



Issue Date July 5, 2007
Audit Report Number 2007-NY-1010

TO: Yvette Lugo, Acting Director, New York Multifamily Housing Hub,
2AHMLAP

FROM: *Edgar Moore*
Edgar Moore, Regional Inspector General for Audit, 2AGA

SUBJECT: Amistad Management's Administration of Grace Houses, Jamaica, New
York, Generally Complied with HUD Regulations

HIGHLIGHTS

What We Audited and Why

We audited the activity of Amistad Management Corporation (agent) in its function as management agent for Grace Houses in response to a complaint about administrative and financial issues at Grace Houses. Our audit objectives were to assess the merits of the complaint and determine whether the agent complied with U.S. Department of Housing and Urban Development (HUD) requirements while administering the project.

What We Found

We found the complaint to be without merit.¹ The management agent generally complied with HUD regulations; however, our work disclosed various issues that warrant your attention. Specifically, utility bills were not always paid in a timely manner and two restricted cash accounts have been dormant for many years. As a result, late payment penalties were incurred on utility bills and restricted cash has not been disbursed for intended purposes.

¹ The complaint allegations were without merit and were addressed under a separate internal memorandum.

What We Recommend

We recommend that the acting director of HUD's New York Multifamily Housing Hub request the management agent to strengthen internal controls to ensure that bills are paid in a timely manner to avoid unnecessary late payment charges, and take action to properly liquidate the dormant restricted cash accounts.

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 contents of the report with the auditee during the audit and at an exit conference on June 11, 2007. We requested that written comments be provided by June 20, 2007, and they were received on June 26, 2007. The auditee advised that corrective actions are being taken to address the recommendations.

The complete text of the auditee's response can be found in appendix B of this report.

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BACKGROUND AND OBJECTIVES

Grace Houses (Federal Housing Administration Project no. 012-EH645-L8-WAH) is an 80-unit direct loan Section 202 development for the elderly and handicapped located in Jamaica, New York. Grace Houses is owned by the Grace Episcopal Church Jamaica Senior Citizens Housing Development Fund Corporation, a not-for-profit housing company, and is overseen by a seven-member board of directors. Grace Houses receives project-based Section 8 rental assistance under the U.S. Department of Housing and Urban Development's (HUD) Section 8 Housing Assistance Payments Program. Amistad Management Corporation (agent), located in Valley Stream, New York, is the management agent for Grace Houses.

Grace Houses was approved in October 1990 under Section 202 of the Housing Act of 1959 for a \$7 million loan to construct an elderly housing project. While initial occupancy occurred in March 1992, final closing was delayed because of litigation begun in 1996 by the general contractor against the owner and HUD. To avoid a lengthy trial, the general contractor settled the lawsuit in March 2000, and final closing occurred in September 2004.

The regulatory agreement signed by the project owner and HUD specifies the responsibilities of the project owner to maintain the project and its records in accordance with HUD requirements. A management agreement was entered into between the owner and the management agent, who manages the project for the owner. The management agent certification signed by the project owner and the management agent certifies that the management agent and the owner will comply with HUD requirements and contract obligations; that all expenses of the project are reasonable and necessary; and that the project's accounts, books, and records are established and maintained in accordance with HUD's administrative requirements. The agent maintains the financial and accounting records for Grace Houses.

We initiated an audit in response to a complaint involving financial and administrative issues at the project. Specifically, the complainant alleged that the agent misused project funds, permitted units to remain vacant for lengthy periods, paid excessive mortgage interest, and allowed irregularities in property ownership documents. We found that these allegations were without merit.

Our audit objectives were to determine whether the agent complied with HUD requirements while administering the project.

RESULTS OF AUDIT

Finding: Amistad Management's Administration of Grace Houses Generally Complied with HUD Regulations

While the agent generally administered Grace Houses in accordance with HUD requirements, two issues warrant attention. Specifically, utility bills were not always paid in a timely manner, and two restricted cash accounts had been dormant for many years. As a result, late payment penalties of \$389 were incurred on utility bills, and \$2,347 in restricted cash was not disbursed. These conditions occurred because the agent lacked adequate controls over the expenditure of funds.

Issues Warranting Attention

Ineligible Late Charges

The project was charged late payment charges on water utility bills that were not paid in a timely manner. According to bank statements, funds were available to make these payments. During the period January 1, 2004 through September 30, 2006, testing disclosed four instances in which the project paid \$389 in late payment charges. The regulatory agreement requires that all project expenses be reasonable and necessary, and the management agent certified it would comply with this requirement in the management agent certification. The project was charged late payment charges on water utility bills because the agent did not pay the bills in a timely manner. As a result, the project incurred unnecessary costs.

Restricted Cash

The project maintained \$2,347 in restricted cash that has not been disbursed. Fees of \$690 were due for services conducted by an architect, who is now deceased. These services were performed before the closing in 2004 and, as required by HUD, were deposited into the project's replacement reserve account as undisbursed construction funds. If this is no longer a valid debt, these funds could be used for other project expenses.

A donation of nonfederal funds was made to Grace Houses to establish a program to teach computer skills to the tenants. However, the account has been dormant for more than seven years, and as of September 29, 2006, the funds including interest totaled \$1,657. The funds have not been used for any purpose nor has the donor been contacted to determine whether the funds could be used for other purposes. The owner should comply with the donor's request or seek approval to remove the restriction imposed on the use of the funds.

Conclusion

While the agent generally administered Grace Houses in accordance with HUD requirements, late payment charges were incurred and restricted cash has yet to be disbursed for its intended purposes. Therefore, action is needed to better ensure prompt payment of bills and proper use of restricted cash.

Recommendations

We recommend that the acting director of the New York Multifamily Hub instruct the owner/management agent to

- 1A. Reimburse the \$389 in late charges incurred and strengthen controls to ensure that all bills are paid in a timely manner to avoid unnecessary late payment charges.
- 1B. Pay the \$690 architect fee or ensure that the funds are used for another allowable project expense, and take action to comply with the donor's request for the use of the \$1,657 in restricted funds or obtain approval for an alternative use of the funds so that the \$2,347 is put to better use.

SCOPE AND METHODOLOGY

To accomplish our objectives, we interviewed officials of the HUD Multifamily Hub and the agent, as well as Grace Houses tenants. We reviewed and analyzed HUD regulations, project monitoring and mortgage files, project audited financial statements, management agent financial and administrative files, project waiting list logs, and tenant files. We also conducted housing quality standards inspections for a sample of nine project units.

Our review generally covered the period, January 1, 2004, to September 30, 2006, and was extended when necessary. Our review was performed between October 2006 and May 2007. We performed audit work at the management agent's office in Valley Stream, New York, and at the project in Jamaica, New York.

Our audit was conducted 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:

- Program operations - Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Validity and reliability of data - Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.
- Compliance with laws and regulations - Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.
- Safeguarding of resources - Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.

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 that there were no significant weaknesses.

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS AND FUNDS TO BE PUT TO BETTER USE

Recommendation number	Ineligible 1/	Funds to be put to better use 2/
1A	\$389	
1B		\$2,347

- 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/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. This includes reductions in outlays, deobligation of funds, withdrawal of interest subsidy costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings which are specifically identified. In this instance, if the restricted funds are utilized for their intended purpose or released from restrictions, the project will satisfy past debts, comply with donor restrictions and/or make project funds available for other purposes.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

The Amistad Management Corporation

RESIDENTIAL AND COMMERCIAL PROPERTY MANAGEMENT

43 North Central Avenue • Valley Stream, New York 11580 • (516) 285-7500 Telephone • (516) 285-7714 Fax

June 25, 2007

Mr. Edgar Moore
Regional Inspector General for Audit
U.S. Department of Housing & Urban Development
26 Federal Plaza, Room 3430
New York, NY 10278-0068

Re: Audit of the Administration of Grace Houses
By The Amistad Management Corporation

Dear Mr. Moore:

This letter is written in response to the comments noted in the referenced draft report dated June 14, 2007. As the respective recommendations will certainly be evaluated, the following is offered as an explanation and solution to the operational procedures mentioned in the report.

Ineligible Late Charges

Late payment charges may have been incurred on water utility bills for two reasons. Although funds may appear available on the bank statement at the time the bill is due, checks that have not cleared from the prior month may still remain outstanding. Additionally, the Board of Directors has requested that all payments be countersigned by a designated Board member. This turn around may be a few days before payment is actually mailed and received by the water utility company. In an effort to expedite this process, Management has requested of the Board permission to remit utility payments without their co-signature in order to avoid these unnecessary charges.

Restricted Cash

Management will again attempt to make contact with the estate of the late architect in order to address the matter of the undisbursed construction funds of \$690. Should no reply be received after a reasonable period of time, Management will request of HUD that the funds be released from the Reserve for Replacements account to the operating account for other project expenses.

Use of the donated funds by the Boy Scouts of Grace Episcopal Church has admittedly been unaddressed by the Board of Directors for a number of years. Prior contact had been made

Comment 1

Comment 2

Comment 3

Appendix B

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Auditee Comments

with the individual who had been on the Board regarding his intentions for a computer program at Grace Houses for the tenants. As he is no longer involved with the Boy Scouts of the Church, nor could he recollect his initial intended use of these funds, a program was never established. Recently, the Service Coordinator for Grace Houses received correspondence from Senator Shirley Huntley's office of the 10th Senate District in Queens, stating that the project will be awarded a grant of \$3,000 to be used for recreational activities by the tenants. During the June 2007 meeting with the Board of Directors, it was decided that the funds in the "Boy Scout" account supplement the anticipated grant for the purchase of computer hardware and supplies to be used for the proposed tenant program.

Should you require additional information, please contact me.

Sincerely,



William R. Lucas
President

OIG Evaluation of Auditee Comments

- Comment 1 The auditee has agreed to take action to address untimely payment of water utility bills.
- Comment 2 The auditee has agreed to take action to ensure the proper use of the architect fee.
- Comment 3 The auditee has agreed to take action to ensure use of the donation in accordance with the donor's restriction.