
AUDIT REPORT



AUDIT OF MULTIFAMILY OPERATIONS
BOWDOIN APARTMENTS
PROJECT NO: 023-55005

MALDEN, MASSACHUSETTS

2001-BO-1003

JANUARY 29, 2001

OFFICE OF AUDIT, NEW ENGLAND
BOSTON, MASSACHUSETTS



Issue Date
January 29, 2001

Audit Case Number
2001-BO-1003

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

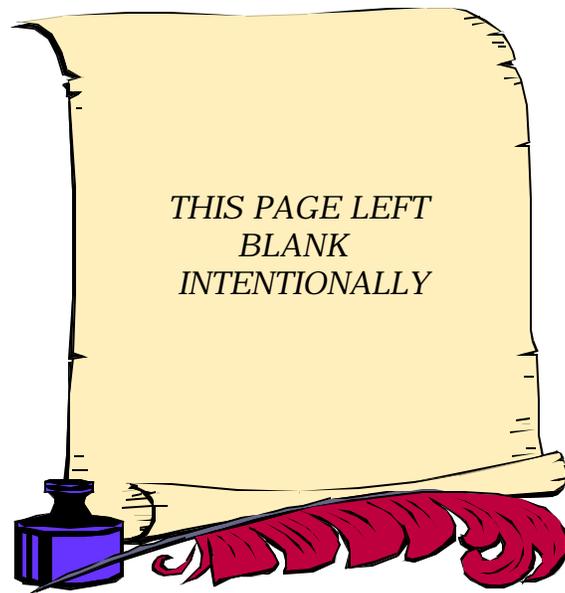
SUBJECT: Audit of Multifamily Operations
Bowdoin Apartments
Project No: 023-55005
Malden, Massachusetts

We performed an audit of Bowdoin Apartments, a multifamily project located in Malden, Massachusetts. We selected Bowdoin for review based on a low physical assessment. Our objective was to assess Bowdoin's performance relating to: (1) general physical condition and maintenance of the project; (2) financial management; (3) leasing and occupancy, and (4) general management practices.

Our audit disclosed one finding on underutilized apartments which the auditee is in the process of resolving.

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 Bowdoin Apartments (Bowdoin), a multifamily project located in Malden, Massachusetts. We selected Bowdoin based on a low physical assessment obtained on a MSO Review, which reclassified the project to “troubled”. Our objective was to assess Bowdoin’s performance relating to: (1) general physical condition and maintenance of the project; (2) financial management; (3) leasing and occupancy, and (4) general management practices.

Audit Results

Bowdoin is correcting the maintenance deficiencies disclosed by the MSO. We noted no deficiencies in the use of project funds. However, our audit disclosed that Bowdoin needs to relocate over-housed households to reduce underutilization of apartments.

Our review disclosed that 21 of 226 apartments were underutilized contrary to HUD requirements. Based on household compositions, families are in apartments with too many bedrooms. Bowdoin had not established an effective transfer policy to address underutilization of units. Consequently, HUD is paying too much in subsidies for the number of tenants served and larger families are being restricted from appropriate size apartments.

Our review initially disclosed an underutilization of Section 8 subsidies under its HAP contract. Based upon Bowdoin’s response, which shows sufficient effort was made to utilize its Section 8 subsidies, this issue has been removed from the report.

Recommendations-

We recommend that Bowdoin revise their transfer policy to relocate families to appropriately sized units as such units become available, and submit quarterly progress reports on the progress in reducing underutilization.

Findings and Recommendations Discussed

On December 1, 2000, we provided Bowdoin a draft audit report for comments and received their response on December 29, 2000. Bowdoin’s response is commented on in the Finding section of the report. A copy of the Bowdoin’s response is included in Appendix A.

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Abbreviations

ACT	National Housing Act
BAC	Bowdoin Apartments Corporation
BMIR	Below Market Interest Rate
Bowdoin	Bowdoin Apartments
CFR	Code of Federal Regulations
HAP	Housing Assistance Payment
HQS	Housing Quality Standards
HUD	Housing and Urban Development
IPA	Independent Public Accountant
MRA	Malden Redevelopment Authority
MSO	Massachusetts State Office of Housing and Urban Development
NHM	National Housing Ministries
OIG	Office of Inspector General
REAC	Real Estate Assessment Center
Section 8	Section 8 of Title II of the Housing and Community Dev. Act of 1974

Introduction

Bowdoin Apartments (Bowdoin), is owned by Bowdoin Apartments Corporation (BAC), whose President is John J. Auffant. The project consists of 15 multiunit wooden buildings located along Lisbon and Bowdoin Streets in Malden, Massachusetts. Pursuant to a management agreement approved by the Massachusetts State Office (MSO), National Housing Ministries (NHM) is the Management Agent for the project.

NHM has a management office located on site, at 18 Bowdoin Street, Malden, Massachusetts, and a regional office located at 135 Washington Street, Bridgeport, Connecticut. Oversight, accounting and capital project management functions are performed at the regional office. All other functions are performed at the on-site office.

In 1965 AFSCME Housing of Malden, Inc. (AFSCME), a non-profit organization, obtained a 40-year HUD coinsured Below Market Interest Rate (BMIR) mortgage in connection with Section 221(d)(3) of the National Housing Act (Act). The BMIR on the \$2,366,000 mortgage is 3.125 percent. The mortgage, which has been kept current, matures on November 1, 2005. On December 6, 1966, AFSCME amended its Articles of Organization, and changed their name, location and purpose, to: BAC of Boston MA, operating as a not-for-profit.

On May 31, 1995, HUD contracted Bowdoin to provide housing assistance subsidies on 108 of its 226 units, pursuant to Section 8 of Title II of the Housing and Community Development Act of 1974. The five year 108 unit contract, began June 1, 1995 and expired on May 31, 2000. The contract was extended until a new Section 8 contract was implemented on November 1, 2000. (This new contract incorporated rent increases approved on September 22, 2000).

Bowdoin received a low physical assessment on the MSO's management review of March 11, 1999, which reclassified the project to "troubled." The MSO and the Malden Redevelopment Authority (MRA) have since collaborated on supplying Bowdoin with sufficient capital to correct the physical deficiencies found by the MSO during their management review. In July 1999, the MSO granted Bowdoin an 11 percent rent increase to allow Bowdoin a larger Reserve for Replacement to work to repair its physical deficiencies. Additionally, the MRA issued Bowdoin two loans totaling \$440,000 for capital improvements, which are to be repaid out of the rent increases implemented on October 1, 2000. The October rent increase consisted of: "An overall 2.6 percent rent increase . . . based on increased project operating expenses," and a Section 8 increase which totaled 17.7 percent to cover increased operating expenses and the debt service on the loans for the needed capital repairs." In addition, Bowdoin Apartments intends on withdrawing \$150,000 from the Reserve for Replacement to fund the remaining repairs.

Audit Objectives

The objectives of our audit was to assess the Bowdoin's compliance with applicable laws and regulations and the terms and conditions of the Regulatory Agreement relating to:

- Physical condition and maintenance of the property
- Leasing and occupancy and tenant eligibility
- Financial condition of the project relating to costs for operations, maintenance, administration and capital improvement
- General management practices

To accomplish the audit objectives, we:

Audit Procedures

- Reviewed HUD directives on: Multifamily Asset Management, and Project Servicing, Financial Operations, Accounting Procedures for Insured Multifamily Projects, Housing Quality Standards (HQS), Occupancy Requirements of Subsidized Multifamily Housing Programs and applicable HUD Handbooks, notices and regulations.
- Reviewed the MSO's project management files for indicators and concerns over leasing and occupancy, financial management, physical condition and maintenance.
- Interviewed the MSO's project manager to obtain background information on the project and to discuss any concerns on project operations.
- Conducted an entrance conference with the management agent's representative to: explain the purpose of the audit; identify key personnel and their areas of responsibility; and, to request needed accounting books and records relating to the operation of the project.
- Reviewed: Bowdoin's Housing Assistance Payment Contract; Regulatory Agreement; Management Agreement and, Standard Lease Agreement to ascertain pertinent data.

- Reviewed Bowdoin's 1996 to 1999 audited financial reports.
- Interviewed the Independent Public Accountant (IPA) and obtained explanations and documentation for areas of concern on line items reported on the Profit and Loss Statements and in audit notes.
- Interviewed Bowdoin's Site Manager, Tenant Occupancy Specialist and Maintenance Supervisor on Maintenance and Tenant Eligibility procedures.
- Reviewed files of all tenants with subsidies between \$400 and \$500, to test general eligibility controls over tenant eligibility and subsidies, to include supporting documentation for family composition, income and allowances to assure information on tenants was properly obtained, verified and maintained, and accurately reported.
- Ascertained the accuracy of computed tenant rents and subsidy amounts by comparing rents to the FY 2000 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.
- Reviewed the last three inspection reports (REAC, the Mortgagor - Reilly Mortgage, and HUD) to determine the general physical condition and maintenance history of the project.
- Tested procedures and controls outlined in staff interviews for work order systems used by Property Maintenance, by reviewing work orders and disposition over a three-day period.
- Reviewed maintenance work items on grounds and exterior building units for completion by performing drive-by and exterior walk-around inspections, to determine if conditions are improving and what actions were being taken to maintain the property in accordance with HQS.

The audit period was from October 1, 1997 through January 31, 2000. The period was extended as needed to assess compliance with tenant occupancy requirements. The audit was performed in accordance with generally accepted government auditing standards.

Underutilized Apartments

Bowdoin Apartments has a significant number of apartments (21 of 266) 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, under BMIR and Section 8, were 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 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 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).

Bowdoin's lease and contract terms require compliance with HUD occupancy requirements (HUD model Lease Appendix 19a 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 Co-insured by HUD).

Apartment Underutilized

As of August 2000, 21 of the 226 apartments at Bowdoin were underutilized. Twelve households were over-housed in two-bedroom units while another nine households were overhoused in three-bedroom units. Because tenants are living in over-housed units, families needing larger apartments are being restricted, and HUD is paying too much in rent subsidies for the number of people housed. Moving a former head of household, who is living alone in a three bedroom apartment (where rents are \$585) into a one bedroom apartment (where rents are

\$392), would reduce the monthly subsidized rent by \$193 a month or \$2,316 annually.

No Corrective Action

Bowdoin has not taken adequate corrective action to resolve the underutilization of apartments. During the ten-month period from October 1999 to July 2000, 19 units became available for move-in. Of the 19 units, 14 were one and two- bedroom units of which five were one-bedroom units and nine were two-bedroom units. These units were available for the transfer of the tenants that were over-housed, living in larger two and three-bedroom units.

Transfer Policy Ineffective

In October 1999, there were 23 over-housed households (nine in three-bedroom units and 14 in two bedroom units). In August 2000, there were 21 over-housed households (nine in three bedroom units and 12 in two-bedroom units). Only two over-housed tenants were relocated from two bedroom to one-bedroom units during the period between October 1999 and August 2000, per the Over-housing Reports prepared on these dates. Subtracting the two households that were transferred from the fourteen units vacated between October 1999 to July 2000, leaves twelve vacated units that could have been used for additional transfers.

Auditee Comments

Bowdoin indicated 13 BMIR over-housed tenants remain on the list to be relocated. A final advisement was sent to these tenants on December 19, 2000 giving them approximately 90 days to either relocate or start paying market rent.

OIG Evaluation of Auditee Comments

Based on the Bowdoin's response, the corrective action being taken is inappropriate. In order to require over-housed tenants to pay market rent, the appropriately sized units must be available to be offered to the tenants first. If the tenant then refuses to move within 30 days, the tenant must then be charged market rent..

Recommendations

We recommend that you instruct Bowdoin to:

- 1A. Revise their transfer policy to relocate families to appropriately sized units as such units become available.
- 1B. Submit quarterly progress reports on reducing underutiization.

Management Controls

In planning and performing the audit, we considered Bowdoin Apartments' 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 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

NATIONAL
HOUSING
MINISTRIES



December 29, 2000

VIA FACSIMILE (617) 565-6878

Mr. Stephen D. King
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U. S. Department of Housing and Urban Development
New England Office of District Inspector General
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Re: Bowdoin Apartments
Project No. 02355005
Malden, MA
Multifamily Project Performance Audit

Dear Mr. King:

Please accept this letter as Bowdoin Apartments Corporation's formal response to the results and issues that were raised during the audit of the above referenced.

Regarding the matter of the underutilized Section 8 contract subsidies, Bowdoin's recruitment efforts were for general tenancy at Bowdoin, as we did not discriminate among applications. This procedure allowed our recruitment effort to remain in compliance with our waiting list procedures. Our advertisements advise all prospective applicants that we are a HUD insured property, we require the applicant to bring immigration status documents, proof of income, all banking information, employment etal. We then use the HUD published income limits to determine eligibility for our waiting list. HUD's 4350.3 handbook directs us to use section 221(d) (3) BMIR and Section 8 Very Low to make a determination of eligibility. The income information that we are using, is listed below:

Income Limits:-

- Section 221 (d)(3) BMIR set at 95% of the areas median income .
- Section 8 very low income limits set at 50% of the areas median income

These are the income limit information that we are using, which are the HUD published income tables for Middlesex Co.- Boston.

Until recently, Bowdoin's Section 8 and BMIR rents were the same. Having the low BMIR rent and using the current limits, it has been near impossible to maintain a one bedroom section 8 list. As we explained to your field inspector on his visits, Mr. Montella, when the tenant's 30% annual income calculation was higher than the basic monthly rent of \$392 for a one bedroom apartment, our HUD rental software would automatically not qualify them for section 8 but would prompt us to move in the tenant at the lower rent of \$392. And as such, 30% of the annual income for the average Bowdoin resident is \$450 to \$550 per month, a great deal higher than the BMIR rent of \$392. Since their incomes were much higher, than even the BMIR rent, they would not be eligible for the subsidy. Please see the following breakdown:

I offer the following scenarios. (Note the actual rent for all is under the Section 8 income level):

Maximum Section 8 income limit for 1 person - \$22,950
Maximum BMIR income limit for 1 person - \$35,150

A. Tenant Apt. 74 Actual income \$21,000

$\times 30\%$

\$6,300

divided by 12 mos. = \$525.00

This individual would be a BMIR eventhough her income is below the section 8 limit

B. Tenant Apt 91 Actual income \$16,676

$\times 30\%$

\$5,002

divided by 12 mos. = \$417.00

This individual did not qualify for section under the old rent however, since the rent increase of \$461 for the 1 bedroom, she has since been put onto the section 8 contract.

C. Mr. Montella particularly spent a lot of time of this one. This one involves a unit transfer. Tenant Apt. 21.

Actual income \$17,798

$\times 30\%$

\$5,339

divided by 12 mos. = \$445

She had a baby in December 99- recalculated rent \$17,798 - \$480 (dep allowance) x 30%

divided by 12 mos = \$433. This tenant still does not qualify in a one bedroom. She would have been paying more than the BMIR rent.

When we transferred her to a two bedroom apartment in June 2000 - the basic rent for the 2 bedroom was 488, she then qualified for section 8.

D. This is an elderly tenant in a one bedroom with elderly and medical allowances

Tenant Apt. 36

Actual income \$17,032

\$-1,995 medical allowances

\$- 400 elderly allowance

\$14,637 Adjusted Income

\$14,637 x 30% = \$4,391 divided by 12 mos = \$366 total tenant payment (under the 1 bedroom basic rent, qualifying her for section 8) \$ - 80.00 utility allowance tenant rent 246.00

Therefore, we strongly disagree with the Inspector's negative finding in this matter, since our BMIR rent in our project's rental cap has been historically low, it is out of our control that the "average" tenant is not eligible for the subsidy.

However, to comply with this audit, we will specifically advertise for applicants in the 30% of Median for Middlesex County, however, there is no necessity to formally amend Bowdoin's tenant selection criteria. Submission of quarterly reports will be sufficient tracking to review this progress.

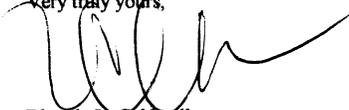
Regarding the matter of the underutilized apartments, as we discussed with Mr. Montella, these apartments consist of elderly residents. These are the residents that mostly have lived in Bowdoin for 20 to 30 years. Since the time of inspection of the property, we have the following overhoused seniors remaining:

Originally	21 units
Move outs	2
PHA Market Renters	3
Bowdoin Mkt Renters	3

Remaining BMIR Renters 13

The elderly in these apartments range from 60 to 89 years old. We will give these remaining households an ultimatum on this matter (copy attached) giving them the final advisement of this situation. We are confident that this matter will be resolved within our stated timeframe. Should these people choose to pay market rent, they will be able to remain in the unit.

Very truly yours,



Rhonda L. Caldwell
Regional Vice President

Distribution

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