



U.S. Department of Housing and Urban Development
Great Plains Office of District Inspector General
for Audit, 7AGA
Gateway Tower II - 5th Floor
400 State Avenue
Kansas City, Kansas 66101-2406

AUDIT MEMORANDUM
2001-KC-1801

February 21, 2001

MEMORANDUM FOR: Herman Ransom, Director, Office of Multifamily Housing, Kansas City Hub, 7AHM

Roger E. Niesen

FROM: Roger E. Niesen, District Inspector General for Audit, 7AGA

SUBJECT: Review of Metro Management Corporation

We have completed a review of Metro Management Corporation (Metro), located in Overland Park, Kansas. Our objective was to assess Metro's compliance with the terms and conditions of the Regulatory Agreement and applicable HUD regulations and instructions regarding Metro's management of Royal Towers/Pickwick Plaza from 1997 through 1999.

We found that Metro generally followed applicable requirements while managing Royal Towers/Pickwick Plaza. However, we did find several instances of non-compliance. Therefore, this memorandum contains two recommendations requiring 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 the audit.

Should you or your staff have any questions, please contact me at (913) 551-5871.

Background

We selected Metro Management Corporation for review based on recent newspaper articles, HUD actions regarding the poor physical condition of Royal Towers/Pickwick Plaza, the considerable volume of Metro managed HUD-assisted properties, and complaints reported to the Offices of Inspector General Audit and Investigation regarding Metro improprieties involving various HUD-assisted properties.

Metro was the management agent for Royal Towers/Pickwick Plaza from November 1996 through March 2000. In March 2000, the property was assigned by the owner to HUD. One month after Metro took over as management agent, on December 1, 1996, Royal Towers had a major fire that caused extensive property damage. Metro was paid a separate management fee to oversee the fire repair work performed by outside contractors on Royal Towers.

Metro no longer manages Royal Towers/Pickwick Plaza, however, they do currently manage twelve other HUD assisted properties.

Objectives, Scope and Methodology

The objective of our review was to assess Metro's compliance with the terms and conditions of the Regulatory Agreement and applicable HUD regulations and instructions regarding the financial management of Royal Towers/Pickwick Plaza from 1997 through 1999. We did not review Metro's management of any other properties.

During the review, we conducted interviews with appropriate Office of Housing staff and Metro personnel. We reviewed books and records maintained by Metro at its corporate office. We also reviewed HUD guidelines and other pertinent federal regulations applicable to the review objectives.

Audit Results

Our review resulted in four observations that identified problems with Metro's management of Royal Towers/Pickwick Plaza. Two of the observations require no corrective action since Metro no longer manages the project. However, they represent information that HUD needs to be aware of in its oversight of other HUD projects that Metro manages. The other two observations involve the inappropriate payments of a duplicate management fee and an ineligible management fee, and require corrective action.

Problems not requiring corrective actions

The following are problems we identified that HUD should be aware of in its monitoring of Metro projects:

- Metro did not have an accurate Previous Participation Certificate (2530). Metro's certificate was not updated to reflect current information on all properties it owned.

Metro indicated the inaccurate certificate was an oversight and included an updated 2530 with their response to our review.

- Metro did not maintain complete and accurate project account books and records. We needed considerable time and repeated requests to document Metro's support for disbursements and deposits to project accounts.

Problems requiring corrective actions

1 - Excess Management Fees. Metro paid itself \$6,770 in duplicate management fees for June 1999. Metro submitted two separate invoices for June management fees, and paid itself for both. Metro did not have adequate controls to prevent duplicate payments.

In their response to our review, Metro indicated that the problem was due to errors with an upgrade to its new software system. Metro said that during 1999 they purchased Yardi Systems software, a fully integrated accounting software package to alleviate any issues with check printing and reconciliations. Metro agreed to reimburse the property operating account \$6,770.

Recommendation

We recommend the Director, Office of Multifamily Housing:

- 1A. Ensures Metro Management Corporation reimburses the Royal Towers/Pickwick Plaza project account \$6,770 for the duplicate management fees inappropriately withdrawn.

2. - Ineligible Management Fees. Metro collected \$2,736 in ineligible management fees from 1997 through 1999. The fees were taken on commercial income; however, the governing Management Agent Certification does not allow Metro to claim a percentage of commercial income collected as a management fee. Metro said they recognize the management certification, notwithstanding the fact that it expired October 31, 1998, does not include commercial income. Regardless of whether or not commercial income was included in the certification, they believe they are entitled to the fee. They believe it is a reasonable fee for managing space with associated physical difficulties and problems in leasing and collecting rent and that it would be unreasonable to expect any firm to manage the space without payment. Additionally, they said HUD was aware of the commercial space when they reviewed the certification and approved the rent schedule.

We believe that the terms of the agreement should be honored. Since HUD was aware of the commercial space, it does not appear to be an oversight that it was excluded from the management fee schedule.

Recommendation

We recommend the Director, Office of Multifamily Housing:

- 2A. Requires Metro Management Corporation to reimburse the Royal Towers/Pickwick Plaza operating account \$2,737 for ineligible management fees withdrawn from the project's account

Distribution

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United States, Senate, Washington, DC 20510

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Office, 441 G Street NW, Room 2474, Washington DC 20548

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