



Audit Report

District Inspector General for Audit
Rocky Mountain District

Foster and Associates
Kalispell, Montana

Review of Management
Activities for Projects
Clark Fork Manor and
Whitefish Manor

2001-DE-1003
September 28, 2001

Department of Housing and Urban Development
District Office of Inspector General For Audit
633 17th Street, 14th Floor
Denver, CO 80202-3607



Audit Report

District Inspector General for Audit Rocky Mountain District

Report: 2001-DE-1003 Issued: September 28, 2001

TO: Larry Sidebottom, Director, Denver Multifamily HUB, 8AHMLA

FROM: Robert C. Gwin, District Inspector General for Audit, 8AGA

SUBJECT: Review of Foster and Associates' Management Activities for
Clark Fork Manor and Whitefish Manor
Kalispell, Montana

We completed a review of Foster and Associates of Kalispell, Montana. Our review was of their management activities of Clark Fork Manor, located in Missoula, Montana, and of Whitefish Manor, located in Whitefish, Montana.

This audit report contains one audit finding dealing with Management Agent's questionable oversight of the two projects.

Within 60 days please furnish to this office, for each recommendation contained in the finding in this report, a status report on: (1) the corrective action, (2) the proposed corrective action and the corrective 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.

We appreciate the courtesies and assistance extended by officials of Foster and Associates, staff of the two projects, and Denver HUD Multifamily HUB officials and staff.

Should you have any questions, please contact Ernest Kite, Assistant District Inspector General for Audit, at (303) 672-5452.

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Executive Summary

We completed a review of Foster and Associates' administration of Clark Fork Manor and Whitefish Manor. Foster and Associates was appointed as Management Agent for the two projects when the sponsor, Health Services Association, was terminated as management agent effective April 28, 1999.

We found that the Management Agent has not administered the two projects to effectively ensure implementation of the required provisions of the Regulatory Agreements between the projects' owners and HUD. While the Management Agent, Foster and Associates, has executed the necessary "Project Owner's and Management Agent's Certification" (Management Agent's Certification) for each project, they have not fulfilled the requirements of the certifications. This relates mainly to the effective execution of a management agreement with each project, establishing and maintaining current books of account for each project, and ensuring HUD requirements are met. In addition, the Management Agent has been collecting management fees for the two projects and been receiving salaries as project administrative employees. This results in the duplicate payment for administrative services.

Project Owners and Management Agents to comply with HUD requirements

The Regulatory Agreements between HUD and the project owners for both Clark Fork Manor and Whitefish Manor require the projects to be administered and operated in conformity with HUD requirements. In addition, a management agent for the projects is required to execute a Management Agent's Certification that specifies that the management agent will execute a management agreement with the project, operate the project in accordance with the Regulatory Agreement and HUD requirements, and maintain the books of accounts for the project in a current and accurate manner.

Audit objectives

The objectives of our audit were to determine if the:

- Management controls over the disbursements functions have been effectively established and implemented by Foster and Associates, and
- Disbursements, since Foster and Associates became Management Agent, were allowable and reasonable.

Questionable Management Agent and Project Administrator Operations and Compensation

Foster and Associates have not administered the two projects, Clark Fork Manor and Whitefish Manor, in full compliance with the Regulatory Agreements and HUD requirements. The Management Agent has not: properly executed the required management agreements; ensured that the required accounting records were properly established and used in the operations of the

projects; or taken sufficient actions to ensure the annual financial audits were properly performed for the projects.

The Management Agent has been collecting management agent fees for the two projects. These fees have been paid without the proper execution of the required written management agreements. Officials of the Management Agent also have been serving as full time employees of the projects and receiving salaries.

For Clark Fork Manor, the Management Agent received \$153,866 in management agent fees for the thirty-month period ending June 30, 2001. During this same period, a Management Agent official, as the project administrator, received \$141,516 in salaries. For Whitefish Manor, the Management Agent received \$11,247 in management fees for the twenty-one month period ending January 31, 2001. A Management Agent official, as project manager, also received \$51,238 in salaries for this same period. Receiving both management agent fees and full time salaries is in violation of the HUD requirements.

While the Management Agent did not fulfill the required responsibilities, the Boards of Directors for the two projects did not take adequate actions to meet their overall responsibilities to ensure that the projects were operated in conformity with HUD requirements. These included ensuring that the Management Agent was providing the required services to the projects.

The Boards of Directors need to determine the type of management organization required to properly administer each project. This determination includes selecting either an independent fee agent or project administrator type of management agent, but certainly not both at the same time. In either case, the duties and functions of the management entity need to be clearly defined to ensure that the projects are administered in conformity with HUD requirements. Also, compensation to the management entity needs to be reasonably and properly paid.

Auditee Comments

The draft audit finding and audit report were submitted to the Chairman of both Boards of Directors on September 18, 2001 for review and comment. We incorporated the written comments to the draft audit report, as applicable, and the complete written response is included in Appendix 1.

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Abbreviations:

HUD Department of Housing and Urban Development

Introduction

Clark Fork Manor is a 133-unit property insured under Section 231 of the National Housing Act. This project, located in Missoula, Montana, is owned by Clark Fork Manor, Inc. Clark Fork Manor, Inc. is a nonprofit organization with a Board of Directors, which entered into a Regulatory Agreement with HUD on March 1, 1978. Clark Fork Manor, Inc. also entered into a Section 8 Housing Assistance Payments Contract with HUD for 131 units. This project is also known as Clark Fork Riverside.

Whitefish Manor is a 30-unit property insured under Section 202 of the Housing Act of 1959. This project, located in Whitefish, Montana, is owned by Whitefish Manor, Inc. Whitefish Manor, Inc. is a nonprofit organization with a Board of Directors, which entered into a Regulatory Agreement with HUD on April 1, 1978. Whitefish Manor, Inc. also entered into a Section 8 Housing Assistance Payment Contract with HUD for 30 units.

Health Services Association of St. Paul, Minnesota was the sponsor for Clark Fork Manor and Whitefish Manor. Health Services Association was terminated as Management Agent for the projects, effective April 28, 1999, because Health Services Association had been seized by the State of Minnesota. On April 28, 1999, the Boards of Clark Fork Manor and Whitefish Manor engaged Foster and Associates as the Management Agent for the properties.

The Commissioner of Commerce for the State of Minnesota, based on a court order, seized the records and assumed control of Health Services Association in April 1999. The Commissioner provided the records relating to Clark Fork Manor and Whitefish Manor to our office. We used these records to perform a review of Health Services Association's activities, as the sponsor and management agent of these properties. We provided summary schedules and supporting documentation to HUD. Based on this information, HUD issued letters, to the Boards of the properties in November 1999, that identified questionable and/or unsupported costs that were possible violations of the Regulatory Agreements. HUD is still working with the projects to resolve these matters. Information relating to the costs and action taken is summarized in the Follow-up on Prior Audits section of this report.

In July 2000, Foster and Associates hired a fee accountant, located in Kalispell, Montana, to prepare the books of account for each project. As of August 2001, books of account have not been prepared for Whitefish Manor. The available records for the two projects, for 1999 to the present, are located at the projects, at the Management Agent's residence, at the Management Agent administrative assistance's residence, with the fee accountant, or with the independent auditor hired to conduct the 1999 and 2000 financial audits.

Foster and Associates is also the Management Agent for the HUD insured project Lafayette Square Apartments, located in Macomb, Illinois. Our review of this project is reported in a separate audit report.

Audit Objectives and Methodology

The objectives of the audit were to determine if the:

- Management controls over the disbursements functions had been effectively established and implemented by Foster and Associates, and
- Disbursements, since Foster and Associates became Management Agent, were allowable and reasonable.

During our review, we examined the available disbursements records and other documents of Foster and Associates and HUD's Multifamily HUB, relating to Clark Fork Manor and Whitefish Manor. We also obtained and reviewed information provided by the projects' fee accountant. In addition, we conducted interviews with officials and staff of the Management Agent, the two projects, the fee accountant, and HUD.

Scope

We originally selected an audit period of January 1, 1999 through June 30, 2000. The scope was expanded as needed to cover subsequent activities. We conducted our site work during July 2000. Additional information was subsequently obtained from the projects, persons associated with the projects, and HUD. The completion of our review was interrupted by situations that necessitated reassignment of staff.

Generally accepted government auditing standards

Considering our scope adjustment, our review was performed in accordance with generally accepted government auditing standards.

Finding

Questionable Management Agent and Project Administrator Operations and Compensation

Under HUD requirements, management agents for HUD insured projects are to execute Management Agent's Certifications that specify primarily that a management agreement will be executed and that the management agent will administer or operate the project in conformity with HUD requirements. While the Management Agent, Foster and Associates, have executed the needed certifications, they have not fulfilled the terms of the certificates or administered the projects in full compliance with HUD requirements.

The Management Agent has been collecting management agent fees for Clark Fork Manor and Whitefish Manor without effectively fulfilling the requirements. The required written management agreements had not been executed at the time of our site work. A proposed "Management Plan/Agreement" was subsequently established for Clark Fork Manor; however, it did not contain required statements. Officials of the Management Agent also have been serving as full time employees of the projects and receiving salaries.

For Clark Fork Manor, the Management Agent received \$153,866 in management agent fees for the thirty-month period ending June 30, 2001. During this same period, an official of the Management Agent, as the project administrator, received \$141,516 in salaries. For Whitefish Manor, the Management Agent received \$11,247 in management fees for the twenty-one month period ending January 31, 2001. An official of the Management Agent, as project manager, also received \$51,238 in salaries for the same period. Receiving both management agent fees and full time administrative salaries is in violation of HUD requirements.

The Management Agent has not ensured that the required accounting records were properly established and used in the operations of the projects. In addition, the Management Agent has not ensured that the annual financial audits were appropriately performed for the projects.

While the Management Agent did not fulfill the required responsibilities, the Boards of Directors for the two projects did not take adequate actions to meet their overall responsibilities to ensure that the projects were operated in conformity with HUD requirements. This included ensuring that the Management Agent was providing the required services for the projects.

The Boards of Directors need to determine the type of management organization required to properly administer each project. This determination includes selecting either an independent fee agent or project administrator type of management agent, but certainly not both at the same time. In either case, the duties and functions of the management

entity need to be clearly defined to ensure that the projects are administered in conformity with HUD requirements. Also, compensation to the management entity needs to be reasonably and properly paid.

HUD requirements

HUD requirements are set out in the Regulatory Agreements between the projects and HUD, as well as in various HUD regulations and handbooks. The management agent must follow certain requirements dealing with the oversight and administration of the projects. Also, the Boards of Directors, as the governing oversight bodies, have the main responsibilities to ensure that the projects are administered in conformity with provisions of the Regulatory Agreements with HUD and with specific HUD requirements.

HUD requires the project owner and management agent to submit a Management Agent's Certification to HUD for review and approval. The Management Agent's Certification requires the management agent to:

- Execute a Management Agreement within 30 days of the approval of the Certification by HUD;
- Calculate the management fee based on actual income collected;
- Disburse management fees only after HUD approval of the management agent to manage the project;
- Select and admit tenants, compute tenant rents and assistance payments, recertify tenants and carry out other subsidy contract administration responsibilities;
- Comply with the Regulatory Agreement, Subsidy Contract, HUD Handbooks, and other HUD requirements;
- Assure that all expenses of the project are reasonable and necessary; and
- Establish and maintain the project's accounts, books and records in accordance with the requirements.

HUD Handbook 4381.5, *The Management Agent Handbook*, defines the types of management agents,

including the independent fee agent and the project administrator. The Handbook also details the required contents of the management agreement and the services to be paid from the management fee and from the project operating funds.

The Board of Directors for each project is the overall governing body for the project owner. Each Board is ultimately responsible to ensure that the project administration is carried out in conformity with HUD program requirements and to ensure that the Management Agent also complies with these requirements.

Management Agent Agreements have not been properly executed.

On May 10, 1999 and subsequently on July 18, 2000, the project owners and the Management Agent, Foster and Associates, executed a Project Owner's and Management Agent's Certification for each project. These Certifications stipulate that a management agreement is to be executed for each project within 30 days. HUD Handbook 4381.5 states that the management agreement must contain the scope of service; the length or term of the agreement; and certain required clauses including that management fees will be computed and paid according to HUD requirements and HUD may require the owner to terminate the agreement for specific conditions. The scope of service must describe the services the agent is responsible for performing and for which the agent will be paid management fees.

At the time of our site review, the required management agreements had not been executed between the projects and the Management Agent. On August 15, 2000, the Chairman of the Board for Clark Fork Manor issued a letter to HUD, which included a proposed "Management Plan/Agreement." However, it does not contain required clauses, term, or specific Management Agent scope of service. This document is basically a policy and procedure plan that establishes more requirements for the Board and project staff than for the Management Agent; therefore, the scope of service is not clearly defined. A management agreement for Whitefish Manor has not been submitted to HUD. Without a properly established agreement, neither the project owner nor the Management Agent can identify the specific services to be performed by the Management Agent for the compensation.

Dual compensation being paid to the Management Agent

HUD Handbook 4381.5 defines the four types of management agent. The two that are applicable to this

review are the Independent Fee Agent and the Project Administrator. The Independent Fee Agent is a management company or individual having no financial interest or involvement in the project, other than earning a fee for providing management services. A Project Administrator is an individual who directs the day-to-day activities of the project, who is a salaried employee with a job description instead of a management agreement.

The Handbook also states that salaries of management agent supervisory personnel must be paid from the management fee. The requirements state that the costs of the salary for a supervisory employee of the agent designated to replace a project employee on temporary leave may be paid out of project funds after the first 40 hours of the assignment. If the Management Agent officials, who manage the two projects, are considered staff of the management company instead of supervisory personnel, the Handbook requires that the agent must prorate the total associated costs among the projects served in proportion to the actual use of services. Salaries are included in the costs to be prorated.

The officials of the Management Agent are also the Project Administrators, or onsite project managers, for Clark Fork Manor and Whitefish Manor. They are receiving regular manager salaries and full management agent fees.

For Clark Fork Manor, the Management Agent received \$153,866 in management agent fees for the thirty-month period ending June 30, 2001. During this same period, an official of the Management Agent, as the project administrator, received \$141,516 in salaries. The records for the project show the administrator is working forty hours each week and is classified as a full-time employee. However, in a memorandum to HUD, this official stated that the only office function she performs is the monthly Housing Assistance Payment report. The official stated that the fee accountant and two project office employees handle the financial and tenant account functions. Additionally, we were told that this official also does consulting work for a doctor.

For Whitefish Manor, the Management Agent received \$11,247 in management fees for the twenty-one month period ending January 31, 2001. An official of the

Management Agent, as project manager, also received \$51,238 in net salaries¹ for the same period. This official estimated that 40 percent of his time was spent on Management Agent business and 60 percent as project manager.

Eligibility of compensation is questionable

The HUD requirements do not allow for officials of the Management Agent to receive regular salaries as project employees; therefore, the salaries of \$141,516 for Clark Fork Manor and \$51,238 for Whitefish Manor are questionable. The Management Agent has not effectively or properly provided the required services; therefore, the management fee payments of \$ 153,866 for Clark Fork Manor and of \$11,247 for Whitefish Manor are questionable.

Official project books of account have not been adequately established.

At the time of our site review in July 2000, the Management Agent had not established any books of account for the projects even though they had been functioning as Management Agent for over thirteen months. Since that time, books of account for Clark Fork Manor have been established and maintained. The fee accountant has indicated that several adjustments are needed to the accounting records. These adjustments will be made once the independent auditor conducting the financial audit issues the 1999 audited financial statements report.

Presently, the required books of account have not been established for Whitefish Manor. The fee accountant has indicated that he will establish these accounting records when he receives the information he requested from the Management Agent.

The Management Agent, in the certification for each project, agreed to maintain the accounting records on a current and accurate basis. This has not been done.

Annual fiscal audits have not been performed

HUD requirements are that audited financial statements are to be submitted to HUD within 60 days of each fiscal year end. The Management Agent has hired an independent auditor to perform the annual financial audits for the 1999 and 2000 fiscal years for both projects. However, the

¹ The net salary is the amount of actual monies received by the administrator in salary checks. Since the accounting records for the project have not been established, the amount of gross salaries paid to the Administrator was not available.

independent auditor stated that he has only done work on the 1999 fiscal year audit for Clark Fork Manor and has not started on the 1999 fiscal year audit for Whitefish Manor or the 2000 fiscal year audits. The audits for the 1998 fiscal year were completed by a different auditor, but were not electronically submitted to HUD, as required. HUD considers the projects to be delinquent in submitting the required audited financial statements.

Obviously, without any formally established accounting records for Whitefish Manor, the required independent annual audits cannot be conducted. Ensuring that the project financial records are timely audited and submitted to HUD is one of the responsibilities of the Management Agent.

Improved oversight of projects' activities is needed

In summary, the Management Agent has not properly fulfilled the obligations required in the Management Agent's Certifications. The Management Agent has not ensured that the required accounting records were properly established and used in the operations of the projects. In addition, the Management Agent has not ensured that the annual financial audits were properly performed for the projects. Even with these deficiencies, the Management Agent collected management agent fees for both projects, as well as salaries as full-time employees of the projects.

The Boards of Directors have the overall responsibilities to ensure that the projects are operated in conformity with HUD requirements. These include taking sufficient action to ensure that the Management Agent is providing the required services to the two projects.

The Boards of Directors need to determine the type of management organization required to properly administer each project. This determination includes selecting either an independent fee agent or project administrator type of management agent, but certainly not both at the same time. In either case, the duties and functions of the management entity need to be clearly defined to ensure that the projects are administered in conformity with HUD requirements. Also, compensation to the management entity needs to be reasonably and properly paid.

Auditee Comments

We received the written response on September 26, 2001. The response states, "We do not concur with the contents of the report in that it was our understanding that the

involvement of Foster and Associates in the management of both Clark Fork Manor and Whitefish Manor had been discussed with officials of HUD and that they were advised, pending further direction from HUD, that it was okay for Foster and Associates to serve as the Management Agent as well as on-site administrators. This was not a case where there was any double billing or any payment to Foster and Associates for services not performed.”

OIG Evaluation of
Auditee Comments

The Auditee’s response indicates that HUD has authorized the Management Agent to function as an independent management agent and that the officials of the management agent could also be employees of the two projects. We provided a copy of the comment draft of the audit report to a Denver Multifamily HUB official. The official concurred with the report and stated that the Management Agent is responsible for complying with the HUD requirements. This is supported in HUD requirements for the two projects whereby a management agent cannot receive compensation as a management agent as well as receiving salaries from the projects. This results in duplicate compensation.

The Management Agent signed a copy the Management Agent’s Certification twice for each project. Clause 3 of each certification specifies that the Management Agent will comply with HUD requirements. The Management Agent for the two projects did not execute an HUD acceptable management agreement as required that would detail the services to be provided by the management agent as well as identify the basis for compensation. As stated in the finding, the Management Agent has not fully complied with HUD requirements in connection with managing the projects. Examples are that accounting records have not been properly established and maintained and an annual audit not being performed each year. As such, the management agent would not be entitled to full compensation as a management agent.

As stated in the finding, HUD Handbook 4381.5 precludes officials of the Management Agent from receiving regular compensation as a project employee. The Management Agent has the responsibility to know and comply with this requirement. As stated in the finding, the officials of the Management Agent did not function as full time employees. The official of the Management Agent who was paid a full time salary as project administrator for

Clark Fork Manor stated that the only function the person did was to prepare the Housing Assistance Payment request for submission to HUD. In addition, this official was also reported as providing outside services for a medical doctor. As such, the individual did not function as a full time employee and would not be entitled to receive a salary as a full time employee.

For Whitefish Manor, the official of the Management Agent who served as project manager did not function as a full time employee. The project manager estimated that he performed duties as a management agent sixty percent of the time and as an employee forty percent of the time. Therefore, the project manager would not be entitled to a full salary or full management agent compensation.

In summary, the Management Agent will need to provide HUD with supporting documentation to identify and support the services provided as Management Agent to the two projects and to document the time and duties performed as full-time employees of each project and to repay any and all amounts determined to be duplicate and/or for services not properly and adequately accomplished.

RECOMMENDATIONS

We recommend that the Denver Multifamily HUB:

- 1A. Require the Management Agent to provide to HUD documentation to identify and support the services provided as Management Agent to the two projects and to repay any and all amounts determined by HUD to be duplicate and/or for services not properly and adequately accomplished. In addition, the Management Agent officials who received salaries as employees of the two projects need to provide to HUD documentation to identify the time and duties performed as full-time employees of each project and to repay any and all amounts determined by HUD to be duplicate and/or for services not properly and adequately accomplished.
- 1B. Require the Board of Directors for each project to determine the type of management agent that is needed for each project, such as an independent fee agent or a project administrator, and to take the necessary steps

to implement a proper project administrative and oversight entity for each project. This should ensure that the duties and functions of the management agent are clearly defined and the compensation is reasonable and equitable.

- 1C. Provide technical assistance to the Board of Directors and the management entity for each project in establishing effective procedures to ensure full compliance with the HUD requirements. This should include action to establish and properly maintain the required accounting records on a current basis, plus steps to have the required annual audits properly performed and submitted to HUD.
- 1D. Once the actions have been taken in connection with 1B and 1C above, determine that the management entity and related established procedures are in compliance with HUD requirements.

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Management Controls

In planning and performing our audit, we obtained an understanding of the management controls that were relevant to our audit. Management is responsible for establishing effective management controls. Management controls, in the broadest sense, include the plan of organization, methods and procedures adopted by management to ensure that its goals are met. Management controls include the processes for planning, organizing, directing, and controlling program operations. They include systems for measuring, reporting, and monitoring program performance.

Management controls assessed

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

- Controls, over the disbursement functions, established and implemented by the Management Agent;
- Procedures for ensuring that project expenditures were reasonable and allowable by HUD requirements; and
- Oversight procedures by the projects' Boards of Directors to ensure each project's administration and activities complied with HUD requirements.

Assessment procedures

The following audit procedures were used to evaluate the management controls:

- Review of established procedures over disbursements for the two projects;
- Interviews with officials of the Management Agent, employees of the two projects, and entities and contractors performing services for the two projects;
- Review of related records and files pertaining to the two projects;
- Review of records and files maintained by the Denver Multifamily HUB; and
- Interviews with applicable officials and employees of the Denver Multifamily HUB relating to activities associated with the two projects.

Significant weaknesses

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 and maintained, and fairly disclosed in reports. Based on our audit, we identified the following significant weaknesses:

- The Management Agent for the two projects was not fully complying with the terms of the Management Agent's Certifications (Finding);
- Dual compensation in the form of management agent fees and full-time employee salaries were being paid to officials of the Management Agent (Finding); and
- The Boards of Directors for the two projects were not exercising sufficient oversight of the projects to ensure the projects were operating in compliance with HUD requirements (Finding).

Follow-up on Prior Audits

This is the first HUD Office of Inspector General for Audit review of activities of Foster and Associates' administration of Clark Fork Manor and Whitefish Manor.

Prior to our review of Foster and Associates' management of Clark Fork Manor and Whitefish Manor, we performed a review of Health Services Association, which was the sponsor and initial management agent. The project records were provided to our office after the State of Minnesota seized the records and assumed control of Health Services Association. We inventoried all the records and copied the pertinent legal documents and other significant records. The records were historical from the inception of each project up to the time the records were seized in April 1999.

We selected the two most recent complete years for a thorough review of the financial data. We reviewed the available books of account and financial records for 1997 and 1998 and determined that they did not provide sufficient financial detail. Therefore, we prepared comprehensive disbursements and receipts records for these two years. Utilizing the bank statements for all known bank accounts for each project, we scheduled all the disbursements and receipts recorded by the banks. We then reviewed the available invoices and other documents to identify the source and support for each transaction. Some transactions were questionable because support documentation was not available. We prepared schedules that identified significant questioned and/or excessive costs. We provided this information, along with copies of the available support documentation, to HUD's Denver Office of Counsel and Multifamily HUB.

As a result, HUD issued Regulatory Agreement violations letters to each of the projects. On November 16, 1999, HUD issued a ***Notice of Potential Violation of the Regulatory Agreement*** letter to the Board of Clark Fork Manor, questioning the use of project funds in the amount of \$429,439.89. HUD questioned whether the funds were used for purposes permitted by the Regulatory Agreement. The Board's response addressed some of the questioned costs, but not all of them, so HUD issued a second letter, ***Notice of Violation of the Regulatory Agreement***, on June 9, 2000. HUD stated that the Owner violated the Regulatory Agreement, and the amount of funds questioned was \$380,875.57. In August 2001, HUD received a response from the project owner providing further information and details to the questioned costs. Currently, HUD is reviewing the response from the Owner.

On November 16, 1999, HUD issued a ***Notice of Potential Violation of the Regulatory Agreement*** letter to the Board of Whitefish Manor, questioning the use of project funds in the amount of \$52,473.73. HUD questioned whether the funds were used for purposes permitted by the Regulatory Agreement. Since the Board's response did not adequately address the first letter, HUD issued a second Regulatory Agreement violation letter on October 4, 2000, which questioned \$25,640.73. The Whitefish Manor Board has not provided HUD with a response to the second letter.

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Appendices

Appendix 1

Auditee Comments

September 26, 2001

U S Department of Housing and Urban Development
Office of Inspector General, Rocky Mountain
633 17th Street, North Tower, 14th Floor
Denver, CO 80202-3607
ATTENTION: Robert C. Gwin
District Inspector General for Audit

Dear Mr. Gwin:

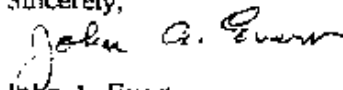
I've received your letter of September 18, 2001 together with the enclosed "Draft Audit Report on Foster and Associates."

We do not concur with the contents of the report in that it was our understanding that the involvement of Foster and Associates in the management of both Clark Fork Manor and Whitefish Manor had been discussed with officials of HUD and that they were advised, pending further direction from HUD, that it was okay for Foster and Associates to serve as the Management Agent as well as on-site administrators. This was not a case where there was any double billing or any payment to Foster and Associates for services not performed.

It is our understanding that representatives of HUD would contact Foster and Associates as well as the Boards of the facilities to discuss this precise issue for final resolution and structure following the completion of the "audit" of the previous management agent, Health Services Association.

Thank you for this opportunity for comment.

Sincerely,



John A. Evert
Chairman of the Board
Clark Fork Manor, Inc.
Whitefish Manor, Inc.

cc: Foster and Associates

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Appendix 2

Distribution

Secretary's Representative, 8AS (2)
Director, Denver Multifamily HUB, 8AHMLA (2)
Special Assistant for Multifamily Housing, HT, Room 6106
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Chief of Staff, S, Room 10000
Assistant Secretary for Administration, A, Room 10100
Deputy Chief of Staff, S, Room 10226
Deputy Chief of Staff for Operations, S, Room 10226
Deputy Chief of Staff for Programs and Policy, S, Room 10226
Assistant Secretary for Congressional and Intergovernmental Relations, J, Room 10120
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Assistant Deputy Secretary for Field Policy and Management, SDF, Room 7106
Director, Office of Department Operations and Coordination, I, Room 2124
Chief Procurement Officer, N, Room 5184
Chief Information Officer, Q, Room 3152
Chief Financial Officer, F, Room 2202
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Headquarters Audit Liaison Officer, Public and Indian Housing, PF, Room P8202
Field Audit Liaison Officer, 6AF, (2)
Director of Scheduling and Advance, AL, Room 10158
Assistant Deputy Secretary for Field Policy and Management, SDF, Room 7108 (2)
Special Assistant to the Deputy Secretary for Program Management, SD, Room 10100
Acquisitions Librarian, Library, AS, Room 8141
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The Honorable Joseph Lieberman, Chairman, Committee on Governmental Affairs, 340 Dirksen
Senate Office Building, United States Senate, Washington, DC 20510
The Honorable Fred Thompson, Ranking Member, Committee on Governmental Affairs, 706
Hart Senate Office Building, United States Senate, Washington, DC 20510
The Honorable Dan Burton, Chairman, Committee on Governmental Reform, 2185 Rayburn
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Henry A. Waxman, Ranking Member, Committee on Governmental Reform, 2204 Rayburn
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Ms. Cindy Fogleman, Subcommittee on Oversight and Investigations, Room 212, O'Neil House
Office Building, Washington, DC 20515

Director, Housing and Community Development Issue Area, United States General Accounting Office, 441 G Street, NW, Room 2474, Washington, DC 20548 (Attention: Stan Czerwinski)

Deputy Staff Director, Counsel, Subcommittee on Criminal Justice, Drug Policy and Urban Resources, B373 Rayburn House Office Building, Washington, DC 20515

Steve Redburn, Chief, Housing Branch, Office of Management and Budget, 725 17th Street, NW, Room 9226, New Executive Office Building, Washington, DC 20503

Andy Cochran, House Committee on Financial Services, 2129 Rayburn H. O. B., Washington, DC 20515