audit report
OFFICE OF INSPECTOR GENERAL

Issue Date
December 8, 1999
Audit Case Number
00-NY-212-1002

TO: Deborah VanAmerongen, Director, New York Multifamily HUB, 2AHMFAM

FROM: Alexander C. Malloy, District Inspector General for Audit, 2AGA

SUBJECT: Target V Phase I Development Associates
Multifamily Housing Program
Project No. 012-57301
Bronx, New York

We conducted an examination of the books and records of Target V Phase I Development Associates (herein referred to as the Owner), pertaining to the multifamily project Target V Phase I for the period January 1, 1997 through March 31, 1999. The project is managed by Target V Management (herein referred to as the Agent), which is owned and operated by the project's two General Partners. The primary purpose of the audit was to determine whether costs charged to the project were necessary and reasonable for the project's operation and repair, and whether the project was maintained in accordance with the U. S. Department of Housing and Urban Development (HUD) regulations and requirements.

Our audit disclosed instances of non-compliance with HUD regulations and policies that caused ineligible, unnecessary and unsupported costs to be paid with project funds. Specifically, the Agent: (1) charged managerial costs of $234,423 in excess of the limit established by the New York State Office (NYSO) on management fees; (2) made payments totalling $26,524 for services and items that were either unnecessary or unsupported; and (3) maintained weak internal controls and administrative/accounting procedures that exposed the project's assets and income to possible waste and misuse. Although the physical condition of the project was found in the past to be unsatisfactory by HUD and below average by the New York City Housing Development Corporation, the Agent has taken steps to correct the deficiencies.

Within 60 days, please provide us 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 not considered necessary. Also, please furnish us copies of any correspondence or directives issued related to this audit.
Should you or your staff have any questions, please contact me or Mark B. Klein, Assistant District Inspector General for Audit at (212) 264-8000, Extension 3976.

Executive Summary

We conducted an audit of Target V Phase I Development Associates, a limited dividend partnership that owns Target V Phase I, a HUD-insured 83 unit multifamily project, located in the Bronx, New York. The project is managed by Target V Management, an Identity-of-Interest (IOI) management company, that is owned and operated by the project's two General Partners. The objective of the audit was limited to determining whether project funds were used only for necessary and reasonable costs for the operation and repair of the project, and whether the project was maintained in accordance with HUD regulations and requirements.

Our audit disclosed instances of noncompliance with HUD regulations that caused ineligible, unnecessary and unsupported costs to be paid with project funds. Specifically, the Agent violated HUD rules and regulations by: (1) charging management fees and front-line managerial costs in excess of the NYSO limit on such expenses; (2) using project funds to pay costs pertaining to unnecessary and/or unsupported services and items; and (3) allowing weak internal controls and administrative/ accounting procedures to exist. Although the physical condition of the project was not always satisfactory, the Agent has taken steps to correct the identified problems.

The specifics concerning the above matters are discussed below.

The Agent did not comply with HUD regulations and NYSO policy by charging $258,041 to the project for ineligible and unnecessary expenses, and $2,906 of unsupported costs. Furthermore, the Agent did not maintain adequate internal controls and administrative procedures to protect the project's assets and income from possible waste and misuse.

Managerial Expenses in Excess of HUD's NYSO Allowable Limit

Our review disclosed that between 1993 and 1998 the Agent incurred managerial costs in excess of the maximum management fees established by the HUD NYSO. Specifically, the Agent disbursed $122,396 in project funds in excess of the management fee limit to pay for the: (1) salary of a supervisor (i.e. Community Manager); (2) health insurance benefits for the same employee; and (3) salaries and supplies for front-office operations. Additionally, the Agent accrued another $112,027 in excessive management fees which remains unpaid. As a result, the project was deprived of funds which could have been available to pay necessary and reasonable project expenses.

The Managing General Partner contends that these costs were necessary for the operation of the project. Also, the Managing

General Partner contends that because the project was designated a minority demonstration project, it was exempt from the HUD NYSO policy on management fee limits. However, the Agent did not adequately document that the project received an exemption from the HUD policy. Consequently, we are recommending that the Owner/Agent repay the project a total of $122,396 from non-project funds, and remove the outstanding accrual of $112,027 from the project's books.

Agent Used Project Funds for Unnecessary and Unsupported Expenses

The review also revealed that the Agent disbursed $26,524 in project funds for expenses that were either not necessary for the project operations or not supported by adequate documentation. Specifically, the Agent expended funds, between the period January 1, 1997 and March 31, 1999, as follows: (1) $13,595 for unnecessary telephone charges; (2) $10,023 for unnecessary taxi cab fares, bank charges and parking fines, etc. and (3) $2,906 for miscellaneous expenses that were not adequately supported as project related.

The Managing General Partner believes that most of the questionable expenses related to the operation of the project. Accordingly, the Managing General Partner advised us that an evaluation of the finding will be made and that any necessary reimbursements will be made when appropriate. Since the Agent was not able to adequately document, as required by the Regulatory Agreement, that the expenses described in item 1 and 2 of the above paragraph were necessary for the repair and maintenance of the project, we recommend that the total amount of $23,618 be repaid to the project from non-project funds. Also, regarding item 3 we recommend that the Agent submit documentation to HUD showing that expenditures of $2,906 are project related. If adequate documentation is not provided, the $2,906 should be repaid to the project with non-project funds.

Weak internal controls and administrative procedures

The Agent did not maintain adequate internal controls and administrative/accounting procedures to safeguard the project's assets and income from possible waste and misuse. Furthermore, the project's financial records did not accurately reflect the project's financial position.

Exit Conference

The results of the audit were discussed with the Managing General Partner and the Community Manager during the course of the audit, and at an exit conference held on August 24, 1999. We offered the Managing General Partner the opportunity to provide written comments to our draft findings. As of the date of this report, we had not received any written comments from the Managing General Partner. In the absence of written comments, we included in this report the relevant oral comments made by the Managing General Partner during the audit exit conference.

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Abbreviations

HUD	U.S. Department of Housing and Urban Development
HDC	New York City Housing Development Corporation
IOI	Identity-of-Interest
NYSO	HUD New York State Office
OIG	Office of Inspector General
PUPM	Per Unit Per Month

Introduction

Target V Phase I Development Associates is a New York State Limited Dividend Partnership (herein referred to as the Owner) which owns one HUD-Insured project. The project, Target V Phase I (FHA Project No. 012-57301), is an 83-unit residential apartment complex located in the Bronx, New York. It was originally insured in 1984 for $5,026,000 under Section 221 (d) 4 of the National Housing Act, as amended. All the units receive rental subsidies under Section 8 Housing Assistance Contract, No. NY 36-0023-051.

The two General Partners of Target V Phase I Associates also manage the project through an Identity-of-Interest (IOI) management company, Target V Management (herein referred to as the Agent). A current management certification approved by HUD's New York State Office (NYSO) could not be provided by HUD nor by the Agent.

The New York City Housing Development Corporation (HDC) is the mortgagee and the Section 8 Housing Assistance Program Contract Administrator. HDC has the primary responsibility to provide oversight and monitor the operations of the project. The mortgage is presently current. However, for the period covered by our audit, the project was in a non-surplus cash position.

HUD performed a physical inspection of the project in April 1998, and rated the project's physical condition unsatisfactory, primarily due to missing/broken exit signs and emergency lights. Subsequently, in July 1998, HDC conducted a physical inspection and rated the project below average, primarily due to problems with the buildings' fire alarm control panel and uncorrected problems remaining from the prior year's inspection. In December 1998, HUD's Real Estate Assessment Center conducted a physical inspection of the project and found similar problems, particularly regarding inoperative or missing smoke detectors. At the time of our audit, the Agent had initiated corrective actions to address both HUD's and HDC's concerns regarding the physical condition of the project. According to HDC personnel, project management has made satisfactory progress towards fixing the problems.

The project's financial books and records are maintained at the Management Agent's office located at 535 West 51 Street, New York, New York.

Audit Objective

The objective of our audit was limited to determining whether project funds were used only for necessary and reasonable operating expenses and repairs, and whether the project was maintained in accordance with HUD regulations and requirements.

Audit Scope and Methodology

To accomplish our objective, we interviewed officials from HUD NYSO and New York City HDC, as well as the

Agent's staff to evaluate the internal controls, and to obtain an understanding of the procedures required and established.

We reviewed cash disbursements and cash receipts related to the project's accounts. We examined the audited annual financial statements and reports submitted to HUD. We also conducted an inspection at the project to determine the general physical condition of the project, and to determine the actions being taken by the Agent to correct prior deficiencies.

Audit Period

Our review generally covered the period from January 1, 1997 through March 31, 1999, and was extended to include other periods where appropriate. The audit field work was conducted between March 1999 and July 1999.

The audit was conducted in accordance with generally accepted government auditing standards.

Managerial Costs Charged to the Project Exceeded Allowable Fee Limits

The Agent used $122,396 in project funds to pay for managerial costs in excess of the maximum management fees allowed by the HUD New York State Office (NYSO) for the period January 1, 1993 through December 31, 1998. The Agent also charged the project an additional $112,027 for unpaid management fees due the Agent through December 31, 1998. Any future payment of this liability with project funds would add to the excessive fees already paid. As a result, $234,423 in ineligible costs have been charged to the project. Accordingly, the project has been deprived of funds that could have been used to pay for necessary and reasonable operating expenses and repairs.

Specifically, the Agent used project funds to pay for the: (1) salary of a supervisory employee; (2) health insurance premiums for the same employee; and (3) salaries of front-line office personnel and costs for office supplies. The excessive payments made to the Agent for the managerial costs resulted from the Managing General Partner's primary belief that the project was exempt from HUD's NYSO policy on allowable management costs because of its designation as a minority demonstration project. HUD personnel advised us that they are not aware of any such exemption, and the Managing General Partner was unable to provide us with documentation to support his contention.

Criteria

HUD Handbook 4381.5 Rev-1 (issued in June 1986), allows the local HUD offices to establish what it determines to be reasonable management fees for their geographic area. Subsequently, in March 1989, the Director of Housing Management for HUD's NYSO notified all Owners and Management Agents operating in New York that reasonable management fees shall not exceed $59 per unit per month (PUPM) in the high cost areas, such as New York City. This fee was intended to be inclusive of all managerial expenses, which was defined as management office staff, office rent, and overhead, etc. The NYSO also allowed an extra $3 PUPM for computer-related costs.

In March 1992, the former Chief of the Loan Management Branch for HUD's NYSO, further elaborated on what types of costs should be treated as managerial. Among the items listed as managerial, and therefore not eligible as a project cost were: costs for site manager/coordinator of services, recertification clerks, office/computer supplies, and bookkeepers.

Subsequently, in April 1992, HDC notified the project's Agent of the NYSO's determination as to what constitutes project related costs versus managerial costs.

Furthermore, Paragraph 6.38 (a) (3) of HUD Handbook 4381.5 Rev-2 (issued December 1994), provides that the salaries of the Agent's supervisory personnel may not be charged to project accounts, with the exception of supervisory staff providing oversight for centralized accounting and computer services for the project.

A total of $122,396 in Excessive Payments Were Made

During the period January 1, 1993 through December 31, 1998, the Agent charged the project a total of $504,410 for management fees and management related expenses. For this period, the maximum fees and expenses allowed by the HUD NYSO were exceeded by $122,396, as shown in the following table.

Payments Made:		
management fees	$265,150	
managerial costs	239,260	
Total Managerial Costs Paid		$504,410
Management Fees Earned:		
residential	$370,512	(a)
commercial	11,502	(b)
Total Fees Earned 1993-1998		$382,014
Excessive Payments		$122,396

(a)- Based on 83 units over 72 months at a cost of $62 PUPM.
(b)-Based on 4.5% of gross collections.

Specifically, the Agent disbursed $265,150 in project funds for its management fee, and an additional $239,260 to pay for the: (1) salary and transportation costs of the Community Manager; (2) costs for health insurance premiums for the Community Manager; and (3) salaries for front-line office personnel and the costs for office supplies.

Additionally, we noted that the Agent charged $112,027 to the project for accrued management fees. This is a liability of the project, and represents unpaid management fees as of December 31,1998. Any future payments to payoff this liability would constitute excessive management costs since the limit was already exceeded, as described above.

Since HUD Handbook 4381.5 Rev-2 clearly established that the salaries and benefits of supervisory personnel are the Agent's responsibility, and the NYSO policy provided that front-line managerial costs should be paid by the Agent, we believe that the payments and accrued fees totaling $234,423 which exceed the maximum limits established by the NYSO are ineligible project costs.

The Section 8 Contract Administrator, New York City Housing Development Corporation (HDC), reached a similar conclusion as a result of its 1998 financial management review. HDC stated in its report that the Agent did not comply with HUD's cap on management fees and all the managerial costs that were to be covered by the fees.

Auditee Comments

The Managing General Partner contends that due to the project's designation as a minority demonstration project, former management at HUD's NYSO agreed that the project had special needs to ensure its success. These special needs included a higher management fee and the authorization to pay the Community Manager with project funds. Based on this, the Managing General Partner believes that the project is exempt from the NYSO policy that limits management fees.

Furthermore, the Managing General Partner asserts that starting in calendar year 1998, the NYSO's revised policy on management fees allows for project funds to pay for certain managerial costs, such as the Community Manager's salary.

OIG Evaluation of Auditee Comments

In the absence of documented evidence that supports the Managing General Partner's positions, we believe that the management fee limits established by the HUD NYSO applies to this project. Furthermore, in a letter to HDC, dated

February 2, 1999, the Managing General Partner acknowledged that a new Management Certification for the project had not yet been submitted to HUD, which is a prerequisite for the implementation of the revised management fee policy. Therefore, the revised NYSO policy would not be in effect for this project in 1998.

Recommendations

We recommend that you instruct the Owner/Agent to:

1A. Reimburse the project a total of $122,396, representing the amount of excessive funds paid between January 1, 1993 and December 31, 1998.

1B. Eliminate from the project's accounts, the remaining liability due the Agent for unpaid management fees amounting to $112,027.

1C. Comply with existing management fee policies.

Unnecessary and Unsupported Costs Paid With Project Funds

The Agent used $26,524 in project funds to pay for services that were either unnecessary for the maintenance and repair of the project or for expenses that were not adequately supported as project related during the period January 1, 1997 through March 31, 1999. Included in the unnecessary/unsupported costs were payments for: the use of a cellular telephone by the Community Manager, and unreasonable allocations of local telephone charges; taxi cab fares for the Managing General Partner and Community Manager; parking fines and bank charges for overdrafts and insufficient funds; and other miscellaneous expenses (see Appendix B). The unnecessary and unsupported expenditures were incurred because the Managing General Partner believed that these expenses were project related costs and not the responsibility of the Owner/Agent. Consequently, the project was deprived of funds that could have been used to pay for necessary operating expenses and repairs.

Criteria

Paragraph 8 (b) of the Regulatory Agreement provides that the Mortgagor cannot without the prior written approval of the Secretary: assign, transfer, dispose of, or encumber any personal property, including rents, or pay out any funds, except from surplus cash, except for reasonable expenses and necessary repairs. The Regulatory Agreement also requires the Mortgagor to keep copies of all written contracts, and other instruments, all of which may be subject to inspection and examination.

Additionally, Paragraph 2-6 of HUD Handbook 4370.2, Rev-1, states that all disbursements from the regular operating account must be supported by approved invoices/bills or other supporting documentation.

$13,595 in Unnecessary and Unreasonable Telephone charges

The Agent spent $13,595 in project funds to pay for telephone charges that were either not needed or unreasonable for the repair and maintenance of the project. The majority of the $13,595 (i.e. $11,674) was expended for the use of a cellular telephone by the project's Community Manager, and for long distance telephone services that were not necessary for project operations. For example, our examination of the bills for the cellular telephone showed that 700 or more calls were made during a single month; and between 80 to 100 calls were made in one day. The Managing General Partner claimed that the Community Manager needed the cellular telephone for security reasons when he patrolled the project at night. Yet our review of the detailed bills indicated that many of the calls were made during the day. Furthermore, the Agent was not able to provide support to show that the telephone calls made from the cellular telephone were for project related purposes. Additionally, the Agent charged the project for monthly long distance telephone service that could not be supported as necessary for the operations of the project.

Our audit also disclosed that because of an inappropriate method used to allocate local telephone charges (monthly service and equipment), project funds were used to pay $1,921 in unreasonable costs. The Managing General Partner allocated monthly telephone costs based on the number of projects managed instead of a more equitable method, (e.g. based on the number of units in each project).

Unnecessary use of $10,023 for Various Non-project Activities

The Agent used $10,023 in project funds to pay for the use of taxi cabs, parking fees, parking tickets, bank charges, and for a holiday party. Details are provided below.

Project funds totaling $5,495 were used to reimburse the Managing General Partner for the cost of over 300 taxi trips and one parking fee. Although the Managing General Partner was able to provide some documentation to support the expenditures, almost half of the bills did not indicate where the Managing General Partner was picked up or dropped-off. Other bills specified that the taxi trips were from the Managing General Partner's residence to various locations in New York City, such as the project, management office and vendors.

An additional $1,549 in project funds were used to reimburse the Community Manager for various out-of-pocket expenses, such as parking fees, parking summons, and taxi cab fares.

The Agent also spent $1,500 in project funds to buy various items, including food and alcoholic beverages, for a holiday party. In addition, the Agent paid $1,479 in various bank fees for 22 checks returned for insufficient funds, 42 overdraft items, interest on the overdrafts, and other charges.

We believe that the use of project funds to pay for the transportation of the Managing General Partner and the Community Manager, bank fees for insufficient funds and overdrafts, and for a party are not necessary for the operations of the project.

$2,906 in Unsupported Miscellaneous Expenses

Our audit also disclosed that project funds totaling $2,906 were spent for various purposes which were not adequately supported as being necessary for the repair and maintenance of the project. Of this amount, the majority ($2,275) were for checks made out to cash and charged to various project accounts, such as janitor and cleaning supplies, office supplies, and miscellaneous operations and maintenance. Although the Managing General Partner stated that these expenditures were made to reimburse the Community Manager for out-of-pocket expenses for the project, the Agent was not able to provide adequate documentation to support the use of the project funds. The balance of $631 represents reimbursements made to either the General Partners or the Community Manager for unexplained purposes.

We believe that the unsupported use of project funds violates the Regulatory Agreement provision that requires the proper maintenance of adequate supporting documentation.

Auditee Comments

The Managing General Partner did not dispute this finding, and is willing to reimburse the project an amount which represents project funds expended for items that were not for reasonable expenses and/or necessary repairs of the project. Furthermore, the Managing General Partner agreed to devise a more reasonable method to allocate telephone costs to the project.

Recommendations

We recommend that you instruct the Owner/Agent to:

2A. Reimburse the project the amount of $23,618 which represents project funds that were used for unnecessary costs.

2B. Use a method that reasonably allocates local telephone charges to the project.

2C. Submit documentation to support that $2,906 in project funds were used for reasonable expenses and necessary repairs. If adequate documentation is not provided, we recommend that you instruct the Owner/Agent to reimburse the project for the amount unsupported.

2D. Establish procedures to ensure that HUD regulations and requirements regarding the proper use of project funds and the maintenance of adequate documentation are followed.

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Need to Strengthen Internal Controls and the Maintenance of Financial Records

The project does not have adequate internal control procedures to provide reasonable assurances that the use of project resources is consistent with governing rules and regulations, and that assets and income are safeguarded against waste and misuse. Specifically, the project's internal controls were weak regarding cash receipts, tenant accounts receivable and cash disbursements. In addition, the project's financial records did not accurately reflect the financial position of the project. The project's audited financial statements did not reconcile to the General Ledger accounts, reported a liability that was not a project debt, and contained an inaccurate computation for surplus cash. We attribute the internal control weaknesses to an inadequately trained staff who are unfamiliar with proper accounting controls and procedures.

Criteria

The HUD Regulatory Agreement (Paragraph 12c) requires that books and records be maintained in reasonable condition for proper audit.

Additionally, the HUD Financial Operations and Accounting Procedures for Insured Multifamily Projects, Handbook 4370.2 REV-1 provides that:

- The general objectives of the HUD prescribed accounting system include reporting on all financial transactions using HUD guidelines and Generally Accepted Accounting Principles (Paragraph 2-2).

- Books and accounts must be complete and accurate (Paragraph 2-3).

In order to ensure that books are complete and reporting is uniform, prescribed accounts must be maintained as delineated in the HUD chart of accounts (Paragraph 2-4).

Our audit disclosed that the Owner/Agent did not establish internal controls that were adequate to ensure that all cash receipts were accounted for, recorded properly, and deposited timely. Specifically, our audit revealed the following internal control weaknesses:

- Pre-numbered rent receipts were not used to reconcile rent collections, and tenants did not receive rent receipts.

- Cash receipts were not recorded in project accounts in a timely manner.

- Cash receipts were not properly secured and cash was maintained overnight in an unlocked desk drawer.

- Cash receipts did not reconcile to the appropriate General Ledger accounts.

- Duties and responsibilities were not segregated for the handling and recording of cash receipts. The same person who receives the rent payments from the tenants, also endorses the checks, prepares the bank deposit slips, and records the receipts in the project's accounts.

Weak Controls over Cash Disbursements

Our audit also disclosed that the internal controls over the disbursement of project funds were weak, and did not ensure that the funds were used in compliance with HUD regulations. The consequences of weak controls over cash disbursements are documented in Findings 1 and 2 of this report. Specifically, we found the following internal control weaknesses:

- No separation of duties and responsibilities for approving the use of project funds and the signing of checks made out to various vendors, including the Agent and its supervisor.

- Checks were issued payable to cash without any documentation to support the expenditure of project funds as project related.

- Disbursements were issued in non-sequential order.

Financial Records and Statements are Not Accurate

The audit also revealed that the project's financial records and statements did not accurately reflect the financial position of the project. Additionally, the Owner/Agent did not maintain the financial records in accordance with HUD requirements. For example, we found that General Ledger accounts (i.e. Tenant Receivables and Rent Income) did not accurately account for the total rent receivables due from tenants. Commingled in the accounts were commercial rent receivables and rental assistance due from HUD.

Additionally, our audit disclosed that the project's financial records overstated the project's long term liability. The project's financial records, as of March 31, 1999, showed a liability due the General Partners for the amount of $180,959. This liability is not a debt of the project, but of the Partnership. Our audit showed that although no project funds had been used to repay any of the debt, the long term liability unduly encumbers the project's resources. In addition, the project's records showed a negative liability (or a receivable) totaling $19,546, that the Agent was not able to support as project related. Therefore, this account also distorts the actual financial position of the project.

We also noted that the computation of the surplus cash had been miscalculated due to the overstatement of short term accounts payable by $289,950, for the year ending December 31, 1997. The overstated liabilities resulted in a negative surplus cash position of $485,920, instead of the correct amount of a negative surplus cash of $195,970.

Auditee Comments

The Managing General Partner concurred with this finding, and stated that the computer system will be revamped, and training will be provided to the staff.

We recommend that you instruct the Owner/Agent to:

3A. Establish and implement policies and procedures to improve the project's internal controls over cash receipts and cash disbursements.

3B. Take corrective measures to ensure that the project's financial records and statements accurately represent the financial position of the project.

3C. Make adjusting entries to the project's financial records to eliminate liabilities that can not be supported as a project debt.

3D. Revise the computation for surplus cash for the year ending December 31, 1997, using the correct short term accounts payable amount.

Management Controls

In planning and performing our review, we considered the internal controls of the Owner/Agent in order to determine our auditing procedures, not to provide assurance on internal controls. Internal controls are the policies and procedures established by management to provide reasonable assurance that specific entity objectives will be achieved. These specific objectives include reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. The five components of an entity's internal control system are the control environment, risk assessment, control activities, information and communication, and monitoring.

Relevant Internal Controls

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

- Controls over Financial Management
- Controls over Purchases and Cash Disbursements
- Controls over Cash Receipts
- Controls over Contracting and Procurement

Assessment Results

We assessed all of the relevant controls identified above.

It is a significant weakness if an internal control does not provide reasonable assurance of the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

Significant Weaknesses

Based on our review, significant weaknesses were noted in the following internal control areas:

- Controls over Financial Management (all findings)
- Controls over Cash Receipts (Finding 3)

- Controls over Purchases and Cash Disbursements (all findings)

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Follow Up On Prior Audits

This is the initial Office of Inspector General (OIG) audit of Target V Phase I Development Associates.

The Independent Public Accountant's audit report for the period ending December 31, 1997, issued March 31, 1998, revealed that new tenant security deposits were not recorded in a timely manner in the project's account. Based on our audit, we were satisfied that this problem had been corrected.

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Schedule Of Ineligible, Unnecessary and Unsupported Costs

Finding Number	Ineligible 1/	Unnecessary 2/	Unsupported 3/
1	$234,423		
2		$23,618	$2,906
Totals	$234,423	$23,618	$2,906

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

2/ Unnecessary costs are costs which are not generally recognized as ordinary, prudent, relevant, and/or necessary within established practices.

3/ Unsupported costs are costs charged to a HUD-financed or 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 cost. 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.

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Summary of Unnecessary and Unsupported Costs - Finding 2

Questioned Costs	Unnecessary	Unsupported	Total
Telephone Charges	$13,595		$13,595
Taxi Fares	$ 5,784		$ 5,784
Bank Charges	$ 1,479		$ 1,479
Holiday Party	$ 1,500		$ 1,500
Parking	$ 721		$ 721
Parking Summons	$ 350		$ 350
Gifts	$ 189		$ 189
Misc. Expenses		$2,906	$2,906
TOTALS	$23,618	$2,906	$26,524

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