Domicile Diverted Property Income to Pay Management Agent and Unsupported Property Expenses

Domicile Property Management, Inc., diverted $771,103 of property income to pay management agent expenses in excess of what federal requirements allowed and paid $1,469,926 in unsupported expenses. Further, Domicile did not fully abide by the 1995 agreement with the United States Attorney's office. Domicile paid part of the settlement but has not fulfilled all of the agreement. Domicile has recognized a liability on its books in the amount of $49,262 but has not remitted the funds to the government.

The government's current claim includes $771,103 in diverted funds, $1,469,926 of unsupported costs, $49,262 due from the 1995 settlement, and $352,053 in audit costs. The claim is detailed below. Title 12, USC, Section 1715z-4a, provides for the government to recover double damages for violating the regulatory agreements.

Diversions:			
Front-Line Costs:			
Per Unit Bookkeeping Fee	$ 481,173		
Postage	43,884		
Payroll Processing Fee	119,721		
Management Fees	43,868		
Training	66,730		
Telephone	15,727	$ 771,103	*
Other Unsupported		1,469,926	*
1995 Settlement, Self-Funded Ins.		49,262	
Audit costs		352,053	
Total		$2,642,344	

* Subject to double damages

Federal Requirements

The property owner signs and agrees to the regulatory agreement to obtain a non-recourse loan and either HUD FHA mortgage insurance (federal guarantee for mortgage repayment to the lender), a HUD direct loan or HUD financial assistance. The regulatory agreement pledges all income from the property to HUD and spells out the only proper uses of property funds such as:

- Payment of the mortgage;
- Deposits to the reserve for replacements and other required reserves;
- Payment of reasonable expenses necessary for proper operation and maintenance of the project;[1]
- Distributions of surplus cash when permitted; and
- Repayment of mortgagor advances authorized by the commissioner's administrative procedures.

The Section 202 and 811 regulatory agreements prohibit the owner or any owner representative from having any financial interest in any contractual arrangement entered into by the owner in connection with rendition of services, the provision of goods or supplies, management of the project, procurement of furnishings and equipment, construction of the property, procurement of the site, or other matters whatsoever.

In addition, the regulatory agreement requires the owner to:

[1] Payments for services, supplies, or materials shall not exceed the amount ordinarily paid for such in the same area.

- Maintain the property's books and accounts according to HUD requirements (Handbook 4370.2 REV-1 Financial Operations and Accounting Procedures for Insured Multifamily Projects) and in reasonable condition for audit;
- Retain all copies of written contracts or other instruments, which affect the property;
- Provide access to those records by authorized agents;
- Maintain the premises in substantial repair and condition; and
- Provide property management satisfactory to HUD.

In providing property management, HUD requires the owner and agent to provide a management certification. The owner and agent certify and agree to:

- The fee (as a percentage of revenue);
- Any special fee;
- Comply with the regulatory agreement;
- Comply with HUD Handbooks, notices, and other policy directives relating to management of the property;
- Ensure all expenses are reasonable and necessary;
- Obtain cost estimates and document the reasons for accepting other than the lowest bid;
- Maintain copies of documentation;
- Refrain from purchasing from identity-of-interest entities;
- The types of insurance policies and coverage;
- Respond to HUD inquiries; and
- All the records belonging to the property.

The owner and agent sign the certification under false statement, criminal, and civil equity skimming and civil money penalty warnings.

HUD Handbook 4381.5 REV-2, The Management Agent Handbook, applies to management agents of HUD-insured and HUD-assisted properties. HUD designed the handbook to serve as a reference for owners and their management agents. The Director of Housing may waive directives specified in this handbook only if they are not formally required by statute or regulation. According to the Director of the Multifamily Program Center, HUD has not issued a wavier to Domicile. The project owner is responsible for selecting a management agent, subject to HUD approval. The management agent is paid a management fee for their services. The agent must cover the costs of supervising and overseeing project operations out of their fee.

Management Costs Paid from Management Fee

The agent pays expenses for services that are not front-line activities (see paragraph below explaining front-line activities) from the management fee, except centralized accounting and computer services. Other costs paid from the agent's fee include overhead expenses (e.g. supplies and equipment, transportation and phone calls to the projects, regularly scheduled long distance calls from project to agent, office space, data processing, etc). Additional costs paid from the agent's fee include salaries, fringe benefits, office supplies, fees, contract costs, and designing procedures/systems to keep the project running smoothly and in conformity with HUD requirements.

Contracting Guidelines

The agent solicits written cost estimates from at least three contractors or suppliers for any contract, ongoing supply or services expected to exceed $10,000 per year. For contracts estimated to cost less than $5,000 per year, the agent should solicit verbal or written estimates. The agent should retain the documentation as part of the project's records for 3 years following the completion of the work.

Front-Line Activities

HUD allows reasonable expenses for front-line activities including when a management agent elects the single office approach as Domicile has. Front-line activities include: taking applications; screening, certifying, and recertifying Section 8 residents (residents with subsidized rent); maintaining the project; and accounting for project income and expense. When front-line activities are performed out of a single office, HUD requires the agent to prorate the total associated costs based on actual use. Agents may not impose surcharges or administrative fees in addition to actual costs.

Bookkeeping

The costs of bookkeeping services for a project performed as part of a centralized system are treated as a project cost and should not be treated as a special fee. Such expenses are paid from project funds based on actual costs. A project can reimburse the agent for prorated cost of personnel providing property-specific accounting and computer services to the project. The cost to the project for such services provided by the agent may not exceed the cost of procuring comparable services from an independent vendor. Each year, the agent must determine that these costs are at or below the market and maintain such evidence on-site. The agent pays the agent's bookkeeping expenses from the management fee.

Training for Front-Line Staff

Owners and agents may use property funds to obtain ***project related*** (emphasis added) training.

Telephone Charges

From the management agent's fee the management agent pays for telephone charges originating from his office to the project and any regularly scheduled calls from the project to the agent's office. The project pays for other calls originating from the project to the agent's office.

HUD Handbook 4370.2 REV-1, Financial Operations and Accounting Procedures for Insured Multifamily Projects, is the principal guide for financial and accounting operations for HUD insured properties. The Handbook applies to multifamily rental properties under charter or regulatory agreement permitting HUD to exercise control over property administration and operation. The general objectives include:

- Executing all transactions in accordance with property management and where required, HUD's authorization;
- Reporting on all financial transactions using HUD guidelines and generally accepted accounting principles;
- Safeguarding property assets; and
- Providing timely, accurate, and complete information for management decision-making and assisting with compliance with HUD specified accounting procedures.

Further, all disbursements (including checks, wire transfers, and computer generated disbursements) must be supported by approved invoices/bills or other supporting documentation.

Disputed Costs

Domicile diverted $771,103, and did not adequately document $1,469,926 in costs charged to insured properties. Also, Domicile did not pay $49,262 due from the prior agreement with the United States Attorney's office. Domicile used the following diversion methods:

1. Front-Line Costs:
    a. Charging bookkeeping fees instead of actual cost;
    b. Charging management agent costs as postage;
        i. Charging each property $32 to $34 per month to refill Domicile's postage meter instead of the actual property's cost and
        ii. Collecting a fee for postage to pay management agent cost; and
    c. Charging payroll-processing costs payable from the management fee.
2. Collecting excess management fees;
3. Charging a training fee instead of actual cost and then using the fees to pay management agent costs;
4. Charging management agent telephone calls; and
5. Charging unsupported expenses.

Domicile used property income and rents to pay management agent expenses in excess of what federal requirements allow. Further, Domicile did not establish the use of property income and rents for reasonable operating expenses and necessary repairs or adequately document disbursements.

Front-Line Costs

Domicile charged bookkeeping and postage fees (special fees) in excess or instead of the actual cost. Further, Domicile improperly paid management agent expenses including postage meter refills and payroll-processing fees from insured property funds. Total disputed front-line costs are $644,778.

Bookkeeping Fee

Domicile charged the properties $481,173 in bookkeeping fees instead of actual cost. From Domicile's books and records we could not determine an individual property's actual bookkeeping cost, a method to prorate those costs in proportion to actual use, or whether the bookkeeping costs were reasonable. HUD requires the cost of bookkeeping services for a property, performed as part of a centralized system, to be treated as a property cost and not as a special fee. Properties pay bookkeeping expenses based on actual costs.[2] Further, Domicile never provided any documentation as to whether an outside vendor could perform the same services for less, as required by HUD.[3] We found no cost comparisons, studies, solicitations, or any other means for determining the reasonableness of bookkeeping costs.

AUDITEE RESPONSE

Domicile's owner provided the breakdown of the monthly per unit bookkeeping reimbursement of $6.01. Domicile's owner said he based the fee calculation on costs including salaries, hardware/software, office rent, property taxes, overhead, and supplies divided by total units under management.

OIG'S EVALUATION OF AUDITEE RESPONSE

Domicile's response addresses a fee that HUD does not allow. The management agent is required to charge actual bookkeeping costs. The bookkeeping salaries appeared to be for only 1 month and Domicile provided no supporting documentation. In addition, according to HUD Handbook 4381.5 REV-2, The Management Agent Handbook, Figure 6-2, office rent, property taxes, and overhead are payable from the agent's fee not from the property.

Postage

Domicile charged the properties $43,884 for postage. Domicile collected $32 to $34 per month in fees from the properties, deposited them in a separate Domicile bank account and used the fees to pay management agent costs. The fees amounted to $34,035. Domicile used these funds for management agent expenses including payroll, lease of a postage meter at the agent's central office, and postage for that meter. However, Domicile charged the

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2 HUD Handbook 4381.5 REV-2, The Management Agent Handbook, 3.6 c.
3 HUD Handbook 4381.5 REV-2, The Management Agent Handbook, Figure 6-2.

properties another $9,849 to refill Domicile's postage meter. Initially, Domicile made checks payable to the Postmaster and used $9,849 to refill Domicile's postage meter. Starting in 1998, Domicile made the checks payable to itself. Domicile charged insured properties $34,035 for postage, when the property purchased no postage. On the check vouchers, Domicile noted the checks as "postage," "monthly postage," or "office supplies" claiming these as property expenses. However, they were not property expenses.

AUDITEE RESPONSE

Domicile's owner said he uses the $34 per month to offset allowable direct property expenses incurred in the daily management of the properties. He said these expenses include the cost of check stock, check printer, envelopes, postage, and copies. These expenses are allowed by HUD Handbook 4381.5 REV-2, The Management Agent Handbook, Figure 6-2. He said he chose the per month fee to avoid the cost of accounting for each actual item. He said this would add almost $18 per month per property to the cost. He said this is a reasonable reimbursement, they are holding down the cost of small items.

OIG'S EVALUATION OF AUDITEE RESPONSE

Again, Domicile's response addresses a fee that HUD does not allow. Although, HUD Handbook 4381.5 REV-2, The Management Agent Handbook, Figure 6-2, allows these expenses, Domicile must account for these expenses and charge them on an actual basis. In fact, Domicile does charge some of these expenses directly and continues to collect the monthly fee. Finally, the auditee states the fee is reasonable but provides nothing to support the statement.

Payroll-Processing Fee

Domicile contracted with a payroll-processing firm in June 1993 and presently uses an employee leasing arrangement. Domicile charges its processing fee to the properties. Thus, Domicile has transferred its management agent cost and payroll function to the insured properties. So far, Domicile has charged $119,721 in payroll-processing costs payable from the management agent fee to insured properties. In February 1994, Domicile asked HUD to confirm the fee as an eligible project expense. HUD's Chief of Loan Management told Domicile in a letter that the payroll-processing cost "must be paid from the management fee." Domicile disregarded HUD instructions and passed on the payroll-processing costs anyway. Further, Domicile did not provide any documentation as to the reasonableness or cost effectiveness of using a payroll-processing service or an employee leasing arrangement. As a result, property funds totaling $119,721 are ineligible.

AUDITEE RESPONSE

Domicile's owner said, "The payroll processing fees incurred for payroll management have varied based on the level of service for which an outside service was contracted. Prior to 1999, DPMI (Domicile [added by OIG]) kept the Human Resource function in-house and engaged an outside service that only issued payroll checks and processed the payroll tax requirements. Employee benefits, non-participant or worker's compensation insurance and the employee medical insurance were placed using in-house staff.'

'The rising cost of, and difficulty of obtaining, health and worker's compensation insurance and employee benefits, as well as the increasing complexity of the Human Resource function dictated either addition of internal staff or contracting for a higher level of service. The determination was made to shift the personnel function to a staff leasing arrangement. The staff leasing engagement encompasses far more than just payroll processing, being all inclusive of the Human Resource function.'

'In June 2000 DPMI entered into a contract with Premier Consulting, Inc. for full employee leasing services under a co-employment agreement. The fee paid to Premier for this service was 4% of the base payroll. During the year the service was evaluated and found not to be of the overall quality expected. Further, we did not consider the cost of their service formula to be the most appropriate for the wide range of property types and salary ranges. At the end of the first year of the contract DPMI, in an effort to obtain better service to cost performance, re-bid the employee leasing contract.'

'After review of a number of bids and interviews with four firms, AdminiStaff was selected as the service provider. In negotiations with AdminiStaff, a basic bundle rate of approximately 20.25% of base payroll was agreed. This bundle rate includes payroll taxes, worker's compensation insurance, health insurance, benefits and the service fee. Because AdminiStaff quotes only a "bundle" rate, the exact percentage of payroll that comprises the AdminiStaff service fee cannot be broken out as a specific percentage of payroll that is common across all properties. However, when we looked at all competing bids the total "cost of service" and range of service provided showed the AdminiStaff bid to be in line with competing proposals but with a superior service package.'

'The fee(s) paid to AdminiStaff are assessed directly to each property and are paid by that property. DPMI corporate payroll is administered and charged under the same formula as each property. There is no add-on fee from DPMI and DPMI receives no rate break or extensive resources providing AdminiStaff with payroll and employee documentation and information."

OIG EVALUATION OF AUDITEE RESPONSE

Although Domicile's owner provided additional information about the payroll-processing fee charged to the projects, he did not respond to the issue of paying management agent costs from property income. Further, he did not address why he did not stop the practice when HUD's Chief of Loan Management specifically told him in writing the payroll processing cost must be paid from his management fee.

Excessive Management Fees

Domicile collected $43,868 in excess management fees from Mt. Carmel, an insured property. According to Mt. Carmel's 2000 audited financial statements, Domicile's owner stated that Domicile discovered a management contract with a fee rate of 8.6 percent instead of 7 percent. Domicile retroactively charged and collected the difference in fees. Domicile has not produced the management contract supporting the increase in management fees or paid back the excess fee.

Training/Seminar

Domicile collected $66,730 in training fees instead of charging actual training cost. Then, Domicile's owner used these funds to finance his "annual seminar." HUD allows training, but it must be project related.[4] Domicile showed these charges in the properties' books and accounts as training expenses with no support. Domicile noted "training expense" on the project check vouchers**.**

We reviewed Domicile's annual seminar records and found that Domicile did not spend all the funds collected for project related training. As of December 31, 2000, Domicile had accumulated $22,106 in excess of actual cost. Domicile provided the agenda for seminars in 1999 and 2000. The seminar expenses appear about half project related. To illustrate, the 2000 seminar ended at noon on May 26. The hotel bill shows everyone stayed over until the next day. In 1999, Domicile purchased shirts for participants and paid for a trip to Disney World. In 1998, Domicile paid for the printing of its Operating Manual, a management agent expense. In 1999 and 2000, Domicile passed out cash awards.

AUDITEE RESPONSE

Domicile's owner said he holds an annual training seminar lasting 3-1/2 to 4 days for property managers. They cover project related subjects including break out sessions for HUD and conventional properties. He said HUD approved the training. He assesses a monthly reimbursement in order to offset the training cost. He charges $40 for properties in the metro area, $50 within driving distance and $70 if air travel is required.

OIG EVALUATION OF AUDITEE RESPONSE

HUD does approve project related training. However, our review showed only about half of the training was project related and that Domicile has accumulated $22,106 (as of December 31, 2000) in excess of actual costs. Domicile needs to return the training fees and charge the projects only actual costs for project related training as approved by HUD.

Telephone Costs

Domicile charged $15,727 in long distance telephone costs to the insured properties when it should have been payable from the management agent fee. HUD requires the agent to pay the cost of telephone calls to the project and regularly scheduled long distance calls from the project to the agent.[5] We did not solicit comments from Domicile's owner since

[4] HUD Handbook 4381.5 REV-2**,** The Management Agent Handbook, 6.38 c. (1).
[5] HUD Handbook 4381.5 REV-2**,** The Management Agent Handbook, Figure 6-2.

the calls were placed from his office to the project and according to HUD Handbook 4381.5 these type of costs are clearly ineligible.

Unsupported Costs

Domicile did not document $1,469,926 in costs paid to Domicile and charged to insured projects as required by HUD handbooks and the Civil Equity Skimming Statute. We could not find bills, invoices, payroll records, or computations to support these costs as either reasonable or necessary.

Settlement of 1995

Domicile did not abide by the 1995 agreement with the United States Attorney's office. The agreement with the United States Attorney's office settled a HUD equity-skimming claim of $272,113 covering the years 1992 and 1993. The agreement involved violations for overcharging payroll costs, ineligible telephone charges, and overcharges for Section 8 subsidies. Domicile paid $272,113. Domicile agreed to terminate the health insurance no later than July 30, 1996, and produce an accounting to HUD no later than120 days after termination. As of the current date, Domicile has not provided the information but has recognized a $49,262 liability on its books for self-funded health insurance.

Audit Costs

In addition, the government may claim $352,053 in reasonable audit costs allowed by the Civil Equity Skimming Statute. We started the audit in September 2000. Domicile has stalled and attempted to block our audit at every turn. We issued a letter on October 17, 2001, demanding records. We issued a subpoena for property and management agent records on December 13, 2001. The United States Attorney's office was required to enforce the subpoena and still Domicile did not provide the records until March 6, 2002. Further, due to the nature of the diversions and the huge number of disputed transactions of a relatively small dollar amount, considerable audit effort was required to review each property on a transaction-by-transaction basis.

RECOMMENDATIONS

We recommend the HUD Director of Multifamily Housing, through the Office of Regional Counsel and the United States Attorney's Office, as appropriate, require Domicile and its owner:

1A. To repay the properties $771,103 diversions identified in the current audit.

1B. To repay the properties or provide adequate support for the $1,469,926 in unsupported costs.

1C. To repay the properties $49,262 owed from the 1995 settlement.

1D. To pay the government reasonable audit costs of $352,053, as permitted by Title 12, United States Code, Section 1715z-4a.

Also, we recommend the Director, Enforcement Center to:

1E. Take administrative sanctions against the owner and Domicile.

MANAGEMENT CONTROLS

Management controls include the plan of organization, methods and procedures adopted by management to ensure that its goals are met. Management controls include the processes for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

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

> Methods and procedures to ensure disbursements are in compliance with the regulatory agreements.

It is a significant weakness if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet an organization's objectives.

We gained an understanding of the management controls but did not rely on them during our review. Based on our review, the owner of the Domicile Property Management, Inc. was able to override any method or procedure used to ensure disbursements were in compliance with the Regulatory Agreement (see Finding).

Appendix A

SCHEDULE OF QUESTIONED COSTS AND FUNDS PUT TO BETTER USE

Recommendation Number	Ineligible [1]	Unsupported [2]	Funds Put to Better Use [3]
1A	$771,103		
1B		$1,469,926	
1C	49,262		
1D			$352,053
Totals	**$820,365**	**$1,469,926**	**$352,053**

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 polices or regulations.

2 Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity where we cannot determine eligibility at the time of audit. 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 Funds Put to Better Use are quantifiable savings that are anticipated to occur if an OIG recommendation is implemented resulting in reduced expenditures in subsequent period for the activities in question. Specifically, this includes costs not incurred, de-obligation of funds, withdrawal of interest, reductions in outlays, avoidance of unnecessary expenditures, loans and guarantees not made, and other savings.

Appendix B

Domicile Property Management Inc.

Schedule of HUD Insured and Assisted Properties Managed by Domicile

As of July 31, 2003

	Property	Act Section	Loan/FHA #	Non-Profit	FYE	Loan Status
1	AGI-1	236	115-44046	Yes		Current
2	AGI-2	221d3	115-35102	Yes		Current
3	Alexandra Place	221d4	112-35325		Dec 31	Current
4	Alice Village	221d4	115-35238		Dec 31	Current
5	Antioch Village	221d3	115-35012	Yes		Current
6	Aurora	221d4	115-35234		Dec 31	Current
7	Chisolm Trace	221d4	115-35183		Dec 31	Current
8	Cliff Maus Village	221d3	115-35015	Yes		Current
9	Clinton Parkway	221d4	102-35131		Dec 31	Current
10	Dove Valley Ranch	221d3		still in development		
11	Fairhaven - 1	202	118-EH002	Yes		not applicable
12	Fairhaven - 2	202	118-EH023	Yes		not applicable
13	Fairhaven - 3	202	117-EH069	Yes		not applicable
14	Fairhaven - 4	202	118-EH030	Yes		not applicable
15	Golden Terrace	202	113-EE013	Yes		not applicable
16	Houston House	236	115-44038	Yes		Current
17	Kings Cove	221d4	08435253		Dec 31	Current
18	Knightsbridge Manor	221d4	102-35159		Dec 31	Current
19	La Luz	221d3	115-35113	Yes		Current
20	Las Puertas	221d3		still in development		
21	La Quinta	221d3	115-35131	Yes		Current
22	Lulac Amistad	221d3	115-35039	Yes		Current
23	Lulac West Park	236	115-44013	Yes		Current
24	Mercedes Palms	221d4	115-35217		Dec 31	Current
25	Mission Village	221d4	115-35200		Dec 31	Current
26	Monarch Place	202	115-HH005	Yes		not applicable
27	Mt. Carmel	236	115-44199	Yes		Current
28	Mulberry Court	221d4	102-35139		Dec 31	default 9/1/01
29	New Lake Village	236	118-44032	Yes		Current
30	Pan American	221d3	115-35004	Yes		Current
31	Regal Village	811	115-HD014	Yes		not applicable
32	Silverwood	221d4	102-35153		Dec 31	Current
33	Stockton Village	221d3	133-35032	Yes		Current
34	Tomball Pines	811	114-HD006	Yes		not applicable
35	West End Baptist	221d3	115-35032	Yes		Current

Appendix C

AUDITEE COMMENTS

DOMICILE PROPERTY MANAGEMENT, INC.
Ph: (210) 220-1908
FAX: (210) 220-1915

Memo

To: **Larry McMillion**

From: **Mike Goodwin**

CC:

Date: **July 9, 2002**

Re: **Responses to Written Inquiries**

This forwards two documents in response to your request of July 2nd:

1. Statement on the payroll administration costs charged by the staff leasing company.

2. Calculation of monthly bookkeeping and accounting expense for 2002. The cost factors included in this calculation are a conservative interpretation the guidelines of Figure 6-2, page 6-30 of HUD Handbook 4381.5 Rev-2. The calculation was made to determine a per unit cost across all properties in the DPMI portfolio and to ensure the expense reimbursement charged to properties does not exceed the actual cost.

● Page 1

DOMICILE PROPERTY MANAGEMENT, INC.
PAYROLL PROCESSING FEES

The payroll processing fees incurred for payroll management have varied based on the level of service for which an outside service was contracted. Prior to 1999, DPMI kept the Human Resource function in-house and engaged an outside service that only issued payroll checks and processed the payroll tax requirements. Employee benefits, non-participant or worker's compensation insurance and the employee medical insurance were placed using in-house staff.

The rising cost of, and difficulty of obtaining, health and worker's compensation insurance and employee benefits, as well as the increasing complexity of the Human Resource function dictated either addition of internal staff or contracting for a higher level of service. The determination was made to shift the personnel function to a staff leasing arrangement. The staff leasing engagement encompasses far more than just payroll processing, being all inclusive of the Human Resource function.

In June 2000 DPMI entered into a contract with Premier Consulting, Inc. for full employee leasing services under a co-employment agreement. The fee paid to Premier for this service was 4% of base payroll. During the year the service was evaluated and found not to be of the overall quality expected. Further, we did not consider the cost of their service formula to be the most appropriate for the wide range of property types and salary ranges. At the end of the first year of the contract DPMI, in an effort to obtain better service to cost performance, re-bid the employee leasing contract.

After review of a number of bids and interviews with four firms, AdminiStaff was selected as the service provider. In negotiations with AdminiStaff, a basic bundled rate of approximately 20.25% of base payroll was agreed. This bundled rate includes payroll taxes, worker's compensation insurance, health insurance, benefits and the service fee. Because AdminiStaff quotes only a "bundled" rate, the exact percentage of payroll that comprises the AdminiStaff service fee cannot be broken out as a specific percentage of payroll that is common across all properties. However, when we looked at all competing bids the total "cost of service" and range of service provided showed the AdminiStaff bid to be in line with the competing proposals but with a superior service package.

The fee(s) paid to AdminiStaff are assessed directly to each property and are paid by that property. DPMI corporate payroll is administered and charged under the same formula as each property. There is no add-on fee from DPMI and DPMI receives no rate break or special consideration for service of the central office even though DPMI expends extensive resources providing AdminiStaff with payroll and employee documentation and information.

DOMICILE PROPERTY MANAGEMENT, INC.
BOOKKEEPING EXPENSE REIMBURSEMENT

BOOKKEEPING PAYROLL		BURDEN	INS	TOTAL
ROLAND MORALES	$ 3,640.00	$ 608.97	$ 144.00	$ 4,392.97
ROLANDGARCIA	$ 3,867.00	$ 646.95	$ 144.00	$ 4,657.95
DAVID BARTON	$ 2,794.00	$ 467.44	$ 144.00	$ 3,405.44
ROBERT OLIVERAS	$ 2,250.00	$ 376.43	$ 144.00	$ 2,770.43
LEAH MACKRELL	$ 1,500.00	$ 250.95		$ 1,750.95
Denise Cerna	$ 1,672.00	$ 279.73	$ 144.00	$ 2,095.73
Jesus Ibarra	$ 1,760.00	$ 294.45		$ 2,054.45
JaCee McDaniel	$ 1,538.00	$ 257.31	$ 144.00	$ 1,939.31
Leticia Salinas	$ 1,584.00	$ 265.00		$ 1,849.00
Pat Berlanga	$ 2,250.00	$ 376.43		$ 2,626.43
TOTAL	$ 22,855.00	$ 3,823.64	$ 864.00	$ 27,542.64
HARDWARE/SOFTWARE MAINTENANCE				$ 700.00
PRORATA OFFICE RENT				$ 2,300.00
PRORATA AD VALOREM TAX				$ 3,675.00
PRORATA OVERHEAD				$ 1,580.00
SUPPLIES				$ 700.00
HARDWARE/SOFTWARE AMORTIZATION				$ 1,560.00
TOTAL ACCOUNTING COSTS				$ 38,057.64
TOTAL UNITS				6336
PUPM COST				$ 6.01

DOMICILE PROPERTY MANAGEMENT, INC.
ANNUAL TRAINING SEMINAR

Each year the company holds a three and one half to four day training seminar for all Community Directors (managers). Topics covered vary from year-to-year but include legal issues, marketing, Maintenance for Managers, time management, working under stress, communications skills, HUD regulations, and sections of the DPMI Policy and Procedures. Every Seminar has one-half day devoted to Fair Housing Law. In addition, there are breakout sessions where Community Directors of HUD regulated properties are in one group and Community Directors of Tax Credit, Bond and Conventional properties are in another. These sessions cover issues specific to the different types of properties in the area of compliance, reporting, and file management, HUD computer reporting changes, etc. From time-to-time HUD officials for the local San Antonio office have also spoken to the group.

At the inception of the Annual Training Seminar in 1996, DPMI requested and received HUD approval for travel, lodging and per diem for front line personnel. Therefore, in order to offset the cost of this seminar, a monthly seminar expense reimbursement is assessed to each property. The amount of the reimbursement is determined on the location of the property. Properties in the San Antonio metropolitan area as assessed $40 per month, those whose Community Director requires hotel accommodations are assessed at a higher rate (within driving range of San Antonio pay $50, and those where Community Directors require air travel are assessed $70). In order to reduce the expense, Community Directors are lodged two to a room. The funds collected from the properties do not pay the entire cost of the Seminar events, so a number of our vendors sponsor the morning coffee and mid-session breaks, etc. during the day,. The only costs considered in setting the property assessments are outside hard costs (travel, lodging, meeting space, seminar material, speaker fees, etc.). No offset is included for any DPMI staff time, or cost for local travel.

Copies of the Seminar Agenda for the last two Seminars are attached.

TIME	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
8:00	WELCOME	SEMINAR ADMIN	SEMINAR ADMIN	SEMINAR ADMIN
8:15	INTRODUCTIONS	HUD/TRACS/REAC		
8:30	Mike G./Steve C.	S-214/CONT ADMIN	FAIR HOUSING	Personnel
8:45	John C.	WAIT LIST ADMIN		Terrie Urbanczyk
9:00		JIM CONDIT	R. David Fritsche	Premier Consulting
9:15	PRESENTING YOUR	CONVENTIONAL		
9:30	PROPERTY	Maintenance for		BREAK
9:45	JON BARRETT	Managers		
10:00		CENTURY MAINT.	BREAK	
10:15	BREAK	BREAK		Dress for Success
10:30	Budgets &		FAIR HOUSING	
10:45	Financial Procedures	BREAKOUT		NICOLE PULLEY-
11:00		CONT'D	CONTINUED	WALKER
11:15				
11:30	Mike G./Steve C.			WRAP UP
11:45				Mike G.
12:00	LUNCH	LUNCH	LUNCH	ADJOURN
1:00	American Agape	HUD	Property Inspections	
1:15	Laura Taylor	MAINTENANCE FOR	Incident Reports	
1:30	Accounting	MANAGERS	Speaker - Steve C.	
1:45	Roland M & Co.	CONVENTIONAL		
2:00	Unwanted Guest	COMPLIANCE		
2:15	Safety	BELINDA R.		
2:30	SAAA Films	RENT ROLL	BREAK	
2:45	Steve	JIM CONDIT	Meet With	
3:00	BREAK	BREAK	Property Supervisor	
3:15	Manager Empower			
3:30		BREAKOUT		
3:45	Julie H./Julia H.	CONT'D	Open Forum	
4:00		CONVENTIONAL	Adjourn	
4:15		MARKETING		
4:30	Open Forum	JON BARRETT		
4:45	Mike G./Steve C.			
5:00				
5:15	Adjourn	Adjourn		
6:00		Manager Nite Out		
7:00			Reception 6:45 p.m.	
7:30			Banquet 7:45 p.m.	

TIME	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
8:00	Welcome	Seminar Admin	Seminar Admin	Seminar Admin
8:15	Introductions	**Mike Goodwin**	**Mike Goodwin**	**Mike Goodwin**
8:30	**Mike G./Steve C.**		Rents Compliance	Human Resources
8:45	**John Condit**	Fair Housing in 2002	**Jim Condit Pat Berlanga**	**Terrie Urbanczyk**
9:00	Excellence	**R. David Fritsche**		
9:15	**Cary Roark**	**Attorney at Law**	HUD Tax Credit, Bond	Benefits Review
9:30	Announce Manual Revision		Managers Managers	**Administaff**
9:45	**Steve Colella**			**Lee Gartelser**
10:00				
10:15	Break	Break	Break	Break
10:30		Fair Housing in 2002	Administaff	Introduction
10:45	Unit Files	**R. David Fritsche**	Training	to Peak
11:00	**Tina Chapa**	**Attorney at Law**	Programs	**Kristi Goff**
11:15	and	Mold Program	**Lisa Graham**	**and Jim Condit**
11:30	**Julie Hudson**	**R. David Fritsche**	**Administaff**	Wrap Up
11:45	Lunch	Lunch	Lunch	**Mike Goodwin**
12:00				Adjourn
1:00	Weekly OP Report		Inspections and smoke	
1:15	**Lei Ann Owens**	Mold Program	Detectors	
1:30	Accounting	**Joe Petersen**	**Armando and Don**	
1:45	**Roland Morales**	**Flagship Reconstruction**	Emergency	
2:00	Unwanted Guest		Procedures	
2:15	Safety	Mold Information Form	Manual	
2:30	SAAA Films	**Steve Colella**	**Steve Colella**	
2:45	**Steve Colella**			
3:00	Break	Break	Break	
3:15	Budgeting	Resident Move-in	Keys	
3:30	and Purchasing	and	**Jeff Robinson**	
3:45	**Steve Colella**	Community Policies	Open Forum	
4:00	and	**Tina Chapa and**	**Mike G./Steve C.**	
4:15	**Julia Hunsinger**	**Julie Hudson**		
4:30	Open Forum	Rent Collection	Adjourn	
4:45	**Mike G./Steve C.**	**Steve Colella and**		
5:00		**Tina Chapa**		
5:15	Adjourn	Adjourn		
6:00		Manager Nite Out		
7:00			Reception 6:45 p.m.	
7:30			Banquet 7:45 p.m.	

DOMICILE PROPERTY MANAGEMENT, INC.

POSTAGE FEES

The Postage Fee Account is the account against which we offset allowable direct project expenses that we incur in daily management operation of the properties. These expense items are allowable by HUD Handbook 4381.5, Rev. 2., in section 6.38, Figure 6-2. The expense items are:

Cost of check stock for checks issued by the properties.

Check Printer Expense (Including special MICR cartridge, software, maintenance and amortized equipment cost).

Cost of envelopes for all mailings.

Cost of postage for all mailings.

Cost of all copies made for the property.

We have chosen the $34 per month reimbursement as a reasonable expense reimbursement amount that will partially offset the actual cost to DPMI. We have tried to avoid the cost of accounting for each actual item, as it would mean keeping an "accounting track " of each copy made (3 copy machines), the same track of each item mailed and of each check cut, each envelope, and each individual cost for postage on each mailing. I estimate this function in itself would require hiring an additional staff person with a minimum of 75% ($9.50 per hour estimate plus burden) of their time devoted to this task and would add almost $18 per month per property to the cost. This would increase the overall the cost for these items to each property by over 50%. DPMI is charging a reasonable reimbursement and holding the cost down to the properties for the small items.