




U.S. Department of Housing and Urban Development
District Office of the Inspector General
Office of Audit
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March 20, 2002

2002-AT-1807

MEMORANDUM FOR: Minerva Bravo, Director, Multifamily Program Center, 4NHM

FROM: Nancy H. Cooper 
District Inspector General for Audit-Southeast/Caribbean, 4AGA

SUBJECT: Jardines de Valencia Housing Cooperative
Rio Piedras, Puerto Rico

At your request, we completed a limited review of the Jardines de Valencia Multifamily Housing Cooperative. The basis for the request resulted from deficiencies disclosed during the independent audit of the Cooperative's fiscal year 1999 financial statements. The deficiencies included, among other things, excessive benefits and compensation to or in favor of the Cooperative's former Project Administrator. Our objective was to determine the severity of the deficiencies and if the Cooperative's funds were used in accordance with the Regulatory Agreement.

BACKGROUND

Jardines de Valencia Housing Cooperative is a 236 unit non-profit multifamily housing complex insured under Section 236 of the National Housing Act, as amended. The Cooperative receives the benefit of interest reduction payments on its HUD insured mortgage loan. In return for insuring the mortgage, HUD supervises the organization and operation of the Cooperative and retains the right to take over control of the property and terminate the interest reduction payments to the mortgagee. As of December 2001, the Cooperative's mortgage was current.

SCOPE AND METHODOLOGY

We interviewed HUD and Cooperative personnel, and former and present members of the Board of Directors regarding the operations of the Cooperative. We also reviewed HUD's files, Cooperative's records, and the fiscal year 1999 Independent Auditor's working papers. Our review covered the period of January 1, 1999, through June 30, 2000. We extended the audit period as necessary. Our review was limited in scope and not intended to meet all requirements of Governmental Auditing Standards. We conducted our review from June 2000 to December 2001.

SUMMARY

The former Project Administrator received excessive benefits of \$25,562 from the Cooperative's operating funds, falsified payroll records, and performed other improper actions, while administering the Cooperative. These actions were performed with the assistance of the former Fee Accountant. Further, some of the Board of Directors were negligent in carrying out their duties, making the former Cooperative Officials' actions possible. This caused an unnecessary burden on the Cooperative's financial resources. As a result of the improper administration, during 1997 and 1998, the Cooperative was in a negative surplus cash position.

Please furnish this office a status report within 60 days for each recommendation describing: (1) the corrective action taken; (2) the proposed corrective action and a planned implementation date; or (3) why action is not considered necessary. Also, please furnish us copies of any correspondence or directives issued as a result of the review. Note that Handbook 2000.6, Rev-3 requires management decisions to be reached on all recommendations within 6 months of report issuance.

If you have any questions, please contact Sonya D. Lucas, Assistant District Inspector General for Audit, at (404) 331-3369 or Aurora Rodríguez, Senior Auditor, at (787) 766-5540.

Appendices:

- A - Finding and Recommendations
- B - Schedule of Ineligible Costs
- C - HUD Comments
- D - Distribution

FINDING AND RECOMMENDATIONS

Finding – Former Project Administrator Improperly Administered the Cooperative

The former Project Administrator received excessive benefits of \$25,562 from the Cooperative's operating funds, falsified payroll records, and performed other improper actions, while administering the Cooperative. These actions were performed with the assistance of the former Fee Accountant. Further, some of the Board of Directors were negligent in carrying out their duties, making the former Cooperative Officials' actions possible. This caused an unnecessary burden on the Cooperative's financial resources. As a result of the improper administration, during 1997 and 1998, the Cooperative was in a negative surplus cash position.

Former Project Administrator Received Excessive Benefits

Paragraph 6 of the Regulatory Agreement states that the Mortgagor shall pay no compensation or fee except for necessary services and except at such rate as is fair and reasonable in the locality for similar services. HUD's guideline, Multifamily Housing Circular Letter 95-001, allows for payment of Christmas bonuses in accordance with Puerto Rico law. In particular, it establishes that payment of bonuses higher than the 2 percent required by the Puerto Rico law is permissible. However, HUD policy provides the following thresholds:

1. Owners shall consider the project's financial capacity when granting the bonus.
2. The amount paid shall be reasonable and within the amount generally paid by the industry.

The Cooperative's 1997 to 1999 HUD approved budgets reflected an administrator's salary of \$34,800. The budgets did not include benefits such as car allowance, Christmas bonus, and unused vacation. However, the former Project Administrator's actual compensation included base salary, Christmas bonus and unused vacation reimbursements. As a result of the Christmas bonuses and unused vacation reimbursement, the actual salary received by the former Project Administrator exceeded the budgeted amount by \$10,042 for 1997 and \$9,523 for 1998. His 1999 salary did not exceed the amount budgeted because he resigned in November 1999 and was not paid the Christmas bonus or for unused vacation time.

In addition to the 1997 HUD approved budget, the former Project Administrator and the Cooperative executed a contract dated May 2, 1996. The contract provided for a monthly car allowance of \$460 or \$5,525 annually. However, the former Project Administrator received \$412 biweekly or \$5,200 in excess of the contract amount. A comparative administrator received \$100 monthly for car allowance, while another did not receive a car allowance. The current Project Administrator receives a car allowance of \$300 monthly.

Former Project Administrator Falsified Payroll Records

The former Project Administrator's salary checks were issued to various third party payees during periods of 1995 to 1999. Some salary checks were issued jointly to him and a third party housing management agent without the knowledge or consent of the third party. Also, between 1995 and 1999, in addition to his name and social security number, the former Project Administrator used four different names and social security numbers on his personal income tax forms and/or informative tax return forms to conceal the compensation he received from the Cooperative. A Cooperative employee informed us that the former Project Administrator explained that in order for him to receive full disability benefits from the government, the Cooperative's records could not document his employment.

We reviewed the former Project Administrator's personal bank account records from December 17, 1997, to January 14, 2000, and the Cooperative's records to trace the payments he received from the Cooperative. From September 1998 to November 1999 his salary/management fee checks were issued in the name of a ghost employee and fictitious housing management entity. His annual withholding statements were also issued in the name of the ghost employee and included a social security number other than his. The table below identifies the amounts paid to various payees. The amounts identified only include the base salary/management fees. From November 1995 to March 1996, the salary checks were issued jointly to the former Project Administrator and a third party housing management agent. However, the W-2 was issued in the name of the former Project Administrator.

<u>Year</u>	<u>Payee's Name</u>	<u>W-2 Totals</u>
1995	Former Project Administrator	\$39,312 ¹
1996	Former Project Administrator	10,480 ¹
1996	Former Project Administrator	27,935
1997	Former Project Administrator	34,116 ¹
1998	Ghost Employee	19,652 ¹
1998	Fictitious Management Entity	17,245
1999	Fictitious Management Entity/Former Project Administrator	31,995 ²

1. Various social security numbers were used.
2. The former Project Administrator's social security number was used.

In regards to the fictitious housing management corporation, on September 1, 1998, the former Project Administrator, representing CDM Housing Management Inc executed a contract with the Cooperative. The contract displayed a Department of State Corporations Registry number stamp; however, the number was registered to Cristal del Manantial, Inc. According to the Puerto Rico Department of State Corporations and Trade Marks Registry, Cristal del Manantial, Inc. was a for-profit corporation the former Project Administrator registered on February 21, 1996, as its sole incorporator and resident agent. The Certificate of Incorporation documented the nature of business was to pursue any legal businesses or acts in which the corporation could organize. Based on the information obtained, the former Project Administrator used the registered corporation's number and acronym (CDM) to misrepresent a legitimate housing management corporation and conceal his income received from Jardines de Valencia Housing Cooperative. The 1999 informative income tax report contained his social security number, but the name of CDM Management.

The Cooperative's former Fee Accountant assisted the former Project Administrator in concealing the compensation while administering the Cooperative. Additionally, the former Fee Accountant drafted the 1995 to 1999 personal income tax withholding statements and professional fees informative tax returns with names and social security numbers other than the former Project Administrator's knowing they were false. The Cooperative's Administrative Secretary stated that the former Fee Accountant completed the annual income tax withholding forms by hand and instructed her to type the forms with the incorrect social security numbers and names. The Administrative Secretary said she questioned the former Fee Accountant about using the incorrect social security numbers, but was instructed to insert the numbers he provided. The Administrative Secretary said that she followed the instructions of the former Project Administrator and former Fee Accountant because she was afraid of losing her job.

We believe certain members of the Cooperative's Board of Directors were negligent in carrying out their duties at the Cooperative. The Board's former President and Vice-President signed disbursement checks that were intended for the former Project Administrator, but were issued payable to a ghost employee. Also, the former President admitted signing checks in blank without verifying them. The Administrative Secretary stated that she asked the former Project Administrator about the use of other names, but he said not to worry because the Board of Directors knew about it and approved it. In a 1994 letter to the Board of Directors, the former Project Administrator requested for his salary to be paid separate of payroll. The letter also stated that such a status would allow him to continue his disability status with Social Security. The former Board members approved the agreement.

Other Improper Actions of the Former Project Administrator and Fee Accountant

We noted additional deficiencies involving the former Project Administrator from 1978 to 1999.

- a) The 1999 fiscal year end adjustments included \$797 charged as a payroll tax expense. However, the \$797 represented an accounts receivable for a personal loan to the former Project Administrator.
- b) The health plan for an ex-employee and his wife was improperly charged to the Cooperative for 10 years. The employee retired in 1989 and was authorized health coverage for 1 year after retirement. However, the Cooperative continued paying the health insurance from 1991 to February 2001, when the coverage was finally terminated. From 1999 to 2001, the monthly premiums ranged from \$139 to \$187. We determined that the Cooperative paid \$4,207 from January 1999 to February 2001 for the retired employee's health insurance plan.
- c) There was a lack of internal controls over the laundry revenue collections and accounting. The Cooperative's employees informed us that the laundry revenues were collected twice a month. However, the funds remained in the former Project Administrator's possession until deposited at month end. There is no assurance laundry revenues were properly accounted for and safeguarded.

HUD Comments

The Director of the Caribbean Multifamily Program Center concurred with the amount of \$25,562 indicted in the report.

Recommendations

We recommend you:

- 1A. Instruct the Cooperative to seek repayment from the former Project Administrator to reimburse the Cooperative for the \$25,562 of excessive benefits received.
- 1B. Debar the former Project Administrator and former Fee Accountant from future participation in HUD related programs.
- 1C. Debar the former President and Vice-President of the Cooperative's Board of Directors from future participation in HUD related programs.

SCHEDULE OF INELIGIBLE COSTS

<u>Recommendation</u>	<u>Ineligible¹</u>
1A	\$25,562

¹ Ineligible costs are not allowed by law, contract, HUD or local agency policies or regulations.

HUD COMMENTS



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MAR - 6 2002

MEMORANDUM FOR: Nancy H. Cooper
District Inspector General for Audit-Southeast/Caribbean, 4AGA

Minerva Bravo
FROM: Minerva Bravo, Director, Caribbean MF Programs Center, 4NHMLAT

SUBJECT: Exit Conference Meeting
Jardines de Valencia Housing Cooperative, 056-44028

This is to notify that an exit conference was held on March 5, 2002 for subject property. Present in the meeting were Aurora Rodriguez, Senior Auditor; Carmen Torres, Auditor; and Sonya Lucas, Assistant District Inspector General for Audit-Southeast/Caribbean. We concur with the amount of \$25,562 District Inspector General for Audit-Southeast/Caribbean indicated by OIG staff to be included in the final Audit Limited Review Report.

If you have any questions, please contact Mr. Jose A. Ayala, Project Manager at (787) 766-5400, voice mail 2064.

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