AUDIT REPORT

NUESTRA CASA
PROJECT MANAGEMENT OPERATIONS
HARTFORD, CONNECTICUT

2004-BO-1006

FEBRUARY 18, 2004

OFFICE OF AUDIT, NEW ENGLAND
BOSTON, MASSACHUSETTS

Issue Date
February 18, 2004
Audit Case Number
2004-BO-1006

TO: Suzanne C. Baran, Director, Multifamily Program Center, Hartford Field Office, 1EHMLAT

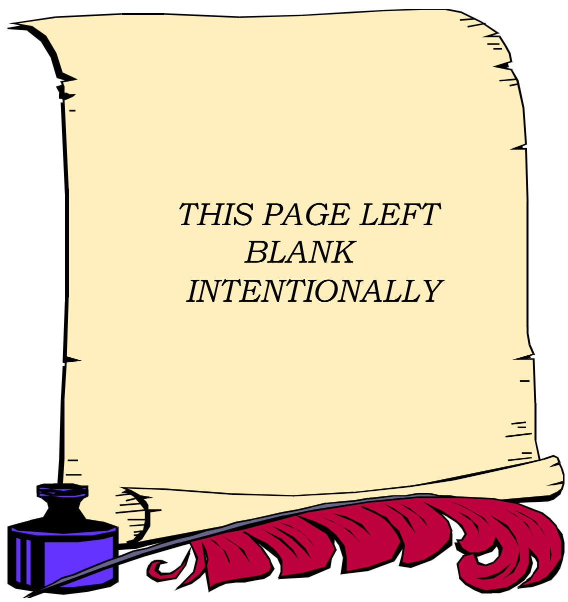
FROM: Barry L. Savill, Regional Inspector General, Office of Audit, 1AGA

SUBJECT: Nuestra Casa (also known as La Casa Elderly Housing)
Project Number 017-EH125
Hartford, Connecticut

As requested by your office, we performed an audit of Nuestra Casa (also known as La Casa Elderly Housing). Our report contains three findings with recommendations requiring action. Our review disclosed that Nuestra Casa's management agent: (1) Used the Operating Account to Fund Affiliates; (2) Charged Ineligible, Unsupported, and Unnecessary/Unreasonable Costs to the Project; and (3) Failed to Adequately Manage Project Operations.

In accordance with HUD Handbook 2000.06 REV-3, within 60 days please provide us, for each recommendation without a management decision, 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. Additional status reports are required at 90 days and 120 days after report issuance for any recommendation without a management decision. 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 Michael Motulski, Assistant Regional Inspector General for Audit, at (617) 994-8380.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Executive Summary

We have completed an audit of Nuestra Casa (also known as La Casa Elderly Housing) located in Hartford, Connecticut. We initiated the audit in response to a management request from the U.S. Department of Housing and Urban Development's (HUD's) Hartford Field Office (HFO) of Multifamily Housing. The primary purpose of our audit was to assess the project owner's/management agent's performance relating to:

- Appropriate use of project funds.
- Maintaining the property in a satisfactory physical condition.
- Other general management practices.

Our audit determined that the management agent improperly managed project funds totaling $371,430 by:

- Improperly transferring $244,103 in project funds to affiliates.
- Spending $16,385 in project funds on other ineligible, unsupported, and unnecessary/unreasonable costs.
- Circumventing HUD's Reserve Fund for Replacement (RFR) requirements leaving the RFR under funded by $110,942.

As a result, $371,430 in project funds is not available for the project's normal operations and maintenance. Therefore, HUD's and the residents' interests in the project are not sufficiently protected.

Agent Used Operating Account to Fund Affiliates

The management agent improperly transferred $244,103 in project funds to affiliates. For fiscal years (FYs) 1999 through 2002, the management agent transferred a total of $639,331 to affiliated entities. The management agent indicated that the transfers were for salaries, employee benefits, management fees, and reimbursements to affiliated entities for project tax payments and loans. However, the management agent's records showed that the project received only $395,228 in reasonable and necessary services. As a result, $244,103 ($639,331- $395,228) in project funds was not available for the project's normal operations and maintenance. Therefore, the management agent did not sufficiently protect HUD's interest in the project (see Finding 1).

Agent Charged Ineligible and Unsupported Costs to the Project

The management agent used $16,385 in project funds for other ineligible, unsupported, and unnecessary/unreasonable project costs. The management agent incurred an ineligible cost of $4,132 for an Internal Revenue Service (IRS) penalty for the management agent's failure to file an IRS Form 990 ("Return of Organization Exempt from Income Tax") on time. The management agent charged the project $1,630 in unsupported costs, for such items described by the management agent as food purchases, supplies, and payments to individuals. We also determined that the management agent incurred $10,623 in unnecessary/unreasonable costs, for resident field trips to a gambling casino and New York City; as well as meals at restaurants, and other ineligible goods and services. As a result, $16,385 in project funds was not available for the project's normal operations and maintenance. Therefore, HUD's and the residents' interests in the project were not sufficiently protected (see Finding 2).

Agent Circumvented HUD's RFR Requirements

The management agent circumvented HUD's RFR requirements (see Finding 3). Specifically, the management agent:

- Failed to deposit $83,225 into the RFR as required by HUD as a condition for a retroactive rent increase.
- Failed to return $21,903 advanced to the operating account from the RFR.
- Loaned $10,000 of RFR funds to an affiliate against HUD requirements ($4,000 remains unpaid).
- Withdrew $1,814 more from the RFR than HUD approved.

As a result, the project's RFR is under funded by $110,942. Management is expected to use RFR funds to make necessary capital repairs and replacements.

Agent Failed to Adequately Manage Project Operations

The management agent failed to manage the project in compliance with HUD regulations and requirements (See Finding 3). Specifically, the management agent:

- Did not keep the accounting records current and did not comply with HUD requirements to submit timely annual financial reports. In addition, the management agent did not maintain a chart of accounts in the HUD prescribed format.
- Did not consistently maintain bank statements, invoices, contracts, and supporting documentation for purchases/costs and make them readily available for review.

- Did not pay utility bills and other bills timely resulting in liens being attached to the property.
- Did not update HUD management certifications and profiles and make them readily available for review.
- Did not put adequate computer controls into practice.
- Did not maintain operating procedures and manuals.
- Did not carry the fidelity bond coverage as required by HUD.
- Did not implement a capital improvement plan or an effective maintenance program.

As a result of the management agent's failure to properly manage operations, the project:

- Has a serious cash flow problem.
- Incurred ineligible penalty costs.
- Has unpaid utilities that may result in these services being terminated.
- Has liens placed against the property.

Recommendations

We recommend that the HUD Multifamily (MF) Director require the owner/management agent to take corrective actions regarding the $371,430. The owner/management agent should repay $244,103 (less any accrued fees earned) for the unauthorized transfers of funds to affiliates, $4,132 for the other ineligible costs, and $10,623 for the unnecessary/unreasonable costs from non-project funds. The owner/management agent should also be required to replenish the project's RFR in the amount of $110,942 for the questionable transactions. The owner/management agent should also reimburse the project $1,630 for unsupported costs from non-project funds unless adequate supporting documentation is provided.

In addition, we recommend that HUD MF Director require the owner/management agent to bring current all bills exceeding 30 days old and ensure all liens on the property are satisfied using non-project funds, or move to release any invalid liens.

We also recommend that the HUD MF Director require the project owner to terminate the management agreement between the current management agent and the project owner because of the management agent's failure to comply with the provisions of the Regulatory Agreement and the Management Agent Certification. In doing so, the project owner should seek a new management entity acceptable to HUD.

After the removal of the management agent, we recommend that the project owner be required to:

- Prepare, execute, and submit a Management Agreement, a new Management Agent Certification form, and a new Entity Profile form to HUD with the selection and approval of a new management agent.
- Work closely with the new management agent to ensure that these deficiencies do not recur.

Finally, we recommend that HUD program officials and the Department Enforcement Center (DEC) initiate administrative sanctions (Debarment) against the management agent.

Findings and Recommendations Discussed

We discussed the findings in this report with the responsible auditee officials, as well as HUD program officials, during the course of the audit. We discussed the draft audit report with the auditee and HUD program officials at an exit conference held on December 10, 2003. On December 16, 2003, we requested the responsible auditee officials to submit written comments and any supporting documentation based on the draft report discussed at the exit conference. We received the auditee's formal written responses by letters dated January 15, 2004, and January 16, 2004. We revised the draft report as necessary. We included a summary of the comments in the Findings section of this report. The complete written responses are included in Appendix F. We did not attach the auditee's supporting documentation because it was too voluminous.

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Abbreviations

AFS	Annual Financial Statements
CFR	Code of Federal Regulations
CNA	Comprehensive Needs Assessment
DEC	(HUD) Departmental Enforcement Center
FRC	Family Resource Center (affiliated for-profit entity)
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GAGAS	Generally Accepted Government Auditing Standards
HAP	Section 8 Housing Assistance Payments
HFO	HUD Hartford Field Office
HUD	U.S. Department of Housing and Urban Development
IOI	Identity of Interest
IRS	U.S. Internal Revenue Service
LCDP	La Casa De Puerto Rico, Inc. (management agent)
LCI	La Casa Investments, Inc. (affiliated for-profit entity)
OIG	Office of Inspector General
REAC	(HUD) Real Estate Assessment Center
REMS	(HUD) Real Estate Management System
RFR	Reserve Fund for Replacements

Introduction

Nuestra Casa (also known as La Casa Elderly Housing), the "project," is a 40-unit apartment complex for elderly and handicapped persons, located in Hartford, Connecticut. The project operates under Section 202 of the National Housing Act, in which HUD provided a direct loan for the construction of the project (project number 017-EH125). As of December 2003, the outstanding loan balance was approximately $2,113,717. The project owner makes monthly principal and interest payments for $18,386, with interest computed at 9.25% per year. The project also has a Section 8 Housing Assistance Payments (HAP) contract with HUD (contract number CT26T841004), which is a rental subsidy program that provides most of the project's rental income.

The Direct Loan Program for Housing for the Elderly or Handicapped was authorized by Section 202 of the Housing Act of 1959, as amended, Public Law 86-372, 73 Stat. 654, 667, 12 U.S.C. 1701q. Applicable program regulations are located in Subpart E of 24 CFR 891. The purpose of the program is to provide direct Federal loans for a maximum term of 40 years. The program provides for assistance to private, nonprofit corporations and consumer cooperatives in the development of new or substantially rehabilitated housing and related facilities to serve the elderly, physically handicapped, developmentally disabled, or chronically mentally ill adults. HUD also provides project rental assistance funds to cover the difference between the HUD-approved operating cost for the project and the tenants' contribution towards rent.

In consideration for HUD subsidy, the project owner must agree to various controls and regulations of certain aspects of the project's operations, including but not limited to: (a) restrictions on the use of project funds, (b) proper maintenance of the project in accordance with HUD's Uniform Physical Condition Standards, (c) limits on rental rates, and (d) tenant eligibility requirements. These regulations are contained in the Regulatory Agreement between the project owner and HUD.

The project owner may enter into a management agreement with a firm or entity to manage the project on the owner's behalf. The management agreement shall conform to the pertinent requirements of the Regulatory Agreement, the HAP Contract, and directives issued by HUD. The project owner may delegate to the management agent any management duties that HUD does not require the owner to perform by itself. Even when the owner delegates duties, the owner remains responsible for all aspects of management, including duties delegated to the management agent.

The project "owner", La Casa Elderly Housing, Inc., is a non-profit, non-stock corporation that holds legal title to the project. The project is managed by La Casa De Puerto Rico, Inc., the "management agent", which is an identity-of-interest (IOI), non-profit organization located in Hartford, Connecticut. The same Board of Directors controls both entities. The owner currently pays the management agent a fee equal to 5.13% of the annual gross rent collections.

Audit Objectives

The overall audit objectives were to assess the project's performance relating to:

- Appropriate use of project funds.
- Maintenance of the property in satisfactory physical condition.

- Other general management practices.

Audit Scope and Methodology

To accomplish the audit objectives, we:

- Reviewed Federal requirements including: the applicable Code of Federal Regulations (CFR); applicable HUD Handbooks; applicable HUD Housing Notices and Directives; and the Regulatory Agreements between HUD and the mortgagor/project owner.
- Reviewed the project's files maintained by the HUD Hartford Field Office (HFO) and HUD's automated systems, such as the Real Estate Management System (REMS).
- Reviewed the project's organizational and administrative structure.
- Reviewed Independent Public Accountant (IPA) reports prepared for the operator and the certified financial statements submitted to REAC on behalf of the owner for fiscal years ending December 31, 1999 through 2001 (the fiscal year ending December 31, 2002 reports and statements were not prepared as of June 2003).
- Interviewed former IPA accountants to obtain additional clarification or explanation of items resulting from our review of the financial reports.
- Interviewed applicable management agent personnel to obtain information relating to the project's operations, management controls, and computer controls; and its procedures for accounting, administration, procurement, maintenance, cash receipts, and cash disbursements.
- Tested management controls relevant to the audit through inquiries, observations, inspection of documents and records, or review of other reports, and evaluated the effects of any exceptions found.
- Reviewed the project's books and records and assessed: a) the reliability of information contained in the books and records; b) the appropriateness of disbursements; and c) the reasonableness of costs incurred.
- Tested disbursements from the operating account. We selected items of interest based on risk factors. The results only apply to the items selected.
- Tested all transactions from the reserve fund for replacement during FYs 1999 through 2002.

- Reviewed the project's last three HUD physical inspection reports (1999, 2001, 2002) and conducted physical inspections to assess the general condition of the project.
- In conducting our inspections, we selected a non-representative sample of units considered a high risk. We selected the units because they exhibited exigent health and safety issues and/or other significant problems in recent HUD and management agent inspection reports. The results only apply to the units selected.
- Reviewed the property records for the project maintained at the Office of the City Clerk of Hartford, CT.

We conducted the audit between January 2003 and June 2003, and generally covered the period from January 1, 2000, through December 31, 2002. When appropriate, we extended the audit to include other periods. We conducted our audit in accordance with generally accepted government auditing standards (GAGAS).


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Management Agent Used Operating Account To Fund Affiliates

The management agent improperly transferred $244,103 in project funds to affiliates. The management agent transferred these funds to subsidize the operating expenses of affiliated entities. This occurred because the management agent did not establish adequate financial control policies and procedures for its employees to understand that these fund transfers were improper. As a result, the project has a serious cash flow problem and $244,103 in project funds was not available for the project to maintain services necessary for residents and to protect HUD's interest.

Costs Must Be Reasonable and Necessary

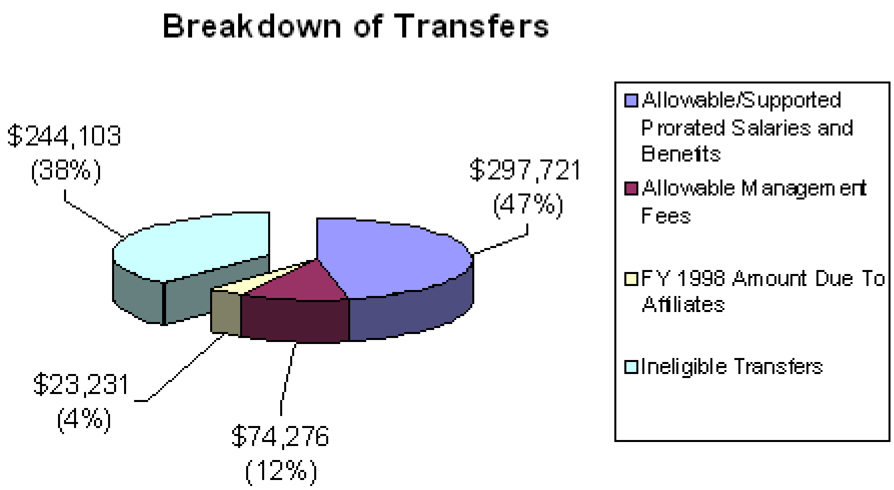
Federal regulations require that project owners ensure project funds are used for the operation of the project (24 CFR Part 891.400(e)). The Regulatory Agreement also requires that: (1) project income and assets shall be used only for services, supplies, or materials that are reasonable and necessary for the project's operation, and; (2) the project's books and records will be maintained in accordance with HUD's requirements and in reasonable condition for proper audit.

Funds Transferred without Support or Authorization

During fiscal years 1999 through 2002, the management agent transferred $639,331 in project funds from the project's operating account to three identity-of-interest (IOI) affiliates, including the management agent itself (see Appendix B for details on the individual disbursements). These IOI entities were:

- La Casa De Puerto Rico, Inc. (LCDP), the management agent.
- La Casa Investments, Inc. (LCI), a for-profit rental project.
- The Family Resource Center (FRC), a for-profit family services entity.

The management agent was able to support $395,228 of the $639,331 in transfers as reasonable and necessary project expenses. We determined that the following expenses were allowable costs: (1) $297,721 for prorated salaries and benefits, (2) $74,276 in HUD approved management fees, and (3) $23,231 in services due to affiliates from the project's FY 1998 audited annual financial statements (AFS). We determined that the remaining $244,103 represented ineligible transfers of project funds in violation of the terms of the Regulatory Agreement. We illustrated the breakdown of cost transfers below:



Our audit determined that the management agent made $244,103 in ineligible cost transfers to support the operations of affiliated entities. The management agent made the transfers to cover such items as salaries and employee benefits (paid through the centralized payroll account) and to reimburse affiliates for loans made to the project. The management agent did not provide documentation for the loans.

As of May 28, 2003, the management agent did not properly close the project's FY 2002 books and posted management fees for FY 2002 only through May 2002. We expect that appropriate management fees will reduce the total amount due from the affiliates when the books are closed. This posting, which should be similar to previous years (approximately $12,000), needs to be verified when HUD calculates the final amount due back to the project.

Lack of Knowledge Concerning HUD Requirements

Our review showed that the management agent lacked knowledge of HUD regulations concerning the use of project funds and did not keep adequate records to track and monitor the amount of salary costs and other payments. For example, the management agent charged $67,447 in unsupported maintenance fees to the project during the period of FY 1999 to 2002. We determined there was no basis for the charges because the project paid the maintenance employees' salaries, as well as the maintenance supervisor's salary through the central payroll account maintained by LCDP. The management agent also charged cleaning supplies and materials for repairs directly to the project's account. Therefore, we questioned the $67,447 in maintenance fee costs as part of the $244,103 improperly transferred to affiliates.

The management agent did not attempt to conceal the transfers. The management agent posted all payments to affiliates on the general ledger as accounts receivable. The management agent subsequently reduced receivables when it expensed employee salaries, management agent fees, and maintenance fees. The management agent did not have HUD Handbooks concerning financial and accounting procedures readily available for employee use. During our audit, the management agent requested the HUD Handbooks from the HUD Hartford Field Office (HFO).

HUD Should Terminate Management Agreement

Based on the conditions cited in this finding, the owner/management agent is in violation of the Regulatory Agreement. An independent public accountant identified improper transfers in the FY2000 and FY2001 audited annual financial statements (AFS). In December 2001, the HFO directed the management agent to repay these transfers from non-project sources. However, as of December 2003, the management agent had not repaid these transfers.

The audit findings discussed elsewhere in this report identified additional violations of the Regulatory Agreement. Therefore, we recommend that the HFO move to terminate the management agreement between the management agent and the project owner for failure to comply with the provisions of the Regulatory Agreement and the Management Agent Certification. In addition, HUD program officials and the Department Enforcement Center (DEC) should initiate administrative sanctions (Debarment) against the management agent.

Auditee Comments

The auditee responded that the Board of Directors and the interim Executive Director are taking the following actions: (a) tightening controls in accordance to HUD and GAAP practices; (b) upgrading the computer systems and programs; (c) establishing a business continuity program; (d) providing additional training for staff associated with this program; (e) having the Board actively participate in monitoring the implementation of the changes being made; and (f) hiring a financial consultant to oversee accounting and financial policies and procedures.

The auditee also requested that the we reduce the $244,103 identified as ineligible transfers by $83,225. The auditee indicated that this amount was used to reimburse the management agent for funds used on behalf of the project for operating expenses.

OIG Evaluation of Auditee Comments

We recognize the corrective actions taken as a result of our draft report. However, the auditee was silent on our recommendation to remove the current management agent (LCDP).

Due to the severity of the Findings presented in this report, we do not feel LCDP has the capacity to correct the deficiencies found. Some of the issues identified in our report are long-standing, and have gone uncorrected to this date. For example, the fiscal year ended December 31, 2000, audited annual financial statements (AFS) indicated deficiencies including ineligible transfers/loans and mismanagement of the RFR account.

The auditee's response did not contain sufficient documentation to allow us to change our recommendations.

Recommendations

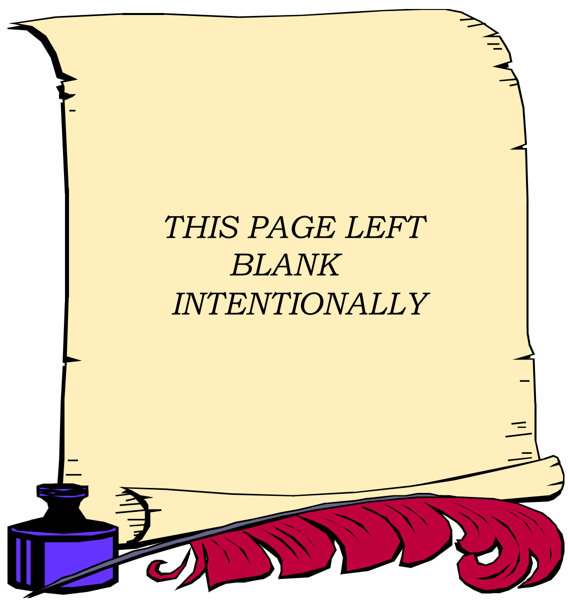
We recommend that you require:

1A. The owner/management agent to reimburse the project $244,103 (less any amount of management fees properly expensed for June though December 2002) from non-project sources.

1B. The project owner to terminate the Management Agreement with LCDP for failure to comply with the provisions of the Regulatory Agreement and the Management Agent Certification.

1C. The project owner to prepare, execute, and submit a Management Agreement, a new Management Agent Certification form, and a new Entity Profile form to HUD with the selection and approval of a new management agent. Furthermore, we recommend that your office work closely with the new management agent to ensure that the deficiencies identified do not recur.

1D. The HUD Departmental Enforcement Center (DEC) to initiate administrative sanctions, such as debarment, against the management agent, for the improper transfers as well as for the improper use of project funds as described in Finding 2.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Management Agent Charged Ineligible, Unsupported, and Unnecessary/ Unreasonable Costs to the Project

The management agent charged $16,385 to the project's operating account for ineligible project expenses ($4,132), unsupported costs ($1,630), and unnecessary/unreasonable costs ($10,623) (see Appendix C). The management agent incurred an ineligible cost of $4,132 for an Internal Revenue Service (IRS) penalty for the management agent's failure to file an IRS Form 990 ("Return of Organization Exempt from Income Tax") on time. The management agent charged the project $1,630 in unsupported costs, for such items described by the management agent as food purchases, supplies, and payments to individuals. We also determined that the management agent incurred $10,623 in unnecessary/unreasonable costs, for resident field trips to a gambling casino and New York City; as well as meals at restaurants, and other ineligible goods and services. This occurred because the management agent did not establish adequate financial accounting policies and was not familiar with HUD financial operating requirements. As a result, $16,385 in funds was not available for the project's normal operations and maintenance. Therefore, HUD's and the resident's interests in the project were not sufficiently protected.

Costs Must Be Reasonable and Necessary

Project owners must ensure project funds are used for the operation of the project (24 CFR Part 891.400). The Regulatory Agreement further requires that: (1) project income and assets shall be used only for services, supplies, or materials that are reasonable and necessary for the project's operation, and; (2) the project's books and records will be maintained in accordance with HUD's requirements and in reasonable condition for audit.

HUD requires that books and records be accurate and complete and all disbursements be supported by approved invoices/bills or other supporting documentation (HUD Handbook 4370.2, REV-1, Chapter 2).

Ineligible IRS Penalty Cost

The IRS assessed a penalty with interest of $4,132 on the project's accounts for the tax year ended December 31, 2000. The penalty was the result of the management agent's failure to file an IRS Form 990 ("Return of Organization Exempt From Income Tax") on time. The IRS assesses a $20 penalty per day for such violations. The IRS also put a tax lien on the project's tenant security deposit account on June 26, 2002 to secure payment. The management agent made a payment from project funds and the IRS received it on July 2, 2002.

The IRS subsequently removed the tax lien. This cost paid from project operating funds was not an eligible expense.

Unsupported Costs

The management agent did not support all costs questioned during our audit (see Appendix C). The remaining unsupported costs questioned total $1,630. The management agent charged the project $1,030, for miscellaneous meals, snacks, and entertainment. The management agent also made a unsupported payment for $600 to an individual. The management agent failed to show what goods or services were purchased or provided.

Unnecessary/
Unreasonable Costs

The management agent also disbursed $10,623 for goods and services that were not considered necessary and reasonable project operating costs. The management agent spent funds in the amount of $9,443 on resident field trips, which included two trips to New York City, admission to a play and dinner for 45 people, a trip to the zoo, a trip to a museum with dinner, and two trips to a casino. The management agent also charged $1,040 for a cooperative membership to allow residents to purchase food at reduced prices. Finally, we identified $140 in other miscellaneous payments to individuals. The management agent failed to show how the costs were necessary and reasonable project costs.

Poor Management
Oversight

These conditions occurred because the management agent did not establish financial accounting policies and procedures, or project cost controls as required by HUD. The management agent did not maintain HUD Handbooks on-site and employees were not familiar with HUD financial and accounting requirements. In addition, the management agent did not provide adequate training their accounting employees, despite the high employee turnover rate.

Auditee Comments

The auditee provided documentation for $28,710 of the $39,182 questioned in our draft report. The auditee requested that we reduce the amount of funds required to be returned to the project by this amount. The auditee also responded that any costs charged without proper authorization will be reimbursed to the project by the owner/management agent.

OIG Evaluation of Auditee Comments

The auditee requested that the $244,103 in ineligible transfers (Finding 1) be reduced by $28,710, based on the documentation submitted. However, the amounts questioned in Finding 2 are separate from the amount questioned in Finding 1 and represent additional funds to be returned to the project.

The auditee submitted documentation relating to only $28,710 of the $39,182 questioned in our draft report. Of this amount, we accepted $22,797 as support for reasonable and necessary project expenses. This amount relates to all of the utility amounts questioned and one of the payments to an individual contained in our draft report.

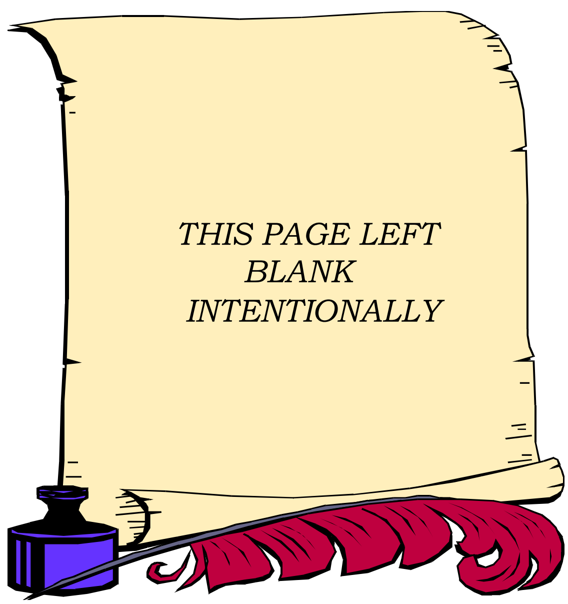
As a result, we reduced the total amount of questioned costs in this Finding that requires corrective action to $16,385. We revised the recommendations and Appendix C to reflect the changes.

Recommendations

We recommend that you require:

2A. The owner/management agent to reimburse the project $14,755 for the ineligible IRS penalty cost ($4,132) and unnecessary/unreasonable costs ($10,623) from non-project sources (see Appendix C).

2B. The owner/management agent to provide adequate documentation for the $1,630 in unsupported costs (see Appendix C). If the management agent does not provide support in a timely manner or if the support is determined to be inadequate, we recommend that you require the owner/management agent to reimburse the project for such costs out of non-project funds.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Management Agent Failed to Adequately Manage Project Operations

The management agent failed to manage the project properly and comply with numerous federal regulations as follows:

- **The management agent circumvented Reserve Fund for Replacements (RFR) requirements and depleted the RFR by $110,942 (see Appendix D) by:**
  - Failing to make $105,128 in required deposits from the operating account.
  - Loaning $10,000 in funds to an affiliate ($4,000 has not been repaid).
  - Withdrawing $1,814 more funds than HUD approved.

- **The management agent did not properly maintain the project's books and records and did not report financial statements on time as follows:**
  - The accounting records were not updated monthly or maintained in the HUD prescribed format.
  - Contracts, agreements, and invoices with affiliates were not consistently maintained to support expenditures.
  - The accounting records for fiscal year (FY) 2002 were not audited as of December 2003.

- **Operating policies and procedures were inadequate as follows:**
  - The management agent did not update and provide employees with operating manuals and written procedures. Computer controls were also weak.
  - Bills were not paid when due resulting in $70,770 in liens being attached to the project, as well as incurring late charges and legal fees.
  - The management agent did not implement a capital improvement plan and an effective maintenance program to correct known deficiencies.
  - The management agent did not procure required fidelity bond coverage.

These conditions occurred due to the management agent's lack of attention to HUD program requirements. For example, the HUD Departmental Enforcement Center (DEC) fined the management agent $3,000 for failure to submit timely financial reports. Also, the management agent did not adequately support expenditures to show they were valid project costs (See Finding 1 and Finding 2 in this report).

As a result, the project does not have adequate funds set aside for replacement of capital items. In addition, the project does not have the required fidelity bond coverage and the management agent did not maintain the project's books and records in such form as to permit a timely audit. Finally, many of the project's bills are overdue and liens have been placed against the property.

Reserve Fund for Replacement Requirements

The Regulatory Agreement esablishes requirements for the the Reserve Fund for Replacements (RFR). The RFR provides funds for the replacement of capital items such as heating, ventilation, air conditioning, plumbing, and roofing. However, HUD may approve the temporary use of RFR funds for other purposes so long as certain conditions exist and the mortgagor agrees in writing to repay the advance within a reasonable period of time. (HUD Handbook 4350.1 REV-1, paragraph 4-28).

The management agent must submit a written request to HUD seeking approval for withdrawals from the RFR. The request must be supported by invoices showing what the management agent purchased and the cost thereof. (HUD Handbook 4370.2 REV-1, paragraph 2-7).

Retroactive Rent Increase Approved by HUD in 1999

In April 1999, the HUD Hartford Field Office (HFO) approved a rent increase retroactive to January 1, 1997. The purpose of the rent increase was to:

- Remedy deferred maintenance.
- Bring overdue bills current.
- Fund a new position for a security guard.
- Improve the physical condition of the project.
- Establish an adequate RFR balance.

The project received the $353,225 retroactive lump sum payment in May 1999. HUD permitted the management agent to use $80,000 to bring overdue bills current. HUD required that the management agent transfer the remaining funds ($353,225 - $80,000 = $273,225) from the operating account to the RFR.

RFR Deposit Requirements Not Met

However, the management agent did not transfer all the required funds into the RFR. The management agent only transferred $190,000 of the $273,225 into the RFR and retained the additional $83,225 in the operating account. Thus, the management agent circumvented the requirement to fund the RFR to the level required by the HFO.

Advance from RFR Not Returned

The managment agent also failed to return RFR funds advanced to the operating account. HUD approved a $21,903 withdrawal of funds from the RFR as an advance of

Section 8 Housing Assistance Payments (HAP) not yet received in October 1999 (see Appendix D). The management agent acknowledged the requirement to repay the advance upon receipt of the subject HAP payment. However, the management agent did not return the funds to the RFR, once again facilitating the improper use of project funds from the operating account (see Findings 1 and 2).

Ineligible Loan to an Affiliate and Withdrawals Exceeded Approved Amounts

In March 2000, the management agent improperly loaned \$10,000 in RFR funds to an affiliate. The project's FY 2000 audited financial statements disclosed the improper loan. In December 2001, the HFO required that the management agent repay the loan from non-project sources by March 2002. However, as of December 2003, the management agent only repaid \$6,000, leaving a \$4,000 balance.

In addition, the management agent withdrew more funds than HUD approved from the RFR. On two occasions, RFR withdrawals exceeded the amount HUD approved by \$1,814 (\$1,208 + \$606), see Appendix D).

Amount Required to be Returned to RFR

Because of the management agent's questionable activity, the project's RFR lacks \$110,942 (\$83,225 + \$21,903 + \$4,000 + \$1,814) in funds. These funds, again, are necessary to make future capital repairs and replacements.

Accounting Books Not Current and HUD Forms Inaccurate

The project's accounting records were not current and required HUD forms were inaccurate. According to HUD regulations the project's:

> *"Books and accounts must be complete and accurate. The books of original entry must be kept current at all times, and postings must be made at least monthly to ledger accounts. Standard journal entries may be established for recurring items and posted monthly." (HUD Handbook 4370.2 REV-1 Section 2-3.B)*

However, as of May 29, 2003, the management agent had not updated several ledger accounts, including payroll and management fee accounts, since June 2002.

HUD also requires that project owners update and maintain management certifications and profiles to provide HUD with the information needed to assess the acceptability of an agent and to monitor compliance with regulations. (HUD Handbook 4381.5 REV-2, Section 2-9)

We observed several changes that warranted an update including new board members and key staff. The management fee percentage had also changed from 6% to 5.13%. However, the management agent did not update the project's Management Agent Certification (form HUD-9839-b) and Management Profile (form HUD-9832).

Financial Statements Not Submitted Timely

The agent did not submit the project's financial reports when required. The Regulatory Agreement required audited financial statements (AFS) be submitted to HUD no later than 90 days after the end of the FY.

However, the management agent did not submit the project's AFS for fiscal years 2000 and 2001 until October 2002. Consequently, HUD's Departmental Enforcement Center (DEC) assessed the project owner $3,000 in penalties for their late submission. The management agent initially paid this penalty out of project funds, which is an ineligible cost. However, the management agent corrected the situation and subsequently paid the penalty from non-project funds as a result of our audit inquiry.

Additionally, the agent did not contract with an independent auditor to prepare the FY2002 AFS until late April 2003. Thus, these statements, due March 31, 2003, were late and the project owner will most likely be assessed another penalty. As of December 2003, the auditee had not filed the FY 2002 AFS.

Required Documentation Not Maintained

The agent did not maintain adequate records to support expenditures and project costs. Bank statements, invoices, contracts, and supporting documentation for purchases/costs were not consistently maintained and readily available for review. Management agreements and other Identity-of-Interest (IOI) contracts as well as service agreements/contracts also were not available for review. The lack of supporting information impeded the management agent's ability to support expenditures, and justify costs for IOI services (see Findings 1 and 2).

Chart of Accounts Not In Prescribed Format

The management agent did not maintain the project's accounting records in the prescribed format. HUD requires that Section 202 direct loan projects use HUD's chart of accounts, as described by the HUD Real Estate Assessment Center (REAC) to ensure that books are complete and reporting is uniform. Consistency allows REAC and HUD field offices to input data directly from the financial statements into their computer system without misinterpretation (HUD Handbook 4370.2 Rev-1, Chapters 2 and 4).

However, the agent did not use the required chart of accounts. For example, HUD prescribes the use of 2300 series accounts for long-term payables; however, the agent used 2700 accounts. HUD also prescribes the use of 5000 series accounts for revenue accounts; however, the agent used 4000 accounts.

Thus, the agent's failure to use the prescribed chart of accounts increased the risk of either the agent misstating or HUD misinterpreting the financial data provided.

Operating Procedures Not Maintained

Federal regulations require that managers:

> *"Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."* (OMB Circular A-133 Subpart C)

Generally Accepted Accounting Principles (GAAP) also require that organizations:

> *"... will establish policies and procedures to help ensure management directives are carried out. Those policies and procedures represent "control activities." Control activities ... include the following (in part): (1) Information processing controls--such as controls to check the accuracy, completeness, and authorization of individual transactions. Information processing controls include automated as well as manual controls; and (2) Physical controls--such as physical security of assets, including adequate safeguards over access to assets and records, authorization for access to computer programs and data files…"* (SAS No. 55 and 78)

However, the management agent had not updated the management plan (containing operating procedures) since the project was established in 1986. The management plan, as well as HUD manuals and handbooks, were not available on site for staff use before our audit began. Management agent officials acknowledged that they did not maintain operational policies and procedures in all areas. Consequently, employees were not aware of operating procedures and thus did not refer to them in their day-to-day activities.

Weak Computer Controls

Computer controls governing the agent's major accounting system also were not developed. Password security was not maintained and passwords for the project's accounting system had not changed in some time. We observed a former employee accessing the system using a non-secure password. Consequently, procedures were inadequate to detect and prevent security violations (i.e. unauthorized use, damage, loss, or modifications to the system).

Also, back-up or disaster recovery procedures were not in place in the event of a major disaster to the computer system or physical location. During the audit, back-up disks were made for the current year's accounting books. However, back-up disks for past year's books were not maintained.

Utility Bills Not Paid Timely

The management agent failed to pay utility bills in a timely manner, resulting in late fees, legal fees, and other penalties (which are ineligible project costs). As of April 2003, the total amount past due was $23,275: (1) $2,911 for electricity; (2) $3,525 for gas; and (3) $16,839 for water.

As discussed below, lack of timely payments also resulted in liens placed against the project.

We attributed late payments, in part, to the significant amounts of project funds expended for other ineligible, unnecessary, and unreasonable purposes (see Finding 1 and Finding 2).

Liens Attached to the Property

Property records at the Hartford City Clerk's office indicated that numerous liens were placed on the project. As of April 29, 2003, four outstanding unsatisfied liens were attached to the project totaling $70,770.

According to Section 10 of the Regulatory Agreement:

> *"Mortgagor shall, from funds other than project income, immediately satisfy or release any mechanic's lien, attachment, judgment lien, or any other lien which attaches to the mortgaged property…"*

According to Section 7 of the Regulatory Agreement, the mortgagor shall not, without the written approval of HUD:

> *"...transfer, dispose of, or encumber any of the mortgaged property."*

In response to our draft report, the auditee moved to release the outstanding liens. Two of the four outstanding liens identified in our draft report were released and supporting documentation was provided. For the remaining two outstanding liens identified, the auditee provided a copy of a letter from the water utility company (lien holder) indicating that a payment arrangement was made and the two liens will be released. The lien holder also stated in the letter that if the account is kept in good standing with regards to billing and payments, no further action will be taken. However, the auditee did not provide any documentation from the Hartford City Clerk's office that the lien releases were actually filed.

Capital Improvement Plan and Effective Maintenance Program Not Implemented

The HFO required that the management agent submit a Comprehensive Needs Assessment (CNA) as a provision for granting the 1999 rent increase. HUD requested a list prioritizing the capital improvements needed and the time for implementing them. The CNA was completed in December 1999. However, the agent did not develop or submit a plan to implement the capital improvements and modernization needs identified in the CNA.

The CNA concluded that overall the facility was generally in good condition and:

> *The problems facing this building are fairly typical of a structure its size, age and use.* ***However, the lack of a significant maintenance program has resulted in the premature failure of some components.*** (Emphasis added.)

In April 2000, the HFO conducted its own physical inspection of the project in response to a substandard October 1999 REAC inspection. The HFO concluded that the project needed improvements. HUD specifically found that the management agent lacked an effective maintenance program for tracking repairs and in-house inspections, the quality of repairs was poor, and the rate of repair was slow.

The project received a favorable score in the most recent REAC inspection in June 2002. However, several capital items still require repair and/or replacement. Previous REAC inspections, the CNA, our inspections, and the management agent's own routine physical inspections indicated that, among other items, kitchen appliances, cabinets, and windows required maintenance or replacement.

The agent established several systems to schedule and track routine maintenance. However, we determined that the systems were not always effective, used consistently, or maintained to ensure that work was completed. Additionally, inconsistent information provided by the management agent's employees offered little assurance to HUD that they were actively pursing corrective action regarding deficiencies previously cited by REAC.

We recognize that the project's physical inspection scores have improved since 1999; however, the lack of an effective maintenance and inspection program and capital improvement plan may very well reverse this trend.

Missing Fidelity Bond Coverage

The owner/agent did not carry a fidelity bond in accordance with HUD requirements. In order to provide a basic level of protection for project assets the management agent must certify in the Management Agent Certification that it carries fidelity bond or employee dishonesty coverage for: (1) all principals of the management entity, and (2) all persons who participate directly or indirectly in the management and maintenance of the project and its assets, accounts, and records. The project must be insured for at least the value of two months gross potential income for the project and must be maintained during the life of the loan. According to the latest HUD approved rent schedule, this would equate to aproximately $76,540 in required fidelity bond coverage ($38,270 X 2 months).

Deficient Management Oversight

These conditions occurred due to the management agent's lack of oversight over project operations and expenditures. In addition, the management agent did not establish operational and financial accounting policies and procedures, especially those relating to project cost controls and HUD requirements over the administration of the RFR.

Auditee Comments

The auditee acknowledged that they did not properly maintain the project books and records. The auditee responded that they took immediate actions including the hiring of a new accountant. The auditee also acknowledged that HUD manuals were not up-to-date and not readily available for use by the employees.

In addition, the auditee stated that they took immediate corrective actions on the liens. The auditee indicated that all liens had been removed.

The auditee also acknowledged that the capital improvement and preventive maintenance program need improvements. The auditee indicated that the last three HUD REAC inspections showed that the project is in good physical condition. The auditee also indicated that the occupancy rate has been close to 95 percent over the last several years.

The auditee also indicated that they purchased the HUD required Fidelity Bond coverage on June 17, 2003, for $100,000.

Finally, the auditee provided the results of the most recent Section 8 program billing and subsidy review (March 2002), conducted by REAC. The REAC reviewer concluded that no discrepancies or other issues existed.

OIG Evaluation of Auditee Comments

The auditee concurred with the majority of our findings and has taken some corrective action. However, the auditee did not specifically address the RFR deficiencies.

We do not agree that by hiring another accountant the management agent will be able to correct the deficiencies found, manage the project effectively, and protect HUD's interest. The hiring of the current accountant is the fifth such accountant in the last two years. The inability to retain a qualified accountant is another indication of poor management and greatly influences the project's ability to provide timely financial information to HUD and in a manner required by HUD.

We concur with the auditee's response that physical inspection scores have improved since 1999; however, the lack of an effective maintenance and inspection program and capital improvement plan may very well reverse this trend.

We also acknowledge that REAC did not find any discrepancies or other issues in the most recent HUD Section

8 program billing and subsidy review (March 2002). REAC conducted this review in support of the Rental Housing Income Integrity Project mandate. However, the auditee affirmation does not affect our results or recommendations because we did not review the Section 8 billing and subsidy calculations.

Recommendations

We recommend that you require the owner/management agent to:

3A. Replenish the project's RFR $106,942 ($105,128 + 1,814) for the questionable activity.

3B. Reimburse the project's RFR $4,000 from non-project funds for the balance of the unpaid ineligible loan to its affiliate.

3C. Provide support from the Hartford City Clerk's Office that a release of lien was filed for each of the two outstanding liens placed by the Water Bureau of the Metropolitan District (Appendix E) and verify that no additional liens were placed on the property since our review period ended.

3D. Bring current all bills exceeding 30 days, especially those related to major utilities (any late fees, legal fees and penalties from unpaid bills should be paid from non-project funds).

3E. Develop and implement operating and financial accounting procedures, polices, and manuals with the new management agent. In particular, these documents should address HUD requirements for proper record keeping, maintaining accounting books and records current, and the timely submission of annual financial reports.

3F. Update all accounting records and ensure timely submission of future AFS to HUD.

3G. Develop and implement computer control polices and procedures, especially concerning security concerns and disaster recovery, with the new management agent.

3H. Update the existing CNA and submit it to your office, along with a plan for addressing capital improvements needed at the project, and the time period for implementing them.

3I. Develop and implement a comprehensive inspection and maintenance program acceptable to your office.

Management Controls

In planning and performing our audit, we obtained an understanding of the management controls used by the management agent, La Casa De Puerto Rico (LCDP), that were relevant to our audit objectives. We reviewed the LCDP's management control systems to determine our auditing procedures and not to provide assurance on management controls.

Management controls consist of a plan, organization, methods, and/or procedures adopted by management to ensure 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, maintained, and fairly disclosed in reports.

Relevant Management Controls

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

- Management controls over project expenditures.
- Management controls over project financial reporting requirements.
- Management controls over maintaining the project in satisfactory physical condition.
- Assuring the safeguarding of project assets.
- Assuring compliance with applicable laws and regulations.

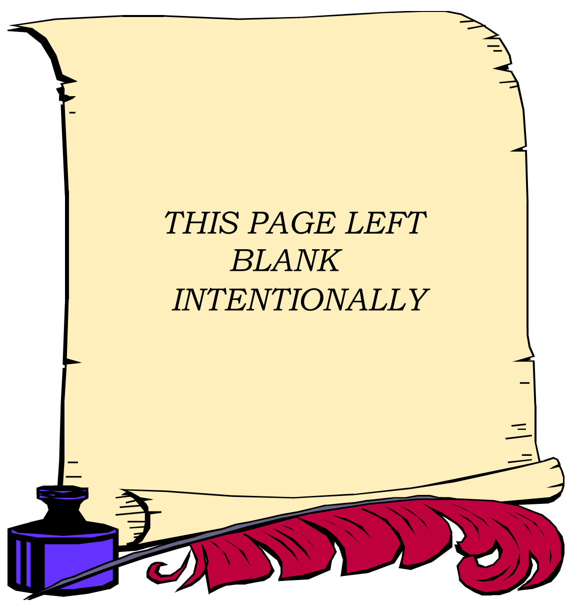
We assessed the relevant controls identified above.

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, maintained, and fairly disclosed in financial statements and reports.

Based on our review, we believe the following items are significant weaknesses: (1) Management controls over cash receipts, cash disbursements and the safeguarding of project assets (including computer controls); (2) Management controls assuring compliance with financial reporting requirements and HUD regulations; (3) Management controls of maintaining the project in a satisfactory physical condition, and (4) Management controls assuring compliance with applicable HUD regulations.

We discussed the specific weaknesses in the Findings sections of this report.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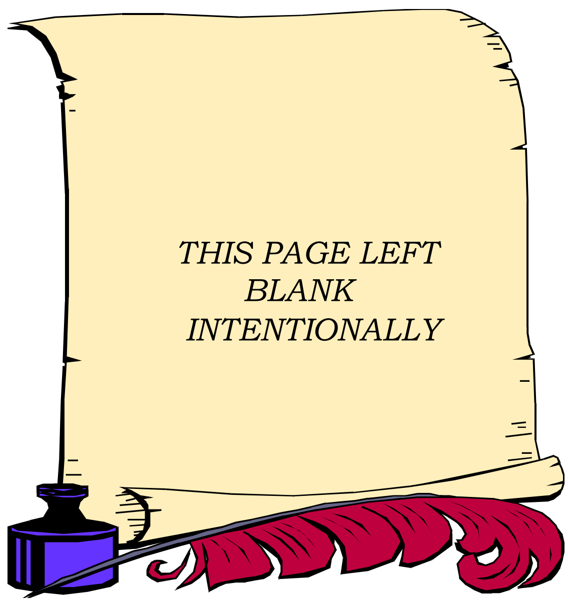
Summary of Questioned Costs

	Type of Questioned Cost		
Recommendation Number	Ineligible [1]	Unsupported [2]	Unnecessary/unreasonable [3]
1A	$244,103		
2A	$4,132		$10,623
2B		$1,630	
3A	$106,942		
3B	$4,000		
Totals	**$359,177**	**$1,630**	**$10,623**
Total Questioned Costs	**$371,430**		

1. Ineligible costs are those that are questioned because of an alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of funds.

2. Unsupported costs are those whose eligibility cannot be clearly determined during the audit since such costs were not supported by adequate documentation. A legal opinion or administrative determination may be needed on these costs.

3. Unnecessary/unreasonable costs are those that are not generally recognized as ordinary, prudent, relevant, and/or necessary within established practices. Unreasonable costs exceed the costs that would be incurred by a prudent person in conducting a competitive business. A legal opinion or administrative determination may be needed on these costs.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Schedule of Transfers to Affiliates (Finding 1)

Check Number	Payee	Date	Amount
2493	LCDP	01/14/99	$ 6,700
2496	LCDP	02/11/99	4,500
2506	LCI	03/30/99	5,500
2507	LCDP	04/09/99	6,200
2510	LCDP	04/23/99	770
2527	FRC	04/30/99	4,900
2528	LCDP	04/30/99	23,527
2538	LCDP	05/07/99	5,050
2544	LCDP	05/12/99	40,000
2545	LCDP	05/19/99	10,000
2547	LCDP	05/20/99	25,000
2548	LCDP	06/03/99	6,400
2561	LCDP	06/17/99	10,000
2566	LCDP	07/15/99	9,300
2568	LCDP	07/28/99	11,834
2571	LCDP	08/12/99	12,250
2588	LCDP	09/08/99	12,000
2589	LCI	09/08/99	2,000
2596	LCDP	10/07/99	6,000
2598	LCDP	10/21/99	3,650
2600	LCI	10/28/99	3,500
2602	LCDP	11/04/99	15,850
2610	LCDP	11/18/99	3,500
2613	LCDP	12/06/99	12,000
2626	LCDP	12/16/99	11,750
2629	LCDP	12/29/99	16,250
2635	LCDP	01/12/00	6,000
2643	LCI	01/28/00	3,000
2645	LCDP	02/09/00	9,000
2656	LCI	03/08/00	3,300
2657	LCDP	03/03/00	13,900
2796	LCDP	04/06/00	14,900
2799	LCDP	04/20/00	4,400
2800	LCDP	05/04/00	14,000
2813	LCDP	06/01/00	11,200
2816	LCDP	06/15/00	12,000
2826	LCI	06/29/00	2,000
2827	LCI	07/05/00	5,350
2829	LCDP	07/13/00	8,000
2836	LCDP	07/24/00	8,000
2848	LCI	08/03/00	1,300
2849	LCDP	08/03/00	3,900

Schedule of Transfers to Affiliates

Check Number	Payee	Date	Amount
2861	LCDP	09/07/00	5,850
2862	LCDP	09/11/00	3,500
2865	LCDP	09/13/00	2,000
2868	LCDP	09/21/00	5,000
2870	LCDP	10/05/00	8,050
2874	LCDP	10/20/00	10,000
2882	LCDP	11/02/00	12,500
2891	LCDP	11/16/00	5,000
2900	LCDP	12/13/00	5,000
2914	LCDP	12/28/00	9,000
2917	LCDP	01/10/01	7,250
2918	LCI	01/10/01	5,000
2924	LCDP	01/25/01	4,750
2928	LCDP	02/08/01	12,500
2930	LCDP	02/22/01	6,000
2949	LCDP	04/09/01	6,000
2958	LCDP	05/02/01	4,000
2959	LCDP	05/16/01	9,000
2978	LCDP	06/26/01	14,250
2987	LCDP	07/12/01	10,000
3005	LCDP	08/28/01	10,000
3011	LCDP	09/19/01	10,000
3075	LCDP	01/09/02	10,000
3126	LCDP	04/18/02	13,000
3148	LCDP	06/13/02	1,000
3157	LCDP	07/10/02	10,000
3172	LCDP	08/07/02	15,000
3179	LCDP	08/22/02	4,500
3196	LCDP	10/17/02	10,000
3199	LCDP	10/03/02	5,500
3202	LCDP	10/31/02	5,000
3218	LCDP	11/26/02	2,500
Wire	LCDP	08/09/00	6,500
Wire	LCDP	01/03/02	3,000
TOTAL TRANSFERS TO AFFILIATES:			**$639,331**

Schedule of Ineligible, Unsupported, and Unnecessary/Unreasonable Costs (Finding 2)

Check Number	Date	Description	Ineligible Amount	Unsupported Amount	Unnecessary/ unreasonable Amount
2520	4/30/1999	Cooperative Membership			$600
2540	5/3/1999	Food & supplies for celebration		$75	
2564	6/23/1999	Food & supplies for celebration		100	
2580	8/19/1999	Boxes for food Cooperative		25	
2593	9/14/1999	Tour Company			1,576
2606	11/12/1999	Tour Agency			114
2609	11/16/1999	Lunch for celebration		160	
2648	2/9/2000	Decorations for Holiday		60	
2803	5/8/2000	Celebration		30	
2804	5/8/2000	Celebration		115	
2838	7/26/2000	Ocean trip			100
2839	7/26/2000	Food for beach trip			150
2840	7/26/2000	Bus transportation to beach			425
2841	7/26/2000	Payment to Individual		600	
2857	8/28/2000	Music at picnic			300
2858	8/25/2000	Music at picnic		200	
2889	11/6/2000	Bus to casino			415
2893	11/17/2000	Bus to city to see a play			670
2895	11/17/2000	44 tickets to see a play			616
2896	11/17/2000	45 meals during trip to see a play			673
2941	3/30/2001	Payment to Individual			100
2943	3/27/2001	Bus to casino			440
2945	3/30/2001	Food cooperative			440
2955	5/1/2001	Bus to city to see a play			700
2988	7/17/2001	Trip to beach			682
2989	7/17/2001	Trip to a Rhode Island Zoo			748
3007	9/12/2001	Trip to Museum and dinner			704
3107	4/3/2002	Trip to Casino			460
3156	7/2/2002	IRS Penalty Payment	$4,132		
3166	8/1/2002	Trip to NYC Statue of Liberty and Spanish Harlem			350
3174	8/19/2002	Trip to Aquarium			320
3177	8/19/2002	Celebration dinner		140	
3216	8/25/2002	Celebration dinner for 45 people		125	
3219	12/10/2002	Payment to Individual			40
		SUBTOTALS:	**$4,132**	**$1,630**	**$10,623**
		GRAND TOTAL:		**$16,385**	


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Schedule of Questioned Reserve Fund for Replacement Activity (Finding 3)

Transaction Date	*HUD Approved Amount*	*Amount Withdrawn*	*Outstanding Amount*	*Audit Comment*
5/99	0	0	$83,225	Retroactive rent increase proceeds not deposited in RFR
10/29/99	27,202	27,202	21,903	$21,903 of approved $27,202 HAP advance had not been returned as of June 2003
03/03/00	0	10,000	4,000	Management agent only repaid $6,000 as of June 2003
06/16/00	10,763	11,971	1,208	Excess Withdrawal Questioned
06/06/02	13,294	13,900	606	Excess Withdrawal Questioned
		Total	**$110,942**	


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Schedule of Liens (Finding 3)

Date Filed	Amount	Status	Description
09/28/87	$63,000	Released	Construction Lien for services rendered and materials furnished in the construction, erection, raising, and removal of buildings at 68 Oak Street, Hartford, CT
01/30/98	3,848	Outstanding	Utility Lien to secure payment due 1/30/97 to 10/29/97 inclusive for use of water to the project provided by Water Bureau of the Metropolitan District
06/09/99	3,239	Outstanding	Utility Lien to secure payment for the use of water during the period of 4/29/98 to 4/29/99 provided by Water Bureau of the Metropolitan District
05/31/02	683	Released	Tax Lien to secure payment of taxes, interest, and fees due the City of Hartford 7/1/01
Total	**$70,770**		


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Auditee Comments

LA CASA DE PUERTO RICO, INC.

January 15, 2004

Barry L. Savill
Regional Inspector General, Office of Audit
U.S Department of Housing and Urban Development
New England Office of Regional Inspector General for Audit, 1AGA
Thomas P. O'Neill, Jr. Federal Building
Room 370
10 Causeway Street
Boston, Massachusetts 02222-1092

Dear Mr. Barry L. Savill:

Enclosed please you will find La Casa de Puerto Rico's written response and supporting documentation to the final draft audit report for consideration and inclusion to the final report. We have adhered to the format used in the audit report and have responded to each finding individually and have attached the documentation to the same as appendices.

2004 JAN 16 A 8: 18 HUD/HARTFORD, CT MULTIFAMILY HOUSING

I'm pleased to know from your letter dated December 16, 2003 that your office places high priority on resolving disputed issues and in seeking agreement on effective corrective actions to the findings.

We are requesting that the amount of $244,103.00 be reduce to reflect the documentation included in this response.

Board of Directors and New Interim Executive Director are putting place the following actions:

1. Tighter accounting controls in accordance to HUD and GAAP practices.
2. Upgrade of computer systems and programs
3. Establish a business continuity program.
4. Additional training for staff associated with this program.
5. The Board will actively participate in monitoring the implementation of the changes being made.
6. Strong financial consultant will be brought on board to oversee accounting and financial policies and procedures. This will be possible through a Technical Assistant Grant secured from the Hartford Foundation for Public Giving.

48 Main Street, Hartford, CT 06106 • Phone (860) 522-7296 • Fax: (860) 246-6070

United Way of the Capital Area

As demonstrated by our steps to immediately correct the deficiencies noted, we are taking this matter seriously and will make every effort to avoid this from re-occurring in the future. If you have any additional questions or comments, please contact me at 956-1303.

Sincerely,

William Newton, President
Board of Directors

cc:
Ellen Connolly, Boston Multifamily HUB Director, 1AMHLA
Suzanne C. Baran, Director, Multifamily Program Center, Hartford Field Office, 1EMLAT
Julia Fagan, Hartford Field Office Director, 1EMA
File

Finding 1

Management Agent used Operating Account To Fund Affiliates

In May 1999, La Casa Elderly received $353,224.98 in a retroactive rent adjustment from HUD. An accounting of these funds was submitted to HUD in accordance with a request from Mr. Gary Berman of the HUD Connecticut office (See letter dated June 18, 1999).

The disbursement amounted to $163,259.42 in expenditures and $190,000.00 into the Reserved Account.

Each month following the receipt of the retroactive rent increase La Casa Elderly submitted a cash report to Mr. Berman of HUD. These reports reflected the beginning cash balances. Deposits made during the month; and the disbursements made during the month; and finally an ending cash balance. Any additional information required as a result of the HUD review was immediately provided to HUD.

Further, La Casa Elderly always requested HUD approval in writing prior to using funds from the Reserve Account. The request was submitted to Mr. Berman of HUD and approval was obtained prior to making the acquisition or incurring the expenditures.

Please, note that La Casa de Puerto Rico, Inc. had advanced La Casa Elderly funds to operate the building while awaiting the retroactive rent increase. These advances were repaid using the funds received from the retroactive rent increase.

La Casa Elderly can assure you that the documentation supporting the above statement can be found in the HUD files located in the HUD Connecticut office. (see appendix 1.a).

We request that the information and documentation submitted be considered against the amount of $244,000.00 identified by the audit and that the amount be reduced by; $83,225.00. Any other funds transferred without proper authorization or improperly allocated will be reimbursed by the owner/management agent.

Finding 2

Management Agent Charged Ineligible and Unsupported Costs to Project

2. (a) Costs Must Be Reasonable and Necessary

2. (b) Miscellaneous Ineligible Costs

Resident Field trips/ transportation and food $9,443.00

We are awaiting reimbursement from the City of Hartford.
(See appendix 2.b)

Membership to Holcomb CSA

Check#	Date	Amount
2520	04/30/99	$600.00
2945	03/30/01	$440.00

This contractual expenditure was made to provide low-income tenant at Nuestra Casa to have access to affordable fruits and vegetables. (See appendix 2.b).

2.(c) Ineligible IRS Penalty Costs

Check#	Date	Amount
3156	07/02/02	$4,132.00

Owner will reimburse the project account in the amount of $4,132.00. This penalty was due to late filling by Auditors.

2.(d) Unsupported Utility and Miscellaneous Costs.

Check#	Date	Amount
2618	12/14/ 99	$6,023.00
2644	02/01/00	$8,825.00
2903	12/13/00	$4,000.00
3010	09/14/01	$3,635.00
		$22,483.00

We have appended documentation to these expenditures. These documents were offered to the HUD-IG who directed us to present them at this time. See appendix 2(d).

Payment to individuals:

Check#	Date	Amount
2941	03/30/01	$100.00- Wandick Mateo
2841	07/26/00	$600.00- Enid Zayas
2915	01/10/01	$315.00- Enrique González
3219	12/10/02	$ 40.00- Aida Gonzalez
		$1,055.00

We have appended documentation for the payment to individuals. The individuals were hired to provide a service. The Elderly Service Coordinator Wandick Mateo received petty cash. Enid Zayas worked as a short time consultant to cover the vacancy of the Elderly Services Coordinator position. Enrique Gonzalez did a small painting job. Aida Gonzalez prepared food for the elderly tenants at Nuestra Casa and was paid out of petty cash. (See appendix 2.d).

We request that the information and documentation submitted be considered against the amount of $244,000.00 identified by the audit and that the amount be reduced by; $28,710.00. Any other funds transferred without proper authorization or improperly allocated will be reimbursed by the owner/management agent.

2(e) Poor Management Oversight

The following comments are written not to justify but as to put in context the situation La Casa found itself during this time period. The arrival of the HUD Auditor at La Casa in January, 2003 coincided with the Agents efforts to hire a new financial person at La Casa de Puerto Rico, Inc. as the previous one had resigned in October of 2002. In an effort to recruit an individual with the adequate requirements, including HUD accounting procedures, knowledge of Peachtree accounting system or one that could be trained, three individuals were hired and terminated; one worked from Dec. 27, 2002 to Jan. 15, 2003;the next from Feb. 4, 2003 to May 28, 2003; and the last from June 6, 2003 to September 12, 2003. The absence of the person who had been responsible for the office caused great difficulties. Two staff person were assigned to assist with the Audit. The information requested was found in previous year's records. On September 10, 2003, a qualified individual was hired for the position of accountant. Mr. Day has a B.S. Degree in accounting and retired after 10 years as principal accountant for the Hartford Housing Authority.

Finding 3

Management Agent Failed to Adequately Manage Project Operations

We acknowledge the fact that the Projects books and records were not properly maintained resulting in lack of appropriate financial information for management to respond in a timely manner.

Immediate actions have been taken to remedy the situation on September 10, 2003 a qualified individual was hired for the position of Accountant. Mr. Day has a BS Degree in Accounting and worked for ten (10) years as principal Accountant for the Hartford Housing Authority. Prior to Mr. Day starting, La Casa had hired and terminated three (3) different accounting people who at the time of hiring were thought to be qualified to handle HUD's accounting requirements. It was quickly determined that this was not the case, which caused further delay in getting our financial information in proper order.

HUD manuals were in the premises but not readily available. We acknowledge the fact that they were not properly kept up to date.

Once made aware of liens by the HUD audit we immediately took corrective action and all liens have been removed from the property. (See appendix 3.a).

We acknowledge that our capital improvement and preventive maintenance program need to be proactive versus reactive.

Our last REAC physical inspection dated June 6, 2002 resulted in a total score of eighty-three (83); and our score in October 1999 was a twenty-five (25) our score in January 2001 was a seventy-nine (79). As you can see we are making every effort to constantly improve the physical conditions of our building

In addition our occupancy rate for the forty (40) units has been close to 95% for the last several years.

Regarding the Fidelity Bond, after being made aware that one was required a Fidelity Bond was purchased on June 17, 2003 in the amount of $100,000.

IG

LA CASA DE PUERTO RICO, INC.

January 16, 2004

HUD HARTFORD.CT
JAN 20 P 2: 53

Barry L. Savill
Regional Inspector General, Office of Audit
U.S. Department of Housing and Urban Development
New England Office of Regional Inspector General for Audit, 1AGA
Thomas P. O'Neill, Jr. Federal Building
Room 370
10 Causeway Street
Boston, Massachusetts 0222-1092

Dear Mr. Savill:

Yesterday, January 15, 2004 we submitted our answers to the Draft Audit Report as requested, we omitted sending part of our responses. We are enclosing responses to Finding 2. Item 2.b page 2. See attached letter written to Mr. Victor L. Powell, Enforcement Assistant dated June 23, 2002 and to Finding 3 page 4. See attached fax Finding 3 from Mr. Elking Tarver regarding the outcome of the HUD Billing and Subsidy Field Review done by HUD's Estate Assessment Center in March of 2002. A letter from Mr. Frederick Tombar III, Acting Deputy Assistant Secretary for Multifamily Housing Program is also included.

Please, accept our submission and include the same to the report.

We thank you for your attention to this matter.

Sincerely,

William Newton

William Newton, President
Board of Directors

cc: Ellen Connolly, Boston Multifamily HUD Director, 1AHMLA
Suzanne C. Baran, Director, Multifamily Program Center, Hartford Field Office, 1EHMLAT
Julie Fagan, Hartford Field Office Director, 1EMA

48 Main Street, Hartford, CT 06106 • Phone (860) 522-7296 • Fax: (860) 246-6070

United Way of the Capital Area

Finding 2

Ineligible IRS Penalty Cost

The IRS assessed a penalty of $4,132 (penalty plus interest) on the project's accounts for the tax year ending December 31, 2000. The penalty was the result of the management agent's failure to file and IRS Form 990 ("Return of Organization Exempt From Income Tax:") on time. The IRS assesses a $20 penalty per day for such violations. The IRS also put a tax lien on the project's tenant security deposit account on June 26, 2002 to secure payment. Payment was made by the management agent from project funds and was received by the IRS on July 2, 2002. The tax lien was subsequently removed. This cost was not a reasonable and necessary expense to be paid from project operating funds.

We have attached a memo dated June 27, 2002 regarding the payment of these monies. It is our understanding that the problems were due to the fact that year 2000 was the first time HUD was instituting electronically submission of audit reports and was encountering technical difficulties with the system. A copy of the physical audit report for 2000 was delivered to our Program Officer at the local HUD office. See attached letter to Mr. Victor Powell, Enforcement Assistant dated June 27, 2002.

Finding 3

Management Agent Failed to Adequately Manage Project Operations

We are submitting for inclusion in Finding 3 responses in a fax from Mr. Elking Tarver regarding the outcome of the HUD Billing and Subsidy Field Review done by HUD's Estate Assessment Center in March of 2002 a letter from Mr. Frederick Tombar III, Acting Deputy Assistant Secretary for Multifamily Housing Program is also included.