
AUDIT REPORT



BLUE HILL HOUSING
MULTIFAMILY PROJECT NO. 023-36619
DORCHESTER, MASSACHUSETTS

01-BO-219-1001

OCTOBER 24, 2000

OFFICE OF AUDIT, NEW ENGLAND
BOSTON, MASSACHUSETTS



Issue Date	October 24 , 2000
Audit Case Number	01-BO-219-1001

TO: Ellen Connolly, Director, Housing Management Division, 1AHMLA

A handwritten signature in black ink, appearing to read 'Stephen D. King'.

FROM: Stephen D. King, Acting District Inspector General, Office of Audit, 1AGA

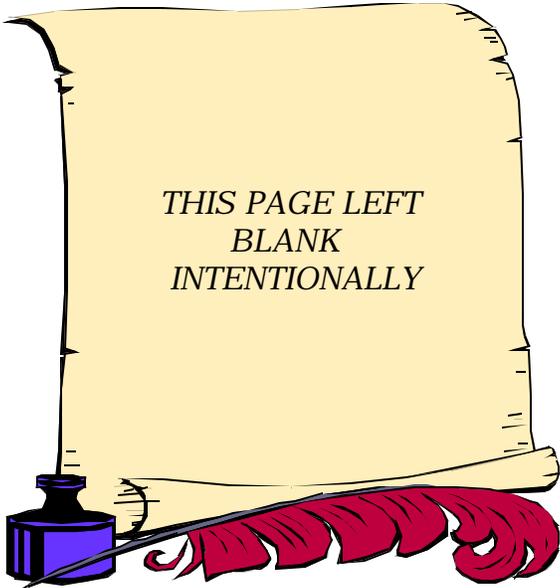
SUBJECT: Blue Hill Housing
Multifamily Project No. 023-36619
Dorchester, Massachusetts

We performed an audit of Blue Hill Housing (BHH). The objective of our review was to assess BHH's performance related to property maintenance, tenant eligibility, and use of project funds.

Our audit disclosed one finding on apartment underutilization.

Within 60 days, please provide us a status report on the: (1) corrective action taken; (2) proposed corrective action and date to be completed; or (3) reason why action is not considered necessary. Also, please furnish us copies of any correspondence or directives issued related to this audit.

If you have any questions, please contact our office at (617) 565-5259.



Executive Summary

We performed an audit on the Blue Hill Housing (BHH) multifamily project located in Dorchester, Massachusetts. We selected BHH for review based on a low REAC physical assessment. Our objective was to assess BHH's performance relating to maintaining the property, ensuring tenant eligibility, and using project funds appropriately.

Audit Results

We noted that deficiencies in property maintenance, disclosed in the REAC assessment, were being addressed by BHH. We noted no deficiencies in the use of project funds. However, our audit disclosed an underutilization of apartments.

During our review of tenant eligibility, we determined that 24 of 144 apartments were underutilized contrary to HUD requirements. Based on household compositions, families are in apartments with too many bedrooms. BHH had not established and implemented a policy to address underutilization. Consequently, HUD is paying too much in subsidies for the number of tenants served (\$4,705 per month based on current conditions) and larger families are being restricted from appropriate size apartments.

Recommendations

We recommend that you monitor BHH's compliance with their new transfer policy; and, obtain progress reports until the underutilization is resolved.

Finding and Recommendations Discussed

On September 18, 2000, we provided BHH a draft audit report for comments and received their response on October 12, 2000. BHH's response is commented on in the Finding section of the report. A copy of the BHH's response is included in Appendix A.



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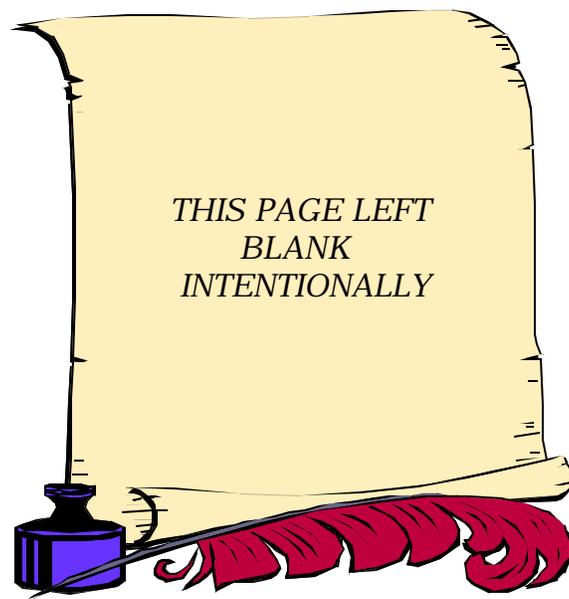
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Introduction

The Blue Hill Housing (BHH) project is owned by Blue Hill Housing Limited Partnership (BHHLP) that was organized under Massachusetts Laws in November 1987. The partnership was created to acquire, rehabilitate and operate a low-income residential housing project pursuant to the National Housing Act. BHH's limited partner, American Tax Credit Property L.P. (publicly held investment company), has a 99% interest in the project's capital. BHH is located over several city blocks in the Franklin Park/Blue Hill Avenue section of Dorchester, Massachusetts. It consists of five walk-up, brick buildings with a total of 144 units.

Benchmark Apartment Management Corporation (BAM), an affiliate of BHHLP's general partners, manages BHH pursuant to a management agreement approved by HUD. BAM has an on-site management office at the project site and a regional management office in Plymouth Meeting, PA. Oversight, accounting and capital project management functions are performed at the regional office. All other functions are performed at the on-site office. BAM also manages Elm Hill Housing (EHH), a HUD-insured project owned by Elm Hill Housing Limited Partnership. EHH consists of 140 units and is located in the same area as BHH. Both BHH and EHH are owned by the same partners and managed out of the aforementioned BAM offices. Certain operating/maintenance and administrative costs are allocated 55% / 45% (based on property square footage), respectively.

Pursuant to Section 8 of Title II of the Housing and Community Development Act of 1974, HUD has contracted with BHH to make annual housing assistance payments covering all 144 units.

In September 1999, HUD's Real Estate Assessment Center (REAC) performed a physical inspection of the property. REAC found significant problems and BHH received a score of 18 out of a possible 100 points. BHH is addressing the REAC inspection results. In April 2000, they submitted a corrective action plan that HUD project management accepted. During 2000, BHH also performed more thorough annual unit inspections.

During December 1999, BHH submitted a formal appeal of REAC's inspection. In March 2000, REAC responded by conducting a quality assurance review onsite. They found that the inspector had misrepresented the number of buildings and deficiencies in the laundry rooms and basements. Consequently, REAC has decided to perform a complete re-inspection in November 2000.

Audit Objectives

The objective of the audit was to assess BHH's performance relating to:

- Maintaining the property in a satisfactory physical condition;
- Ensuring tenant eligibility; and
- Using project funds appropriately.

The audit focused on operating/maintenance costs, administrative costs, capital improvement costs, tenant eligibility and related management systems for the period January 1998 through April 2000. The period was extended as needed to assess compliance with tenant occupancy requirements. The audit was performed during the seven months ended August 2000 in accordance with generally accepted government auditing standards.

Audit Procedures

To accomplish the audit objectives, we:

- Reviewed HUD directives including those covering Multifamily Asset Management and Project Servicing; Reviewing Annual and Monthly Financial Reports; Financial Operations and Accounting Procedures for Insured Multifamily Projects; Management Documents, Agents and Fees; Section 8 Additional Assistance Program for Projects with HUD-Insured or HUD-Held Mortgages; and Occupancy Requirements of Subsidized Multifamily Housing Programs.
- Interviewed the HUD project manager to determine whether any significant problems existed.
- Reviewed the Housing Assistance Payment Contract, the Regulatory Agreement, the Partnership Agreement, the Management Agreement and BHH's Standard Lease Agreement.
- Reviewed pertinent information in HUD project management files and the Real Estate Management System (REMS).
- Reviewed REAC's physical inspection report, BHH's appeal, REAC's response to the appeal and BHH's corrective action plan.
- Interviewed the Independent Public Accountants and reviewed their 1997-1999 audit reports and 1998 and 1999 work papers, particularly those related to cost allocation, identity of interest and tenant eligibility.

- Interviewed BHH's owner, controller, property manager and maintenance superintendent about the REAC inspection, identity of interest transactions, tenant eligibility, HUD subsidies and management systems for operations and costs (including allocations with affiliate EHH); and documented management systems.
- Tested operating/maintenance, administrative and capital improvement accounting transactions to books of original entry, supporting documentation (including authorizations, procurement bids, service contracts, vendor invoices, time reports and canceled checks).
- Reviewed management and bookkeeping fees for duplicative costs; and procurement transactions for identity of interest companies.
- Tested maintenance management system activity to unit inspection forms, service request forms, supporting plans, work orders, maintenance log and inventory records.
- Tested tenant eligibility and subsidies by reviewing supporting documentation for family composition, income and allowances; computing tenant rent and subsidy amounts; comparing pertinent data to HUD User FY2000 Income Limits Schedule, HUD Owner Certification of Compliance Forms-50059, HUD Rent Schedule Form 92458 and HUD Housing Owner's Certification & Application for Housing Assistance Payment Form 52670; and reviewing move-ins for the last five years.



Underutilized Apartments

Blue Hill Housing has a significant number of apartments (24 of 144) where there are too many bedrooms for the size of families that inhabit them. The underutilization has resulted from a failure to establish and implement a policy for complying with HUD occupancy requirements. Consequently, HUD's Section 8 rent subsidies are too great for the number of people served; and, the needs of larger families are being restricted.

HUD Directives Require Occupancy Standards

HUD stipulates that owners should develop occupancy standards for determining unit size (Paragraph 2-18 of HUD Directive 4350.3-Occupancy Requirements of Subsidized Multifamily Housing Programs).

Occupancy requirements address interim changes involving the number or composition of a household. They require the owner to determine whether:

- The current unit is still appropriate for the changed household; and
- The tenant should be required to transfer to a different unit (Paragraph 5-9 of HUD Directive 4350.3).

Occupancy standards must address units that become underutilized due to reductions in household composition. When underutilization develops, the owner must require the family to move to an appropriate size unit within the project, consistent with lease terms, when one becomes available. A family may remain in the same unit, only if it pays the HUD approved market rent. Failure to pay market rent, may result in eviction (Paragraph 2-19 of HUD Directive 4350.3).

BHH's lease and contract terms also require compliance with HUD occupancy requirements (Lease Section 19-Size of Dwelling, HUD Housing Assistance Payment Contract Section 2.5 (e)-Underoccupied Units plus Exhibit 7-Relocation Plan Section V. C. and the Regulatory Agreement for Multifamily Housing Projects Coinsured by HUD).

Apartments Underutilized

As of May 2000, 24 of 144 BHH apartments were underutilized as follows:

Family Size	No. of Bedrooms	Total Units in Category
1	2	8
1	3	2
1	4	1
2	3	5
2	4	1
3	4	5
3	5	2
Total		24

Due to underutilized apartments, HUD is paying too much in rent subsidies for the people housed. Moreover, families needing larger apartments are being restricted. We estimate that there is a total excess monthly HUD subsidy of \$4,705 for tenants in the 24 underutilized apartments. For example, the HUD approved monthly rent for a 5-bedroom apartment at BHH is currently \$1,743. Moving a family of three from a five to a 3-bedroom apartment (\$1,436 monthly rent) would reduce the monthly rent by \$307.

We found that this condition has existed for some time. Based on family composition forms supporting annual re-certifications for six of the 24 units (two with three bedrooms, two with four and two with five), they were underutilized for at least five years.

No Corrective Action

BHH had not taken corrective action to resolve the underutilization of apartments. There were 31 move-ins (23 to apartments with less than 3 bedrooms) during the period September 1997 to April 2000. Although there were appropriate size apartments available, only one move-in addressed underutilization.

BHH Had No Policy

There is a HUD requirement to address underutilization stipulated in the aforementioned directive and contracts. BHH had not, however, established and implemented a policy to address it.

Corrective Action Plan Inadequate

After we brought the underutilization to BHH's attention, they prepared a Transfer Policy and corrective action plan to

address it. We believe the corrective action plan is inadequate. BHH's plan states that vacancies will be alternately filled from the waiting list (outside) and the transfer list (tenants in underutilized apartments). This method will double the amount of time necessary to correct the problem. BHH could not provide a sound reason why it is necessary to alternate between the two lists.

Auditee Comments

In BHH's letter dated October 6, 2000 (Appendix A), they concurred with our audit finding. Accordingly, BHH has revised the Transfer Policy so once an apartment becomes available it will be filled from the transfer list before going to the waiting list. As of October 6, 2000, they have placed three transfer list families and have plans for three others within the next two months.

OIG Evaluation of Auditee Comments

Based on BHH's response, we have amended our recommendations accordingly.

Recommendations

We recommend that you:

- 1A. Monitor BHH's compliance with their new Transfer Policy; and, obtain progress reports until the underutilization is corrected.



Management Controls

In planning and performing the audit, we considered Blue Hill Housing (BHH) management control systems that were relevant to the audit objective. Our goal was not to render an opinion on controls or provide assurance of its effectiveness.

The three primary objectives of a management control system are to ensure efficient and effective operations, accurate financial reporting and compliance with laws and regulations. An effective management control system includes five essential components, including control environment, risk assessment, control activities, information & communication and monitoring.

Relevant Management Controls

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

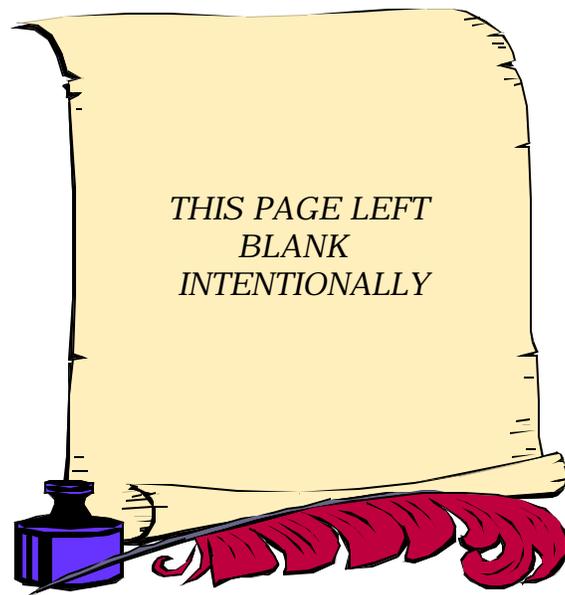
- Accounting and budgets
- Procurement and contract administration
- Capital improvements and maintenance
- Compliance with HUD tenant eligibility requirements

Assessment Results

A significant weakness exists if management controls do not give reasonable assurance that resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data is obtained, maintained, and fairly disclosed in financial statements and reports.

Significant Weakness

Our audit identified a significant deficiency in controls related to complying with HUD's requirement for tenant occupancy standards. The deficiency is discussed in the Finding section of the report.



Auditee Comments

BENCHMARK APARTMENT MANAGEMENT CORPORATION

168 SEAVER STREET
(SIDE ENTRANCE)
DORCHESTER, MASSACHUSETTS 02121

(617) 427-3169

October 6, 2000

Stephen D. King, Acting District Inspector General
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New England Office of District Inspector General for Audit, 1AGA
Thomas P. O'Neil, Jr. Federal Building
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10 Causeway Street
Boston, Massachusetts 02222-1092

Re: Blue Hill Housing
Multifamily Project No. 023-36619

Dear Mr. King:

We are in receipt of your draft audit report to Ellen Connolley, Housing Management Division on Blue Hill Housing, and offer the following comments.

We acknowledge there are units currently underutilized and Blue Hill Housing did not have a Transfer Policy. Immediate actions were taken to correct the situation. We have developed and implemented a Transfer Policy. Please note, your concern expressed regarding alternating between the waiting list and the transfer list was taken under advisement. The Transfer Policy has been amended to reflect, as a unit becomes available, families who are over housed will be transferred. An updated copy has been enclosed. The second action taken was to begin the transfer process. To date we have transferred three families who were over housed. Based on expected unit turnover, we anticipate an additional three over housed families being transferred during the next sixty days. The site will be closely monitored to ensure that this process continues until the remaining families have been placed in the appropriate size unit.

To avoid a recurrence of the same situation, part of the policy is to evaluate each family size annually as part of the re-examination process and as necessary add names to the transfer list. As new names are added, when the appropriate size unit becomes available, the family will be transferred in accordance with the policy.

Stephen King
Blue Hill Housing

October 6, 2000
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As demonstrated by our steps to immediately correct the deficiency noted, we are taking the matter seriously and will make every effort to avoid the same error in the future.

If you have any additional questions or comments, please contact our office immediately.

Sincerely,



Jewel Pitts Earl
Assistant Director of Property Management

Enc.

cc: Israel Roizman

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