
AUDIT REPORT



BELMAX MANAGEMENT CORP.
MANAGEMENT AGENT
BROOKLYN, NEW YORK

2001-NY-1002

April 17, 2001

OFFICE OF AUDIT
NEW YORK/NEW JERSEY



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

Alexander C. Malloy

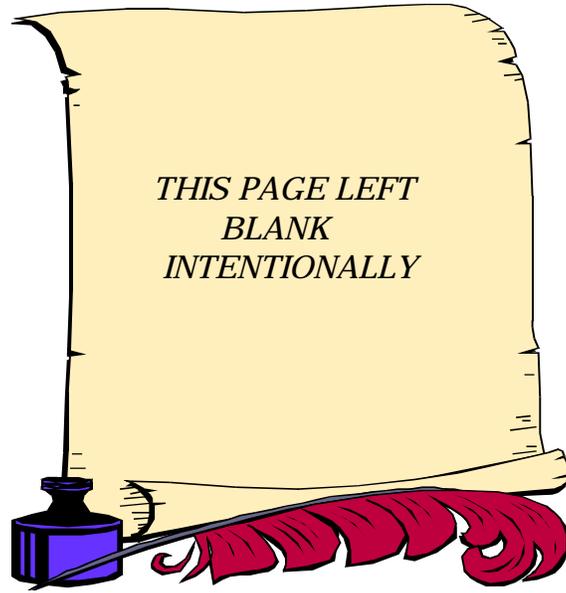
FROM: Alexander C. Malloy, District Inspector General for Audit, 2AGA

SUBJECT: Belmax Management Corp.
Management Agent
Brooklyn, New York

In response to your request, we conducted an audit of the books and records of Belmax Management Corp., (hereafter referred to as the Agent). The objective of the audit was to determine whether the Agent complied with U.S. Department of Housing and Urban Development (HUD) regulations and requirements pertaining to the use of project funds only for necessary and reasonable operating expenses and repairs. This audit report includes three findings with recommendations for corrective action.

Within 60 days please provide us, for each recommendation in this report, 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. Also, please furnish us copies of any correspondence or directives issued because of this audit.

Should you or your staff have any questions, please contact Edgar Moore, Assistant District Inspector General for Audit, or me at (212) 264-8000, extension 3976.



Executive Summary

We conducted an audit of the books and records of Belmax Management Corp. (the Agent). The objective of the audit was to determine whether the Agent complied with HUD regulations and requirements pertaining to the use of project funds, which are to be used only for necessary and reasonable operating expenses and repairs.

Results

We concluded that the Agent did not always comply with HUD regulations and requirements pertaining to the use of project funds, which are to be used only for necessary and reasonable operating expenses and repairs. Consequently, project funds were improperly used to pay for: (1) ineligible and questionable services and items; (2) questionable exterminating services and repair contracts; and (3) excessive management fees.

Agent Used Project Funds for Ineligible, Unsupported and Unreasonable Expenses

Contrary to HUD regulations and requirements, the Agent used project funds to pay for various services and items that we consider ineligible and/or questionable. Specifically, the ineligible and/or questionable items and services were: (a) preparation of partnership's tax returns; (b) general consulting services; (c) additional garbage and trash removal; (d) preparation of ten day notices; (e) miscellaneous work by employees; and (f) various other ineligible and questionable services and items. The costs associated with the above services and items totaled \$189,068.19. As such, the projects may have been improperly deprived of those funds, which could have been used for reasonable and necessary operating expenses.

The Agent's Procurement Practices Need Improvement

The Agent did not always follow HUD regulations when obtaining services and awarding repair contracts to contractors. The Agent: (1) entered into a questionable exterminating service arrangement without first soliciting bids and/or obtaining written cost estimates; (2) awarded a parging and pointing contract to a contractor who was not the lowest bidder; and (3) did not provide evidence to substantiate that competitive bids were solicited prior to awarding a contract to repair roof parapet walls. As a result, the Agent could not ensure us that all transactions were at arms length and that the services obtained were at the most reasonable and economical prices for the project(s).

Agent Collected Excessive Management Fees

In addition, we found that the Agent incorrectly computed its management fee, which resulted in excessive management fees being collected from the projects. Consequently, a total of \$45,827.53, which could have been used to pay necessary and reasonable operating expenses, was disbursed unnecessarily for excessive management fees.

Recommendations

As a result, we recommend that the HUD NYSO require the Agent/owners to reimburse the projects for those items considered to be ineligible and submit supporting documentation for those disbursements considered to be unsupported and/or questionable, so that HUD can determine the eligibility of these expenses. All disbursed amounts that are determined to be ineligible should be repaid to the applicable projects with non-project funds.

Exit Conference

On March 22, 2001, we held an exit conference with officials of the Agent to discuss the results of our draft findings and recommendations. The Officials provided us with written responses to the findings, which we included in its entirety as Appendix D of this report. We also provided a summary and an evaluation of their responses at the end of each finding.

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Abbreviations

HUD	U.S. Department of Housing and Urban Development
NYSO	New York State Office
CPA	Certified Public Accountant
IOI	Identity of Interest

Introduction

Belmax Management Corp., (the Agent) manages eight HUD insured and/or Section 8 assisted projects located in the New York City boroughs of Manhattan and Brooklyn. The Agent's President is Moishe Beilush, and the books and records are located at 6002 15th Avenue, Brooklyn, New York.

The Agent has an identity-of-interest (IOI) relationship with a company named "MMCR Corporation." During our audit period MMCR Corp. provided the maintenance and repair work at the projects; however, as of January 2000 the Agent was not using MMCR Corp. at the projects. The Agent's President is also a General Partner of two of the eight HUD related projects that the Agent manages, which are Rochester Sterling Project No. 012-57169 and Parkview Residence Project No. 012-57167.

Audit Objectives

The objective of our audit was to determine whether the Agent complied with HUD regulations pertaining to the use of project funds, which are to be used only for necessary and reasonable operating expenses and repairs.

Audit Scope and Methodology

To accomplish our objectives, we interviewed HUD NYSO officials as well as officials and staff members of the Agent. We obtained an understanding of the internal control procedures employed by the Agent.

We reviewed and verified cash receipt and cash disbursement transactions related to three of the projects managed by the Agent. However, in certain instances we expanded the scope to include other projects. We also reviewed the records of the Agent's IOI Company relative to billings for repair work performed at three of the projects.

We examined the financial statements and reports submitted to HUD. We also conducted an inspection at one of the projects to determine the condition of the project and to ensure that the repair work billed by the IOI Company and paid for by the Agent was actually performed.

Audit Period

The audit generally covered the period January 1, 1997 through December 31, 1999, and where appropriate, was extended to cover other periods. The audit fieldwork was performed between April 2000, and December 2000.

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

A copy of this report has been provided to the Auditee.

Ineligible, Unsupported, and Unreasonable Costs Were Charged to the Project(s)

Contrary to HUD regulations, the Agent used project funds to pay various expenditures that are ineligible, unsupported, and unnecessary/unreasonable. These expenses were incurred during the period between January 1, 1997 and December 31, 1999 and totaled \$189,068.19. They were associated with: (a) the preparation of partnership tax returns; (b) general consulting services; (c) additional garbage and trash removal; (d) preparation of ten day notices; (e) miscellaneous work by employees; and (f) various other ineligible and questionable services and items. Consequently, the projects may have been deprived of \$189,068.19 in funds that could have been used for reasonable and necessary operating expenses and repairs. We attribute this to the Agent's belief that these expenses were project related, and not the responsibility of the Owner/Agent. Accordingly, we recommend that the HUD NYSO require the Agent/owners to reimburse the projects in the amount of the ineligible expenses and submit supporting documentation for the expenses that we considered unsupported and unnecessary/unreasonable disbursements so that an eligibility determination can be made.

CRITERIA

Paragraph 8, of the Regulatory Agreement provides that: "Owners shall not without the prior written approval of the Secretary: (b) assign, transfer, dispose of, or encumber any personal property of the project, including rents, or pay out any funds, other than from surplus cash, except for reasonable operating expenses and necessary repairs."

Paragraph 2-6(e) of HUD Handbook 4370.2 Rev-1, Financial Operations and Accounting Procedures for Insured Projects provides that "all disbursements from the regular operating account (including checks, wire transfers and computer generated documents) must be supported by approved invoices/bills or other supporting documentation..."

In addition, paragraph 12(c) of the Regulatory Agreement states that the owner agrees to keep copies of all written contracts or other instruments affecting the property, all of which may be subject to inspection and examination.

Our audit revealed that during the period between January 1, 1997 and December 31, 1999, the Agent disbursed funds

from various projects totaling \$189,068.19 for questionable services and items. The details are described as follows:

(a) Partnership Tax Preparation Fees

During our audit period January 1, 1997 through December 31, 1999, the Agent hired a Certified Public Accounting (CPA) firm to prepare the audited financial statements for all eight HUD-subsidized projects managed by the Agent. In addition to conducting the audits of the financial statements of the eight projects, the CPA firm, prepared the partnership tax returns for four of the eight projects (Lincoln Residence, Rochester Sterling, Parkview Residence and Bedford Stuyvesant). Our review revealed that for the four projects in question, invoices from the CPA firm were mailed to the partners of the projects and stated that the billings were for “Professional accounting & computer processing services rendered in the preparation of your tax returns.” The Agent recorded these billings in the general ledgers of the respective projects as either “Audit Expense” or “Bookkeeping & Accounting Fees.”

An examination of the engagement letters between the CPA firm and the owners of the four projects, revealed that the engagement letters for two of the four projects, Parkview Residence and Rochester Sterling, provided an estimate of the audit and tax preparation fees to be charged. Specifically, the engagement letters for Fiscal Year Ended December 31, 1997, stated that the estimated fees for conducting the audits was \$7,775 each (\$15,550) and \$750 each (\$1,500) for the preparation of the owner/partnership tax returns. We do not believe that tax preparation fees are eligible project expenses. We believe that the owners of these two projects should have paid these fees themselves. As such, we deemed the \$1,500 ($\750×2) related to the preparation of partnership tax returns for these two projects to be ineligible expenses, and that the amount of the fees should be repaid to the projects with non-project funds.

Tax Preparation Fees of \$1,500 Is Considered Ineligible

The remaining ten engagement letters for the four projects, pertaining to the three-year period, did not provide an estimate of how much of the fee was for the audit as opposed to the preparation of tax returns. As a result, the Agent charged the four projects the full amount billed without itemizing the cost of each service. We believe that

**\$99,195 In Unreasonable
Tax Preparation / Auditing
Expenditures Is Questioned**

it was unreasonable for the Agent to charge the projects the total amount billed for these services. We learned that the Agent paid the CPA firm a total of \$116,195 over the three-year period to conduct the year-end audits and to prepare the partnership tax returns for the above four projects. As a result, we believe that \$99,195 of this amount (\$116,195-\$17,050 (paid for the 2 project above)) is considered an unnecessary/unreasonable charge to the projects. Therefore, we recommend that the HUD NYSO make a determination as to how much should be charged for auditing the financial statements of the projects and treat the difference as ineligible tax preparation expenditures. The amount of the tax preparation costs should be repaid to the projects by the owners from non-project funds.

**Additional Tax Preparation
Fees of \$13,200 Is Considered
Ineligible**

During the same time period as provided above, the Agent disbursed project(s) funds to another CPA for the preparation of the partnership tax returns of the remaining four HUD related projects. During the above audit period, \$13,200 was paid to a Certified Public Accountant (CPA), to prepare the partnership Federal and State tax returns relating to four projects: Manhattan Ave., Pulaski Manor, Sinclair and Sojourner Truth. Agent officials did not dispute that project(s) funds were used to pay for owners/partnership tax returns. They believe that this is a normal operating expense. However, we disagree and believe that the \$13,200 is an ineligible expense, and that the amount should be repaid to the projects with non-project funds (See Appendix B for details of the payments by project).

(b) General Consultant Services

Our audit also revealed that during the period of January 1, 1997 through December 31, 1999, the Agent disbursed project(s) funds totaling \$39,316.60 to a Corporation for consulting services that were charged to various general ledger accounts of the projects. We found that contrary to HUD regulations the Agent did not have a written consulting contract with the Corporation that detailed the consulting services to be provided. We found that the Corporation performed services for the Agent, such as preparing submissions to HUD and other agencies/contract administrators on various topics (responses to physical inspection reports and audit findings etc.), as well as

**\$39,316.60 In Unnecessary
Consultant's Costs Is
Questioned**

provided advice and guidance on the implementation of HUD procedures and regulations. We believe that the incurrence of these costs were unnecessary for the operation of the projects and relate to normal Agent responsibilities. As a result, the Agent should have paid for these expenses from its management fee. Accordingly, we are questioning the \$39,316.60 paid to the Corporation pending the HUD NYSO determination as to the eligibility. (See Appendix B for details of the payments by project).

(c) Additional Garbage and Trash Removal

Based on our review we determined that during the audit period, the Agent disbursed \$16,115 of project(s) funds to individuals for garbage and trash removal. Of this amount, \$14,875 was paid to one individual, and the other \$1,240 was paid to three other individuals. It is our opinion that the removal of trash and garbage from the projects should be a part of the regular job duties of the porters at the projects. As support for the payments to the one individual, the Agent provided unsigned check request forms and informal receipts from the individual acknowledging receipt of the monies. In addition, we were not provided with any work orders, for any of this work, showing that work was actually needed prior to hiring these individuals. Accordingly, based on the lack of adequate documentation to substantiate these expenses, we are questioning the \$16,115 in expenses for garbage and trash removal, pending a HUD NYSO determination of the eligibility of these expenses (See Appendix B for details of the payments by project).

**\$16,115 Of Garbage &
Trash Removal Costs Is
Questioned**

(d) Preparation of Ten Day Notices

Our audit also revealed that during the two-year period between January 1, 1997 and December 31, 1998, the Agent received a total of \$7,291 of project(s) funds for the preparation of ten-day notices. The Agent billed the projects \$23 for the preparation of each ten-day notice to be served to tenants who were delinquent in their rent payments. The Agent advised us that the \$23 fee per ten-day notice was based on what the charge would be if these notices were prepared by an outside legal entity. However, we found that an employee of the Agent prepared the ten-day notices as a part of the employee's regular job duties

\$7,291 In Unreasonable Fees For the Preparation of 10-Day Notices Is Questioned

and that the notices were submitted to the Agent's attorney to be served to the tenants. It should be noted that these fees were paid in addition to what the Agent paid its attorney. Accordingly, we do not believe that these costs are necessary and reasonable project expenses. Also we believe that the preparation of ten-day notices is a normal Agent responsibility. As such, we are questioning the \$7,291 paid to the Agent pending the HUD NYSO determination as to the eligibility of these charges (See Appendix B for details of the payments by project).

(e) Miscellaneous Work

During the course of our audit we determined that the Agent disbursed a total of \$2,054 from the funds of the projects: Lincoln Residences and Pulaski Manor for miscellaneous work performed by various project employees and one employee of the Agent. The largest of these payments was \$750 to the Agent's employee who was paid from the Pulaski Manor project. None of the payments were supported by work orders showing that there was a need for the work. The only support provided for these payments was the Agent's check requests. We noted that the check request form supporting the \$750 stated that the payment was for collecting, signing, and compiling the forms to apply for a weatherization grant, for windows. We believe that the preparation of forms necessary to apply for a weatherization grant is the responsibility of the Agent. Accordingly, we believe that these fees should have been paid from the Agent's management fee. The payments to the other individuals were for performing various tasks such as cleaning community rooms etc. All work was supposedly performed on weekends and nights; however, we were not provided with evidence to substantiate that claims. Since none of these payments were adequately supported we could not determine whether they were for necessary and reasonable project expenses. As a result, we are questioning the \$2,054 in charges pending a NYSO determination of their eligibility (See Appendix B for details of these payments by project).

\$2,054 Paid For Miscellaneous Work Is Questioned

(f) Other Ineligible and Unsupported Expenses

We noted that various other expenses were charged to the projects that appear to be ineligible. The Agent used project

funds totaling \$3,454.75 to pay for: damages to the clothing and automobiles of various employees and tenants; trade magazines used by the Agent; meals for project employees; tips to sanitation men; the purchase of employee work clothing; various fines and penalties; a training course for the Agent's Director; and parking expenses for the Agent's President. We do not believe that these expenses are necessary and reasonable to the operation of the projects. In fact, some of these expenses should have been borne by the Agent and should not have been paid with project funds. As a result, we believe that these expenses totaling \$3,454.75 should be deemed ineligible and the Agent should be required to repay the various projects with non-project funds (See Appendix B for the details of the payments by project).

**\$3,454.75 In Charges
Are Considered
Ineligible**

Our audit also disclosed that the Agent could not provide adequate supporting documentation to demonstrate that disbursements from project operating accounts totaling \$6,941.84 were for reasonable and necessary operating expenses. The unsupported disbursements included payments to cash, individuals, and various vendors such as Office Max, Multimedia Communications, Pagnet, Mazal Electronics, and Maor Electronics etc. Some of the general ledger accounts charged for these expenditures were: supplies and tools, walkie-talkie, beepers, garnishees, legal, telephone, office supplies, etc. Many of the checks made payable to individuals were supposed to be reimbursements to project superintendents for various supplies, tools, and telephone expenses; however, they were not supported by invoices. As a result, since the Agent did not furnish adequate supporting documentation to substantiate that these expenditures were for reasonable operating expenses and/or necessary repairs, we are taking exception to them (See Appendix B for details of the payments by project).

**\$6,941.84 In Charges
Is Considered
Unsupported**

Auditee Comments

Agent officials believe that the amount to be attributed for tax preparation fees should have been \$750 for each project for each year as quoted by the CPAs in their engagement letters for the Parkview Residence and Rochester Sterling projects. They also contend that partnership tax preparation is the responsibility of the projects and should therefore be charged to the projects.

Agent officials contend that the services provided by the Corporation were not consulting services, they were for physical inspections, engineering and architectural work, development of MIO plans, and correspondence with HUD, HFA and HDC regarding management issues relevant to the projects. Agent officials believe that these are project(s) expenses and not normal management agent expenses. They also contend that under the HUD New York State Office's new management fee policy these costs would be considered front line expenses that can be charged directly to the projects.

Agent officials contend that the funds paid to individuals for garbage and trash removal was for the removal of bulk and container type garbage and trash that the Department of Sanitation does not pick up from projects. They also stated that this type of garbage removal is not within the scope of the porters' job duties. Agent officials further stated that it was more cost effective to use individuals rather than a commercial carting company for garbage and trash removal from the projects; therefore, they were being frugal with the project(s) money.

Agent officials presented a March 16, 2001 letter from its attorneys that quoted a fee of \$75 for preparing and serving a ten-day notice. They contend that their 1997 and 1998 charges of \$23 for preparing each ten-day notice plus the attorney's charges of \$14 for serving each notice, for a total cost of \$37, actually saved the projects money.

Agent officials consider the monies paid to project and agent employees for miscellaneous work, to be a prudent management decision that was cost effective. Agent officials state that the largest item questioned, \$750 to an Agent employee, was for obtaining tenant signatures and compiling forms on evenings and weekends. The Opportunity Development Association required this form to obtain a weatherization grant. Agent officials contend that this was a project(s) expense.

Officials of the Agent disagree with our classification that payments to employees and tenants for personal damages are ineligible expenditures of project funds. They contend that it was cheaper to settle with the individuals rather than

going to court where the owner/agent usually loses nine times out of ten. Agent officials also consider the costs paid by the projects for trade magazine subscriptions to the monthly Assisted Housing Manager Insider newsletter as necessary expenses for training purposes, which, should be considered as training expenses. They also consider the expenses paid for employee meals, tips to sanitation workers, and reimbursement to project employees for work clothes to be reasonable project expenses.

**OIG Evaluation of
Auditee Comments**

We believe that expenses relative to the preparation of the owners tax returns should be borne by the owners. As a result, the \$14,700 (\$1,500 + \$13,200) that we determined were for ineligible tax preparation fees should be repaid to the projects. In addition, documentation showing how much of the questioned \$99,195 is related to preparing tax returns should be submitted to HUD and deemed ineligible by the NYSO, who should then require the owners to repay the projects. We believe that the services performed by the consulting firm were related to normal Agent responsibilities; as such, their associated costs should be borne by the Agent. Also, we believe that the supporting documentation for the garbage and trash removal costs should be submitted to HUD so that an eligibility determination can be made regarding their eligibility. We believe that the costs for preparing the 10-day notices should not be charged to the projects because it is a normal Agent responsibility to prepare the documents. In addition, as stated above, we believe that applying for a weatherization grant is a normal Agent function; therefore, part of the cost for miscellaneous work by employees should have been borne by the Agent. As for the remaining charges for miscellaneous work by employees, supporting documentation should be submitted to HUD for an eligibility determination.

Furthermore, we believe that the cost of damages to personal property should have been handled through the projects' insurance company and that the costs for trade magazines, employee meals and clothing, tips to sanitation employees, etc. are goodwill expenses that should be borne by the Agent. Accordingly, we maintain that the Agent did not comply with paragraph 8 of the Regulatory Agreement,

which states in part that project funds should only be used for reasonable operating expenses and necessary repairs. Therefore, the HUD NYSO should require the owners/Agent to repay the amount of all expenses determined to be ineligible and make a determination as to the eligibility and reasonableness of the expenses that are questioned.

Recommendations:

We recommend that HUD NYSO instruct the Agent to:

- 1A. Cease the practice of charging ineligible costs to the projects and develop procedures to ensure compliance with the Regulatory Agreement and HUD rules and regulations, which require project funds to be expended only for reasonable and necessary expenses. The procedures should also ensure that adequate supporting documentation for expenses are obtained and maintained.
- 1B. Reimburse the projects' operating accounts the \$14,700 (\$1,500 + \$13,200) in ineligible costs paid for the preparation of owner/partnership tax returns.
- 1C. Provide a breakdown of the \$99,195 paid to the CPA firm for tax preparation fees and auditing fees. Then instruct the owners/partners of the respective projects to reimburse the projects for the amount deemed tax preparation fees with non-project funds.
- 1D. Provide supporting documentation for the \$39,316.60 in charges for consultant services so that HUD can determine the eligibility of these costs. Any amounts deemed to be ineligible should be repaid to the respective projects with non-project funds. Also, cease charging the projects for consultants hired to perform Agent responsibilities, and develop procedures to ensure that if consultants are hired for the projects, written contracts are obtained as required.
- 1E. Provide supporting documentation for the \$16,115 in charges for garbage and trash removal so that HUD can determine the eligibility of these

payments. Any amounts deemed to be ineligible should be repaid to the respective projects with non-project funds.

- 1F. Provide supporting documentation for the \$7,291 in charges for preparing ten-day notices so that HUD can make an eligibility determination. Any amounts deemed to be ineligible should be repaid to the respective projects with non-project funds.
- 1G. Provide supporting documentation for the \$2,054 in costs that was paid to project and Agent employees for miscellaneous work, so that HUD can make an eligibility determination. Any amounts deemed to be ineligible should be repaid to the respective projects with non-project funds.
- 1H. Reimburse the projects with non-project funds for the \$3,454.75 in ineligible costs disbursed for personal damages, trade magazines, fines and penalties, Agent training and parking, employees' work clothes, meals, and tips.
- 1I. Provide documentation for the \$6,941.84 in unsupported costs discussed in the finding, so that HUD can make an eligibility determination. If any amounts are determined to be ineligible, the Agent should be instructed to reimburse the applicable projects' operating accounts with non-project funds.

Procurement Practices Need Improvement

Our review disclosed that the Management Agent did not always follow HUD regulations when obtaining services and awarding repair contracts to contractors. Specifically, during the audit period of January 1, 1997 through December 31, 1999, the Agent: (1) entered into a questionable exterminating service arrangement without first soliciting bids and/or obtaining written cost estimates; (2) awarded a parking and pointing contract to a contractor who was not the lowest bidder; and (3) did not provide evidence to substantiate that competitive bids were solicited prior to awarding a contract to repair roof parapet walls. As a result, the Agent was unable to provide documentation showing that all transactions were at arms length and that the services obtained were at the most reasonable and economical prices for the project(s). We attribute these deficiencies to the Agents failure to follow HUD regulations. Accordingly, we are questioning \$156,840.78 in project(s) funds disbursed for these items pending a HUD NYSO determination as to the reasonableness and eligibility of these expenditures.

CRITERIA

HUD Handbook 4381.5, The Management Agent Handbook, paragraph 6.50(a) provides that "...the Agent is expected to solicit written cost estimates from at least three contractors or suppliers for any contract, ongoing supply or services which is expected to exceed \$10,000 per year..." Paragraph 6.50(b) provides that "for any contract, ongoing supply or service estimated to cost less than \$5,000 per year, the agent should solicit verbal or written cost estimates in order to assure that the project is obtaining services, supplies and purchases at the lowest possible cost. The Agent should make a record of any verbal estimates obtained." In addition, paragraph 6.50(c) prescribes that "documentation of all bids should be retained as a part of the project records for three years following the completion of the work."

Furthermore, paragraph 4 of the Management Agreement /Certification between the project Owner and the Management Agent provides that the Agent agrees to:

- (a) Assure that all expenses of the project are reasonable in amount and necessary to the operations of the project; ...
- (c) Obtain contracts, materials, supplies and services...on terms most advantageous to the project; ... and

- d) Solicit verbal or written cost estimates ...and document the reasons for accepting other than the lowest bid.

Agent Entered Into A Questionable Arrangement With An Extermination Service Company.

Our audit revealed that the Agent entered into a questionable arrangement with an extermination service company. The Company provided extermination services to the eight HUD related projects managed by the Agent. However, prior to awarding the job to the Company, the Agent did not demonstrate that it obtained competitive bids or price estimates for the extermination services. In addition, based on the relationship between the Agent and the principal of the Company, it is our opinion that the arrangement was not an arms length transaction.

Agent officials contend that the fees paid to the Company were from all eight HUD-subsidized projects and that no single project incurred \$10,000 in basic extermination services in any one year. Accordingly, the requirement to obtain and maintain bids was not necessary. Agent officials also contend that the Company's monthly service fee of \$3 per apartment was reasonable based on the Agent's experience. However, we maintain that since the extermination services were being provided to all projects, the Agent should have considered the total price to all of the projects and should have solicited bids from at least three suppliers to ensure that it was obtaining the most economical price.

Moreover, we learned that an employee/superintendent of the project Sinclair Houses, which is managed by the Agent, owns the Company. Although Agent officials state that an identity of interest relationship does not exist; we believe that the following circumstances gives the appearance that such a relationship does exist and that the arrangement with the Company was not an arms length transaction. Our review of the Company's invoices and project(s) canceled checks revealed that:

- (a) The invoices were hand-written and prepared by an employee of the Agent.
- (b) The business address listed on the Company's invoice is the same as the employee/superintendent's rent-free apartment unit address.

- (c) Some of the invoices list the project employee/superintendent as the person providing the extermination services.
- (d) The checks written on behalf of the projects to the Company were deposited in an account in care of the Agent.
- (e) The Agent's Director, Bookkeeper, and the Owner of the extermination company all have signature authority over the Company's checking account.

We also learned from Agent officials that the Owner of the Company has access to the Agent's telephones and office equipment. In addition, the Agent is paid a fee for maintaining the Company's accounting records.

Agent officials contend that the extermination contractor or project superintendent, who provided the extermination services, did so either on his day off (as a super) or after his regular working hours. However, we were not provided with time distribution records showing when the services were performed. Agent officials informed us that as of March 2000, the Owner of the Extermination Company is no longer employed as the project superintendent, and at the exit conference they stated that as of March 2001, he would not be providing exterminating services to the projects.

During our audit period, January 1, 1997 through December 31, 1999, the Owner of the extermination company received a rent-free apartment unit for working as a superintendent and collected a total salary of \$64,401 from the HUD related project. In addition, during the same time period the Agent disbursed a total of \$124,485.78 in project(s) funds to the Company for extermination services rendered. As a result of the above facts, we believe that the \$124,485.78 paid to the extermination company should be questioned pending the NYISO determination as to the reasonableness and eligibility of the cost considering the business relationship that exists between Agent and the Extermination Company (See Appendix "C" for the total payments by project).

Agent Awards Contract To Other Than The Lowest Bidder

Our review also revealed that the Agent awarded a contract for pointing and parging exterior walls, at the Pulaski Manor project, to a contractor who was not the lowest bidder. The contract was awarded in November 1997, in the amount of \$40,000. However in August 1996, prior to awarding the contract, the Agent forwarded a letter to the New York City Housing Development Corporation (NYC-HDC), the Contract Administrator for the project, requesting a release of funds from the projects reserve for replacement account. As support for this transaction, the Agent submitted copies of three bids with the lowest bid being \$35,225. In addition, the Agent's letter stated that the total cost of the work would be \$35,225. Although the bid of the contractor in question was not one of the three original bids submitted to the Contract Administrator, the Agent subsequently accepted its bid of \$40,000, and awarded that contractor the contract. On October 27, 1997 the Contract Administrator authorized the Mortgagee to release the funds from the project's reserve account, resulting in a check, in the amount of \$35,225, being issued to the Agent on November 6, 1997.

The Agent contends that during the period between August 1996, when it requested the release of the reserve funds, and November 1997, when the funds were released, there was a change in the scope of the work that resulted in the award of the work to the contractor in question. However, the Agent did not furnish us with any auditable documentation to substantiate that there was any change in the scope of work between the time of the original bids and the date the contract was awarded to the contractor. As a matter of fact the statement of work and price shown in a November 25, 1997 letter submitted by the contractor to confirm the awarding of the work revealed that the scope of work was the same as shown on the original bids submitted by the other bidders.

We believe that the Agent has a fiduciary responsibility to purchase services for the project(s) at terms most beneficial to the project(s). Accordingly, as required the Agent should have selected the lowest bidder and/or documented why the lowest bidder was not chosen. We also believe that the Contract Administrator should have been notified of the change in contractors. Accordingly, since this was not done, we believe that the additional \$4,775 paid to the contractor

(the difference between the lowest bid and the actual price paid for the work) should be questioned pending a HUD NYSO review. If the NYSO determines that the additional amount is not reasonable, the Agent should be required to reimburse that amount of funds to the project with non-project funds.

The Agent Did Not Provide Bidding Documents/Cost Estimates

In another incident involving the same contractor and project, the Agent did not provide us with evidence that bids and/or cost estimates were obtained prior to awarding the work. Our audit disclosed that in July 1998, the Agent awarded a contract in the amount of \$27,580 to the contractor for repairs of the roof parapet walls. The Agent stated that they had solicited and received cost estimates from at least three contractors. However, upon our request to review these documents, Agent officials stated that they could not locate them. As a result, we were not assured that the project received the most economical price and that the contract was in fact awarded to the lowest bidder. In accordance with HUD Handbook 4381.5, paragraphs 6.50(a) & (c), the Agent is required to obtain and maintain (for three years) written cost estimates from at least three contractors if the contract amount is expected to be in excess of \$10,000. Consequently, since the Agent did not provide us with these documents, we are questioning the \$27,580 in project funds disbursed for this work, pending a HUD NYSO determination of reasonableness.

Auditee Comments

Agent officials stated that before Belmont Pest Control began providing extermination services to the projects, the Agent compared the Extermination Company's prices to historical prices paid to two prior exterminators for reasonableness. As such, they stated that they used an employee owned exterminating company because the price was reasonable and the quality of the work was superior. Agent officials maintained that any extermination work performed by the project employee was done in his off-duty hours and they do not believe that there is anything wrong with maintaining the books and records of the Extermination Company. Agent officials also pointed out that the statement in our draft finding that the Extermination Company did not provide extermination services to the three non-HUD projects managed by the

Agent is not an accurate statement. They advised that the Extermination Company also provided exterminating services to two non-HUD related projects managed by the Agent. In addition, they state that as of March 1, 2001, they discontinued using the extermination company per our directives.

Agent officials also contend that it notified the Contract Administrator (NYC-HDC) of the change in the scope of work for the pointing and parging work at the Pulaski Manor project, and that the Contract Administrator consented to the award of the contract at a price higher than the original lowest bid, due to the scope change. Officials of the Agent stated that they have been in contact with the Contract Administrator because of the issue raised in the audit and although told that the award was approved, they have not been able to obtain written approval from them. In addition, Agent officials state that they did solicit and receive the required bids before awarding the \$27,580 contract for repairs of the roof parapet walls at the Pulaski Manor project. However, these bids have been misplaced and cannot be located.

**OIG Evaluation of
Auditee Comments**

HUD Handbook 4381.5, paragraph 6.50 (a) states that the Agent is expected to solicit quotes from at least three suppliers for any contract, ongoing supply or services which is expected to exceed \$10,000 per year. Paragraph 6.50 (c) states that documentation of all bids should be maintained for three years after completion of the work. We believe that although historical cost is a good estimate of costs it is not the same as soliciting bids, which could have resulted in lower prices for the exterminating services. OIG accepts the Agent's statement that the extermination company provided services to two of the three non-HUD projects managed by the Agent. As a result, we amended the final audit report and removed the sentence, which stated the opposite. In addition, we want to make it clear that we did not instruct the Agent to cease using the extermination company (see recommendation 2C).

Furthermore, paragraph 4 (d) of the Management Certification requires the Agent to document the reasons for accepting other than the lowest bid. In our opinion the

response of Agent officials did not prove that these provisions were satisfied.

Recommendations

We recommend that the HUD NYSO:

2A. Instruct the Agent to develop procedures to ensure compliance with the requirements set forth in HUD Handbook 4381.5 regarding the need to obtain and retain written cost estimates to substantiate that it is purchasing services at reasonable and economical prices.

2B. Instruct the Agent to provide supporting documentation as to why they entered into a questionable extermination services arrangement without obtaining bids from other companies. The NYSO should then make a determination on the reasonableness and eligibility of the costs incurred for extermination services considering the arrangement that exists between the Agent and the extermination company.

The Agent should be required to reimburse the projects for any part of the \$124,485.78 that is determined to be unreasonable and ineligible. The NYSO should also consider the \$64,401 in project funds paid to the superintendent/owner of the extermination company as salary during the same time period.

2C. Consider instructing the Agent to cease using the extermination company due to the relationship that exists and solicit bids or cost estimates to obtain another company to provide extermination services to the HUD related projects.

2D. Instruct the Agent officials to submit documentation explaining why they chose other than the lowest bidder for the pointing and parging work done at the Pulaski Manor project. If it is determined that the additional costs paid were not reasonable, the Agent

should be required to repay the \$4,775 (difference between the amounts paid to the contractor and the lowest bid price) to the project.

- 2E. Instruct the Agent to provide the competitive bids received in support of the \$27,580 contract awarded for the repairs of the roof parapet walls at the Pulaski Manor project. If the support is not available or is considered to be unreasonable, HUD NYSO should consider requesting the Agent to repay the amount of the funds to the project from non-project funds.

Excessive Management Fees Were Collected From the Projects

Contrary to HUD requirements, during the period between January 1, 1997 and December 31, 1999, the Agent incorrectly computed its management fee, which resulted in excessive management fees being collected from the projects. As such, the projects have been deprived of \$45,827.53, which could have been used for reasonable and necessary operating expenses. We attribute this to the Agent's failure to follow HUD requirements, which limit the amount of management fees that can be earned. Accordingly, we recommend that the HUD NYSO instruct the Agent to repay these funds to the respective projects with non-project funds.

CRITERIA

The Management Certification between the Management Agent and the owner provides that the Agent's compensation or monthly management fee should equal an approved percentage of gross rents collected during the prior month. However, HUD has limited the management fees that can be earned.

A March 1, 1989, memorandum to all Owners and Agents within the New York Office jurisdiction provided that management fees paid by projects in High Cost Areas should not exceed a cap of \$59.00 PUPM (per unit per month).

Furthermore, a December 5, 1997 HUD memorandum issued to all Owners, Agents and Contract Administrators within the HUD New York State Office Jurisdiction stipulated a new cap of \$44 PUPM. It was mandatory that all owners implement this new management fee policy within one year of the January 1, 1998 effective date.

Management Fees Excessive

Our review disclosed that the Agent incorrectly computed its management fees in 1997, 1998 and 1999. The maximum management fee that the Agent was allowed to collect in 1997 and 1998 was capped at \$59 PUPM. On January 1, 1999, one year from the effective date of the policy change, the Agent implemented HUD's new cap of \$44 PUPM. As a result, during 1999, the \$44 cap was in effect.

Our review revealed that the Agent computed its management fee based on a formula, which multiplied the projects' monthly gross rents collected, by the approved fee percentage. The Agent did not recognize the HUD NYSO's established limits on management fees. Therefore, the management fees collected by the Agent were excessive.

Agent officials state that when the fees were calculated they were not aware of HUD fee limits. Consequently, for the three-year period, they calculated excessive management fees totaling \$45,827.53, and charged it to five HUD related projects as follows:

PROJECT NAME	1997	1998	1999	TOTAL
Manhattan Avenue	\$428.98	\$1,048.67	\$646.28	\$2,123.93
Parkview Residence	\$1,548.90	\$524.46	\$567.91	\$2,641.27
Pulaski Manor		\$2,888.98		\$2,888.98
Bedford Stuyvesant	\$7,418.28	\$6,063.95		\$13,482.23
Sojourner Truth	<u>\$10,554.69</u>	<u>\$12,921.97</u>	<u>\$1,214.46</u>	<u>\$24,691.12</u>
TOTAL	\$19,950.85	\$23,448.03	\$2,428.65	\$45,827.53

Excessive Management Fees of \$45,827.53 are ineligible.

It is our belief that by collecting excessive management fees, the Agent deprived the projects of funds that could have been used for necessary and reasonable operating expenses. Because we believe that the \$45,827.53 collected in excessive management fees is ineligible, the amount of these funds should be repaid to the respective projects from non-project funds.

Auditee Comments

Agent officials do not dispute the finding. However, they took exception to the paragraph in the draft finding which stated that "we reminded them of the HUD field office review of Fiscal Year 1997 financial statements for the Pulaski Manor project that questioned the excessive

management fees collected by the Agent. In response to HUD's review, the Agent subsequently reimbursed the project; however, it did not review or adjust the management fee calculations for the other HUD related projects." Agent officials advised us that it was in the beginning of the year 2000 that their accountant received HUD's notification of excessive management fees collected from the Pulaski Manor project, and at that time they could not change the fees collected during the years 1997, 1998 and 1999.

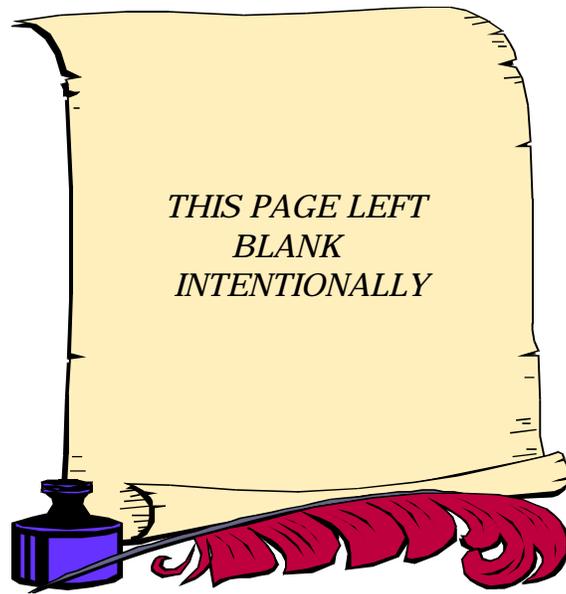
**OIG Evaluation of
Auditee Comments**

We believe that the Agent should have compared the actual fees collected with HUD's maximum limits for management fees on an annual basis, and made the necessary adjustments to ensure that excessive fees were not collected from the projects. We accept the Agent's statement that their accountant was notified of the excessive fees for the Pulaski Manor project in the beginning of year 2000; however, HUD's letter to the Agent notifying them of the excessive fees was dated December 1, 1999. Nevertheless, to provide clarity the paragraph in our draft finding that was objected to was removed from the final report.

Recommendations

We recommend that the HUD NYISO instruct the Agent to:

- 3A. Repay the amount of the \$45,824.53 that was collected in excessive management fees to the operating accounts of the respective projects with Non-project funds.
- 3B. Develop procedures that will ensure that management fees calculated and collected by the Agent are in accordance with limitations set by the HUD NYISO management fee policy.



Management Controls

In planning and performing our audit, we considered the management controls of the Management Agent in order to determine our audit procedures, not to provide assurance on the controls. Management controls include the plan of organization, methods and procedures adopted by management to ensure that goals are met. Management controls include the process for planning, organizing, directing and controlling program operations. Management controls also include the systems for measuring, reporting and monitoring program performance.

Relevant Management Controls

We determined the following management 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 Resources – Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss and misuse.

We assessed all the relevant controls identified above.

It is a significant weakness if management controls do not provide 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 are obtained maintained, and fairly disclosed in reports.

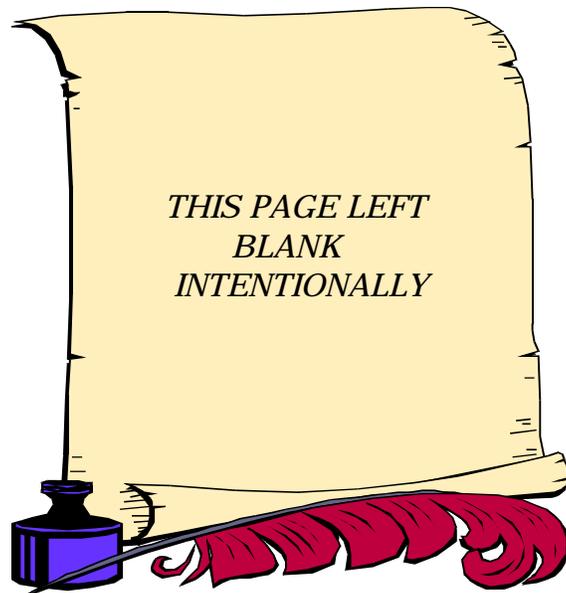
Significant Weaknesses

Based on our review, we believe that significant weaknesses exist in the areas of “Validity and Reliability of Data” (see finding 1) and “Compliance with Laws and Regulations” (see findings 1, 2 and 3)



Follow Up On Prior Audits

This is the initial Office of the Inspector General audit of Belmax Management Corp.



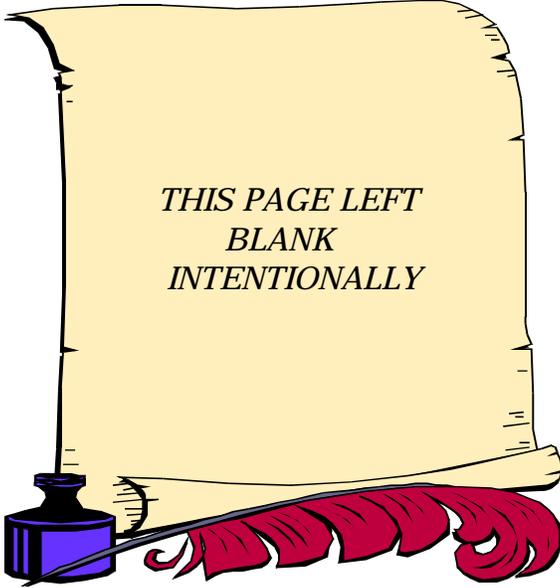
Schedule Of Ineligible, Unsupported and Unreasonable Costs

<u>Finding</u>	<u>Ineligible 1/</u>	<u>Unsupported 2/</u>	<u>Unreasonable 3/</u>
1	\$18,154.75	\$6,941.84	\$163,971.60
2		27,580.00	129,260.78
3	<u>45,827.53</u>	<u> </u>	
	<u>\$63,982.28</u>	<u>\$34,521.84</u>	<u>\$293,232.38</u>

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

2/ Unsupported costs are costs charged to a HUD-financed or insured project 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.

3/ Unreasonable costs are costs charged to a HUD-financed or insured project that exceed the costs that would be incurred by the ordinarily prudent person in the conduct of a competitive business.



Belmax Management Corporation
Brooklyn, New York

Summary Of Ineligible, Unsupported and Unreasonable Expenses - Finding No.1

PROJECT	CHECK DATE	CHECK NUMBER	INELIGIBLE AMOUNT	UNSUPPORTED AMOUNT	UNREASONABLE AMOUNT
Lincoln Residence	03/26/97	2965			\$10,035.00
Lincoln Residence	02/26/98	3623			\$10,550.00
Lincoln Residences	03/17/99	4403			\$10,950.00
Rochester Sterling Apts.	04/01/97	2611			\$8,575.00
Rochester Sterling Apts.	02/17/98	2990	\$750.00		\$475.00
Rochester Sterling Apts.	02/25/99	3439			\$9,500.00
Parkview Residences	04/01/97	2514			\$8,575.00
Parkview Residences	02/17/98	2794	\$750.00		\$475.00
Parkview Residences	02/25/99	3160			\$9,500.00
Bedford Stuyvesant NSA II	04/17/97	1690			\$9,575.00
Bedford Stuyvesant NSA II	06/15/98	2263			\$10,035.00
Bedford Stuyvesant NSA II	04/12/99	2710			\$10,950.00
Manhattan Avenue Apts.	04/17/97	4725	\$1,100.00		
Manhattan Avenue Apts.	03/26/98	5087	\$1,100.00		
Manhattan Avenue Apts.	04/01/99	5462	\$1,100.00		
Pulaski Manor	04/17/97	2534	\$1,100.00		
Pulaski Manor	03/26/98	2882	\$1,100.00		
Pulaski Manor	03/24/99	3312	\$1,100.00		
Sinclair Houses	07/17/97	2712	\$1,100.00		
Sinclair Houses	03/27/98	2911	\$1,100.00		
Sinclair Houses	04/12/99	3293	\$1,100.00		
Sojourner Truth Houses	04/25/97	4914	\$1,100.00		
Sojourner Truth Houses	03/26/98	5265	\$1,100.00		
Sojourner Truth Houses	10/27/99	6065	\$1,100.00		
TOTAL PAYMENTS FOR PARTNERSHIP TAX RETURNS/AUDITING			\$14,700.00		\$99,195.00
Manhattan Avenue Apts.	04/15/99	5484			\$251.25
Sojourner Truth Houses	03/16/99	5722			\$450.00
Sojourner Truth Houses	04/15/99	5764			\$705.00
Sojourner Truth Houses	04/15/99	5764			\$251.25
Sojourner Truth Houses	07/12/99	5857			\$3,342.25
Pulaski Manor	04/12/99	3321			\$3,324.75
Pulaski Manor	04/12/99	3321			\$437.50
Pulaski Manor	04/15/99	3345			\$1,131.25
Pulaski Manor	04/15/99	3345			\$251.25
Pulaski Manor	11/19/99	3619			\$450.00
Pulaski Manor	10/21/98	3120			\$2,990.85
Pulaski Manor	11/17/98	3165			\$255.00
Pulaski Manor	12/15/98	3195			\$4,612.50
Pulaski Manor	08/19/98	3073			\$2,550.00
Pulaski Manor	09/24/98	4197			\$4,312.50
Parkview Residences	04/15/99	3221			\$251.25
Parkview Residences	10/27/99	3370			\$356.25

Belmax Management Corporation
Brooklyn, New York

Summary Of Ineligible, Unsupported and Unreasonable Expenses - Finding No.1

PROJECT	CHECK DATE	CHECK NUMBER	INELIGIBLE AMOUNT	UNSUPPORTED AMOUNT	UNREASONABLE AMOUNT
Rochester Sterling Apts.	04/20/99	3510			\$251.25
Sinclair Houses	04/20/99	3300			\$251.25
Lincoln Residences	02/19/99	4343			\$150.00
Lincoln Residences	04/26/99	4495			\$240.00
Lincoln Residences	04/26/99	4495			\$251.25
Lincoln Residences	10/06/99	4802			\$668.75
Lincoln Residences	04/08/98	3671			\$1,975.00
Lincoln Residences	06/09/98	3774			\$850.00
Lincoln Residences	07/15/98	3884			\$325.00
Lincoln Residences	09/14/98	4006			\$425.00
Lincoln Residences	10/15/98	4064			\$975.00
Lincoln Residences	11/17/98	4138			\$250.00
Lincoln Residences	02/26/98	3617			\$512.50
Bedford Stuyvesant NSA II	02/16/99	2634			\$180.00
Bedford Stuyvesant NSA II	04/20/99	2720			\$251.25
Bedford Stuyvesant NSA II	07/17/98	2332			\$1,650.00
Bedford Stuyvesant NSA II	08/19/98	2378			\$1,637.50
Bedford Stuyvesant NSA II	10/23/98	2452			\$1,350.00
Bedford Stuyvesant NSA II	11/17/98	2501			\$1,200.00
				TOTAL CONSULTING SERVICES	\$39,316.60
Manhattan Avenue Apts.	06/06/97	4770			\$200.00
Manhattan Avenue Apts.	06/20/97	4772			\$1,300.00
Manhattan Avenue Apts.	02/02/98	5032			\$600.00
Manhattan Avenue Apts.	03/13/98	5073			\$550.00
Sojourner Truth Houses	03/4/97	4757			\$1,325.00
Sojourner Truth Houses	07/14/99	5871			\$75.00
Pulaski Manor	05/09/97	2544			\$975.00
Pulaski Manor	02/17/98	2843			\$800.00
Pulaski Manor	08/7/98	3056			\$900.00
Pulaski Manor	11/25/98	3176			\$450.00
Parkview Residences	02/19/97	2458			\$150.00
Parkview Residences	02/27/97	2479			\$900.00
Parkview Residences	03/24/98	2845			\$400.00
Lincoln Residences	08/05/97	3241			\$800.00
Lincoln Residences	11/18/97	3423			\$600.00
Lincoln Residences	01/20/98	3561			\$850.00
Lincoln Residences	04/06/98	3669			\$1,400.00
Lincoln Residences	07/10/98	3881			\$300.00
Lincoln Residences	07/15/98	3896			\$500.00
Lincoln Residences	08/02/98	3943			\$225.00
Sinclair Houses	04/17/97	2648			\$975.00
Bedford Stuyvesant NSA II	02/27/97	1617			\$300.00
Bedford Stuyvesant NSA II	04/25/97	1697			\$500.00

Belmax Management Corporation
Brooklyn, New York

Summary Of Ineligible, Unsupported and Unreasonable Expenses - Finding No.1

PROJECT	CHECK DATE	CHECK NUMBER	INELIGIBLE AMOUNT	UNSUPPORTED AMOUNT	UNREASONABLE AMOUNT
Bedford Stuyvesant NSA II	05/20/97	1735			\$300.00
Bedford Stuyvesant NSA II	03/27/98	2099			\$115.00
Bedford Stuyvesant NSA II	03/27/98	2098			\$75.00
Bedford Stuyvesant NSA II	04/1/98	2153			\$475.00
Bedford Stuyvesant NSA II	4/22/98	2161			\$75.00
				TOTAL GARBAGE AND TRASH REMOVAL	\$16,115.00
Manhattan Avenue Apts.	1997	Various			\$460.00
Manhattan Avenue Apts.	1998	Various			\$115.00
Sojourner Truth Houses	1997	Various			\$782.00
Sojourner Truth Houses	1998	Various			\$138.00
Pulaski Manor	1997	Various			\$483.00
Pulaski Manor	1998	Various			\$299.00
Parkview Residences	1997	Various			\$414.00
Parkview Residences	1998	Various			\$184.00
Rochester Sterling Apts.	1997	Various			\$368.00
Rochester Sterling Apts.	1998	Various			\$207.00
Sinclair Houses	1997	Various			\$897.00
Sinclair Houses	1998	Various			\$138.00
Lincoln Residences	1997	Various			\$1,771.00
Lincoln Residences	1998	Various			\$345.00
Bedford Stuyvesant NSA II	1997	Various			\$644.00
Bedford Stuyvesant NSA II	1998	Various			\$46.00
				TOTAL TEN-DAY NOTICE FEE EXPENSE	\$7,291.00
Lincoln Residences	12/17/97	3462			\$25.00
Lincoln Residences	01/02/98	3528			\$25.00
Lincoln Residences	01/14/98	3532			\$30.00
Lincoln Residences	01/14/98	3533			\$30.00
Lincoln Residences	01/14/98	3534			\$30.00
Lincoln Residences	01/14/98	3535			\$30.00
Lincoln Residences	01/14/98	3536			\$30.00
Lincoln Residences	01/14/98	3537			\$30.00
Lincoln Residences	01/14/98	3538			\$15.00
Lincoln Residences	01/14/98	3539			\$30.00
Lincoln Residences	01/14/98	3540			\$30.00
Lincoln Residences	01/20/98	3559			\$20.00
Lincoln Residences	04/06/98	3666			\$50.00
Lincoln Residences	11/05/98	4131			\$75.00
Lincoln Residences	10/12/99	4823			\$64.00
Lincoln Residences	10/13/99	4836			\$300.00
Pulaski Manor	05/07/98	2915			\$750.00
Pulaski Manor	03/03/99	3285			\$490.00
				TOTAL PAYMENTS FOR MISC. WORK BY	\$2,054.00

Belmax Management Corporation
Brooklyn, New York

Summary Of Ineligible, Unsupported and Unreasonable Expenses - Finding No.1

PROJECT	CHECK DATE	CHECK NUMBER	INELIGIBLE AMOUNT	UNSUPPORTED AMOUNT	UNREASONABLE AMOUNT
Pulaski Manor	03/13/98	2866	\$135.00		
Pulaski Manor	02/18/99	3277	\$135.31		
Pulaski Manor	04/15/99	3346	\$324.75		
Lincoln Residences	08/14/97	3247	\$195.00		
Lincoln Residences	07/27/99	4644	\$80.00		
Lincoln Residences	10/07/99	4817	\$100.00		
Lincoln Residences	10/07/99	4818	<u>509.98</u>		
SUBTOTAL PERSONAL DAMAGES EXPENSE			\$1,480.04		
Manhattan Avenue Apts.	1/26/99	5402	\$33.63		
Manhattan Avenue Apts.	10/15/98	5329	\$21.88		
Sojourner Truth Houses	1/28/99	5642	\$33.63		
Sojourner Truth Houses	10/15/98	5510	\$21.88		
Pulaski Manor	01/26/99	3255	\$33.63		
Pulaski Manor	10/21/98	3123	\$21.88		
Parkview Residences	01/27/99	3122	\$33.63		
Parkview Residences	10/15/98	3029	\$21.88		
Rochester Sterling Apts.	01/27/99	3389	\$33.62		
Rochester Sterling Apts.	10/15/98	3274	\$21.88		
Sinclair Houses	01/26/99	3211	\$33.62		
Sinclair Houses	10/15/98	3122	\$21.88		
Lincoln Residences	01/26/99	4278	\$33.62		
Lincoln Residences	10/15/98	4071	\$21.84		
Lincoln Residences	11/10/97	3409	\$259.00		
Bedford Stuyvesant NSA II	01/26/99	2596	\$33.62		
Bedford Stuyvesant NSA II	10/15/98	2447	<u>\$21.88</u>		
SUBTOTAL TRADE INDUSTRY MAGAZINE EXPENSE			\$703.00		
Lincoln Residences	11/15/99	4891	\$95.32		
Pulaski Manor	03/13/98	2859	<u>\$29.99</u>		
SUBTOTAL PAYMENTS FOR EMPLOYEE WORK CLOTHING			\$125.31		
Lincoln Residences	01/20/98	3559	<u>\$100.91</u>		
SUBTOTAL PAYMENTS FOR MEALS FOR EMPLOYEES			\$100.91		
Lincoln Residences	01/14/99	4268	<u>\$40.00</u>		
SUBTOTAL TIPS TO SANITATION MEN			\$40.00		
Lincoln Residences	02/03/97	2865	\$267.49		
Lincoln Residences	06/29/99	4602	\$25.00		
Manhattan Avenue Apts.	03/30/98	5088	<u>\$200.00</u>		
SUBTOTAL PAYMENTS FOR FINES AND PENALTIES			\$492.49		
Lincoln Residences	04/25/97	3078	<u>\$495.00</u>		
SUBTOTAL TRAINING EXPENSE FOR AGENT'S DIRECTOR			\$495.00		

Belmax Management Corporation
Brooklyn, New York

Summary Of Ineligible, Unsupported and Unreasonable Expenses - Finding No.1

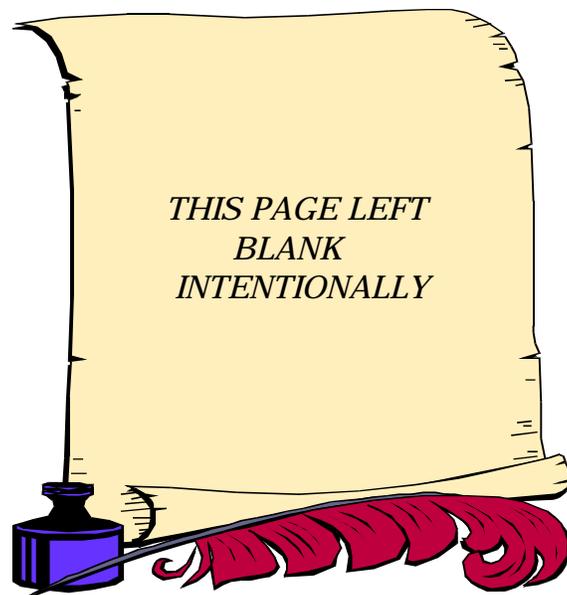
PROJECT	CHECK DATE	CHECK NUMBER	INELIGIBLE AMOUNT	UNSUPPORTED AMOUNT	UNREASONABLE AMOUNT
Sojourner Truth Houses	02/24/97	4717	\$18.00		
Subtotal Parking expenses For Agent's President			\$18.00		
TOTAL OTHER INELIGIBLE ITEMS			\$3,454.75		
Lincoln Residences	04/03/97	3023		\$170.48	
Lincoln Residences	01/06/97	2829		\$107.90	
Lincoln Residences	12/15/97	3461		\$351.90	
Lincoln Residences	01/23/98	3564		\$162.00	
Lincoln Residences	01/30/98	3569		\$1,500.00	
Lincoln Residences	07/21/98	3900		\$8.65	
Lincoln Residences	10/29/98	4100		\$200.00	
Lincoln Residences	01/15/99	4274		\$59.54	
Lincoln Residences	02/19/99	4353		\$44.26	
Lincoln Residences	09/03/99	4741		\$950.00	
Lincoln Residences	09/10/99	4746		\$36.55	
Lincoln Residences	10/06/99	4814		\$592.00	
Lincoln Residences	10/06/99	4815		\$472.00	
Lincoln Residences	10/06/99	4816		\$584.00	
Lincoln Residences	10/27/99	4852		\$19.99	
Lincoln Residences	11/02/99	4867		\$50.00	
Manhattan Avenue Apts.	02/27/97	4639		\$45.00	
Pulaski Manor	06/25/97	2589		\$73.58	
Pulaski Manor	01/30/98	2823		\$1,500.00	
Pulaski Manor	04/27/98	2897		\$13.99	
TOTAL UNSUPPORTED CHARGES				\$6,941.84	
		TOTAL	\$18,154.75	\$6,941.84	\$163,971.60
GRAND TOTAL INELIGIBLE, UNSUPPORTED & UNREASONABLE EXPENSES				\$189,068.19	



Belmax Management Corporation
Brooklyn, New York

Summary of Payments to the Extermination Company

PROJECT	1997	1998	1999	TOTAL
MANHATTAN AVENUE	\$ 5,942.86	\$ 9,504.59	\$ 7,539.64	\$ 22,987.09
SOJOURNER TRUTH	6,226.81	6,331.53	7,349.07	19,907.41
PULASKI MANOR	2,738.73	4,315.94	4,241.24	11,295.91
PARKVIEW RESIDENCE	1,575.05	1,945.25	1,831.60	5,351.90
ROCHESTER STERLING	3,639.41	2,684.65	2,805.91	9,129.97
SINCLAIR HOUSES	2,814.51	2,311.14	4,876.12	10,001.77
LINCOLN RESIDENCE	10,023.78	6,430.02	11,648.79	28,102.59
BEDFORD STUYVESANT	7,969.42	5,470.27	4,269.45	17,709.14
TOTAL	<u>\$40,930.57</u>	<u>\$38,993.39</u>	<u>\$44,561.82</u>	<u>\$124,485.78</u>



Auditee Comments

BELMAX MANAGEMENT CORP.

6002 15TH AVENUE BROOKLYN N.Y. 11219
TEL. 718 854-1824 FAX 718 854-2019

March 29, 2001

Mr. Clifford Mitchell
U.S. Department of Housing & Urban Development
Office of the Inspector General
26 Federal Plaza
New York, NY 10278

Re: Belmax Management
Audit Period 1/1/97- 12/31/99

Dear Mr. Mitchell.

Please see the following response to the above referenced draft audit report that was performed at Belmax Management Corp.

The responses will follow your draft copy numberings

FINDING NO.1**(a) Partnership Tax Preparation Fees**

We believe that the fee to be attributed for the tax preparation fees should be \$750 for each project for each year. This amount is based on the estimated cost of \$750 to prepare the tax returns in the CPAs engagement letters for the Parkview Residences and Rochester Sterling apartments projects for the year ended December 31, 1997. We also believe that tax preparation is the responsibility of the projects and should be charged to the projects.

(b) Consultant Services

All invoices from AdCar that were not project related were paid by the agent directly and were not reimbursed by the projects. Any services provided by AdCar Associates that were reimbursed by the projects in 1998 were not consulting services. The costs paid by the project were for physical inspection of the projects, comparable to engineering and architectural work, and the development of MIO Plans based on these inspections and as such these are legitimate project expenses. In addition, the fees charged by AdCar are less than those that would be charged by an engineer or architect and that by using AdCar in lieu of an engineering or architectural firm, project costs would be minimized. The costs paid by the projects in 1999 were also for MIO Plans, communication with HUD, HFA and HDC regarding management issues specifically relevant to the projects and under HUD New York's new management fee policy these are considered front line expenses that can be charged directly to the projects. We do not believe that the services provided by AdCar and paid for by the project are management agent expenses.

(c) Garbage and Trash Removal

The costs paid to individuals for garbage and trash removal were not for the removal of regular garbage or trash. The payments were for the removal of bulk or container type

garbage and trash that the Department of Sanitation does not pick up from apartment buildings/projects. We provided copies of IRS Form 1099s that were issued to Terry Childrey in 1997, 1998 and 1999. Please note that this type of garbage and trash removal is not within the scope of the porter's job duties. We also believe that using these individuals to remove the garbage and trash from the projects was cheaper than using a commercial carting company and were being frugal with the projects money.

(d) Ten Day Notices

By preparing the predicate rent ten-day demand notice notices itself and billing the projects \$23 for preparing each ten-day notice we actually saved money for the projects. Please see the March 16, 2001 letter from our attorneys that quotes a \$75 fee for preparing and serving a ten-day notice. Our billings of \$23 for preparation of each ten-day notice plus the attorney's charge of \$14 to serve each ten-day notice represented a saving of \$38 for each ten-day notice ($\$75 [\$23 + \$14] = \38). As of 1999 the agent was reimbursed for front line employees who also prepared these notices and the project was not billed separately for these notices.

(e) Miscellaneous Work

Please be aware that the largest item in the finding, \$750 paid to our employee, was for work done on evenings and on weekends, outside of normal duty hours. This money was paid to the employee for obtaining signatures from tenants and compiling the forms for submission to the Opportunity Development Association (ODA) to obtain a weatherization grant. We could have allowed ODA to perform this effort but the project would have had to pay ODA more than the \$750 paid to the employee; we contend that what we did was prudent management and in effect it was cost effective to the project in the way it was done. We believe that the application for this grant was a project expense and we disagree with your contention that the expenses should have been borne by the management agent.

(f) Other Ineligible and Unsupported Expenses

The items that you cited as payments to tenants and employees for personal damages; was a prudent management decision to settle in this manner rather than going to court where nine times out of ten we would lose the case and the costs would have been greater. The items that you cite as payments for trade industry magazines were payments for subscription to the Assisted Housing Manager Insider, which publishes a monthly newsletter that Belmax uses for training purposes. We consider the money reimbursed to the project employees for work clothes to be a valid project expense. The union agreement provides for work clothes for the employees but not all of the employees take advantage of it. The clothing purchased are not uniforms with the projects' or the Agent's names on the clothing. Rather they are plain overalls and work clothes. The monies paid to project employees as reimbursement for meals in several isolated incidents was done to allow the project employees to work at the site to finish some tasks rather than leaving for meals and not getting the job done.

We also contend that the amount classified as tips to the sanitation workers to be a gesture of goodwill for the work done throughout the year and believes this to be a project expense.

Superintendents regularly put themselves in jeopardy when making that extra effort beyond the call of duty to limit drug trafficking in the building. If subsequently his car

gets damaged by vandals as a direct result of his efforts we reimburse those repairs. These damages are clearly job related and should be paid out of the projects' funds.

FINDING NO.2

(a) Exterminating Services

We provided invoices from 1993 and 1994 from the two prior exterminators which we considered as bids to determine the reasonableness of the prices charged by the subsequent exterminating company, Belmont Pest Control, beginning in 1995 and continuing through 1999. The reason we used an employee-owned exterminating company was because the price was reasonable and the quality of work was superior. We unequivocally maintain that any extermination work performed by the project employee was not done during the hours that he was required to perform his duties as the superintendent of the project. We do not believe that there was anything wrong with maintaining the books of the exterminating company or using an employee-owned company to provide services to the projects. We frankly deny the contention that only HUD related projects were serviced by Belmont Pest Control, since 2 non HUD Projects were also serviced by Belmont Pest Control.

In addition, as per your directive, the use of Belmont has been discontinued as of March 1, 2001.

(b) Lack of Substantiation of Bid

Bids were solicited and received for the contract in question; however these bids cannot be located because of misplacement due to the various audits and reviews since 1997. We assure you however, that the work was completed satisfactorily and issued to the lowest bidder.

(c) Contract Not Awarded To Lowest Bidder

We advised the New York City Housing Development Corporation (NYC HDC), the contract administrator for the project, that the scope of work had changed since the original bids were taken. The Agent stated that the NYC HDC approved the award of the contract at the price higher than the original lowest bid because of the change in scope of work. However, we did not receive anything in writing from the NYC HDC: Sholom Parnes of our office has been in contact with the NYC HDC because of the issue raised in our audit and NYC HDC stated that it has a notation in its files approving the award but will not release it to us.

FINDING NO.3

Excessive Management Fees

We do not dispute this finding; however, we believe the following statement in your draft findings to be grossly misleading: "However, we referred them to a HUD review of Pulaski Manor's fiscal year 1997 financial statements that questioned the excessive management fees charged to the project. In response to HUD's review, the Agent subsequently reimbursed the project; however, it did not review or adjust the management fee calculation for the other HUD projects."

The issue of management fee overcharges for Pulaski manor in 1997 was reviewed by our accountant in the beginning of 2000. Belmax responded to HUD on this specific

issue on February 28, 2000.

The Inspector Generals' office started their audit on April 4, 2000. In March of 2000 Belmax was notified of the upcoming Inspector General audit and no changes or adjustments to the records were made as of that notification.

In addition we believe that the \$59 PUPM was a cap used as one part of an overall formula on the Management Certification to arrive at a percentage management fee for each project. The HUD form is identified as Attachment 1 Calculation of Estimated Yields from proposed management fees. The calculation is based on general collections estimated at 95% of gross potential. By using only 95% of collections this formula causes the agent to arrive potentially at fee higher than the \$59 PUPM if collections exceed the 95% average collections. If the agent does a superb job and collects more than the estimated 95% of the gross potential income and is paid the percentage fee allowed in the certification It may result in a payment of more than the \$59 PUPM. The Management Certification does not impose a penalty for good collections of rent and does not instruct the agent to refund fees collected over the \$59 PUPM cap.

The collection by the agent of more than the \$59PUPM cap was entirely due to better than the average collections.

Sincerely,



Moishe Beifush
President

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