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OFFICE OF INSPECTOR GENERAL FOR AUDIT

MEMORANDUM NO:
2002-DE-1802

May 10, 2002

MEMORANDUM FOR: Larry C. Sidebottom, Director, Denver Multifamily HUB, 8AHMLA

Robert C. Gwin

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

SUBJECT: Pikes Peak Towers, Colorado Springs, Colorado – Section 202/Direct Loan for Elderly Housing.

INTRODUCTION

We completed a review of Pikes Peak Towers, Colorado Springs, Colorado – Section 202/Direct Loan for Elderly Housing. The objectives of the review were to determine if Pikes Peak Towers had management controls in place to ensure that:

- Only eligible tenants were admitted to the project;
- The project received competitive prices for the products and services it purchased; and
- The upkeep of the facilities was decent, safe and sanitary.

METHODOLOGY AND SCOPE

We reviewed Pikes Peak Towers' policies and procedures as they pertained to our objectives for the time period January 1, 2000 through February 28, 2002. We accomplished our objectives by reviewing and evaluating Pikes Peak Towers' management controls over: its tenant admissions procedures; its policies and procedures for obtaining competitive prices for their products and services; and its maintenance procedures for the upkeep of its facilities. We reviewed records relating to these objectives maintained by Pikes Peak Towers, and interviewed Pikes Peak Towers' staff and tenants, as well as personnel from the Colorado Springs Housing Authority. In addition, we reviewed applicable HUD records and files and interviewed pertinent HUD staff within the Denver Multifamily HUB. We performed the on-site review work during April 2002.

BACKGROUND

Pikes Peak Odd Fellows Housing, Inc., was established in the state of Colorado on April 11, 1964, for the purpose of providing housing and related facilities and services for elderly families and persons on a non-profit basis. On March 1, 1966, Pikes Peak Odd Fellows Housing, Inc., signed a Note with the Department of HUD for a Section 202 loan in the amount of \$1,880,000, for a period of fifty years, at an interest rate of 3% per annum, for the purpose of purchasing Pikes Peak Towers. The monthly loan payments are \$6,241.93 with the note maturing on July 14, 2016. At the time of our review, Pikes Peak Towers was current on their debt servicing. The organization entered into a Regulatory Agreement with the Housing and Home Finance Administrator on July 14, 1966 to carry out the provisions of Section 202 of the Housing Act of 1959. Pikes Peak Towers is located at 1912 Eastlake Blvd., Colorado Springs, Colorado 80910-3401.

Pikes Peak Towers is a Mid-Rise building with 144 units that was initially opened for occupancy in September 1967. Pikes Peak Towers is covered under the 202 Direct Loan/Elderly/Pre-1974 Program. Its client group is elderly individuals, and until July 31, 2000, had a Section 8 Project based Housing Assistance Payment contract with HUD, for 25 of the 144 units. When Pikes Peak Towers opted out of the Housing Assistance Payment contract, the twenty-five individuals were given Section 8 Tenant based Vouchers for rental assistance, obtained from the Colorado Springs Housing Authority.

During the time period of our review, two Administrators managed Pikes Peak Towers. The Administrators were terminated in the second week of March 2002. The Administrators had managed Pikes Peak Towers for approximately sixteen years prior to their termination. Both Administrators were paid annual salaries and neither of them managed any other projects with an insured or HUD-held mortgage. Presently, the Treasurer of the Board of Directors is providing direct oversight of the day-to-day operations of Pikes Peak Towers. The Board of Directors is in the process of interviewing applicants for the purpose of hiring a new Administrator for Pikes Peak Towers.

RESULTS OF REVIEW

Pikes Peak Towers is a non-troubled project that is current on their debt servicing. No evidence was found during our review to show that they had ever been delinquent in their payments or that they had ever been in default. The project has made steady monthly payments into their Reserved for Replacement account and as of January 15, 2002, the balance in their account was \$308,542. The condition of the project's facilities was outstanding and no open work orders were noted during our review. The facilities are well maintained, neat, and clean and are a very pleasant environment for its elderly tenants. While Pikes Peak Towers has opted out of the Section 8 Project based Housing Assistance Program, they still ensure only low income elderly persons are housed at their facilities. Pikes Peak Towers' tenant eligibility policy has imposed an income limit on applicants that ensures all prospective tenants are in the lower income levels for the Colorado Springs area.

We reviewed Pikes Peak Towers' management controls over: their procedures for the selection of tenants; their procedures that ensured they were only paying competitive prices for products and services; and their procedures that ensured maintenance and upkeep of the project's facilities

provided for decent, safe and sanitary conditions. Pikes Peak Towers had adequate policies and procedures for both the selection of tenants and the upkeep and maintenance of facilities at Pikes Peak Towers. However, several management control weaknesses were noted in the procedures relating to only paying competitive prices for products and services.

In connection with these management control weaknesses, evidence could not be found to show an active role by the Board of Directors in providing proper oversight into the purchase of products and services. The Regulatory Agreement states “payments for services, supplies, or materials shall not exceed the amount ordinarily paid for such services, supplies, or materials in the area where the services are rendered or the supplies or materials furnished.” Furthermore, the Employment Agreement signed by the Administrators states, “Employee may not incur a single debt or purchase a particular service or item with a cost in excess of \$300.00 without prior approval of the Employer.” There was no evidence that the Administrators or the Board of Directors was accomplishing either of these provisions. Along with this, no evidence could be found to show that the Administrators did comparative pricing for these products and services. In addition, the President of the Board, who subsequently had resigned from the Board, had pre-signed numerous blank checks that were to be used in the purchase of products and services for Pikes Peak Towers. With these deficiencies in procedures, the project, Pikes Peak Towers, has had limited assurance that products and services that have been procured were made at the best available price and within the parameters established by the Board. We discussed these management control weaknesses with project officials who are now in the process of establishing new management controls to ensure their non-reoccurrence.

As part of our review, one other matter was identified that may need additional corrective action. Pikes Peak Towers’ employees are not always sure of their terms of employment, especially as it relates to accrued sick and annual leave. The terms of employment have not been posted or provided to the individual employees. This matter has been brought to the attention of the Board of Directors for their review and corrective action as necessary.

An exit conference was conducted with the Executive Members of the Pikes Peak Odd Fellows, Inc.’s Board of Directors on May 1, 2002 at which time a copy of the Discussion Draft Memorandum was given to them for their review. The Board members present were in full agreement with the contents of the memorandum and are in the process of correcting all of the noted deficiencies. The Board has already interviewed several applicants for the position of Administrator and has also obtained proposals from several outside Management Companies for the management of the project. The President of the Board indicated that the Board is probably going to go with an outside management company to oversee the day-to-day operations of Pikes Peak Towers.

The above-mentioned items will not be controlled under the Departmental Automated Audits Management System (DAAMS).

We appreciate the courtesies and assistance extended by the personnel of Pikes Peak Towers and the Denver Multifamily HUB. Should you have any questions, please contact Ernest Kite, Assistant Regional Inspector General for Audit, at (303) 672-5452.

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