audit report

Issue Date June 30, 2006	
Audit Report Number 2006-BO-1008	

TO: Suzanne Baran, Director, CT Multifamily Program Center, 1EHMLAT

FROM: John Dvorak, Regional Inspector General for Audit, 1AGA

SUBJECT: Hall Commons Inc., Bridgeport, Connecticut, Did Not Administer its $4.1 Million Section 202 Capital Advance Construction Grant in Accordance With Federal Requirements

HIGHLIGHTS

What We Audited and Why

At the request of HUD, we audited Hall Commons Inc.'s administration of its Section 202 Supportive Housing for the Elderly capital advance construction funds. Our audit objective was to determine whether Hall Commons administered the Section 202 funds advanced for construction in accordance with federal requirements.

What We Found

Hall Commons Inc. did not administer its Section 202 capital advance construction funds in accordance with federal requirements. Hall Commons failed to maintain adequate and essential financial records to accurately account for project financial transactions and safeguard project assets. They also made unauthorized disbursements and allowed required insurance policies to lapse due to non-payment of premiums. This occurred because Hall Commons did not establish adequate internal controls over its cash accounts to safeguard project assets, and had inadequate board of directors oversight. As a result, more than $2 million in capital advances and payments to vendors and contractors were not properly recorded, $199,411 in project funds were disbursed in violation of the governing project agreements,[1] the project was not always covered by builder's risk or crime insurance, and real estate taxes were delinquent. The serious deficiencies indicate that Hall Commons does not have the capacity needed to successfully develop the project.

What We Recommend

We recommend that the Connecticut multifamily program center director pursue applicable sanctions available under the regulatory agreement to protect HUD's $4,079,100 investment including issuing a notice of default and if the violations are not corrected within 30 days declaring a default, taking possession of the project, foreclosing on the mortgage, or requiring a transfer of physical assets to a HUD approved nonprofit corporation; and require Hall Commons Inc. to support and/or repay the $199,411 in project funds that were disbursed in violation of the governing project agreements.

If Hall Commons is allowed to remain the owner, we recommend the Connecticut multifamily program center director require Hall Commons to establish a financial accounting system and maintain current and accurate books and accounts, and a functioning board of directors to provide adequate oversight over project operations.

For each recommendation in the body of the report without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Please also furnish us copies of any correspondence or directives issued because of the audit.

Auditee's Response

The complete text of the auditee's response, along with our evaluation of that response, can be found in appendix B of this report.

[1] The project is governed under a capital advance regulatory agreement and a minimum capital investment agreement.

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BACKGROUND AND OBJECTIVES

The Section 202 Supportive Housing for the Elderly program serves those very lowest income seniors with few options. According to some estimates, the senior population, those over 65, is expected to double by the year 2030, from 35 million to 70 million. For the last several years, Section 202 funding has been stable but higher construction costs for projects have meant fewer new units each year. These projects provide very low-income elderly with options that allow them to live independently but in an environment that provides support activities such as cleaning, cooking, transportation, etc. Given the stakes involved, the long-term viability of such projects cannot be underestimated.

Under the provisions of Section 202 of the Housing Act of 1959, the Department of Housing and Urban Development makes and disburses a capital advance pursuant to a mortgage, deed of trust or security deed to construct an elderly housing project. The mortgage, deed of trust or security deed is used as security for the capital advance, and would be payable in full in the event of default by the owner/mortgagor.[2] The capital advance is subject to compliance with a regulatory agreement, a use agreement, and a firm commitment for capital advance financing agreement. The regulatory agreement and owner certificate are executed by an owner/mortgagor at the time a mortgage is executed between the owner/mortgagor and the mortgagee or HUD. The owner/mortgagor also executes a capital advance agreement at the time the mortgage is executed. This agreement contains provisions that moneys in the construction account shall be expended only for the purposes for which capital advance funds were requested and approved. The same requirements are applicable to any escrow deposit agreements required by HUD.

The regulatory agreement and certificate contain provisions that require: 1) accounts of mortgaged property operations be kept in accordance with the requirements of the Secretary of Housing and Urban Development and in such form as to permit a speedy and effective audit; and 2) the mortgaged property, equipment, buildings, plans, offices, apparatus, devices, books, contracts, records, documents, and other papers relating thereto shall at all times be maintained in reasonable condition for proper audit and shall be subject to examination and inspection at any reasonable time by the Secretary or his duly authorized agents. Owners shall keep copies of all written contracts or other instruments which affect the mortgaged property, all or any of which may be subject to inspection and examination by the Secretary or his duly authorized agents. The owner/mortgagor is also to follow HUD Handbook 4370.2 REV-1: *Financial Operations and Accounting Procedures for Insured* that requires that 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.

[2] Hall Commons Inc. is the owner/mortgagor, who executed a mortgage with HUD, and the mortgage is between Hall Commons and HUD and no bank is involved with this mortgage. HUD provides the capital advance after it executes a mortgage instrument securing the advance, which act more like a security deed than the mortgage since HUD is giving the owner/mortgagor money.[3] The financial records provided included (1) a manual type Capital Advance account checkbook that did not include running balances, (2) an incomplete set of bank statements, and (3) copies of the front of the checks for some disbursements.

HUD agreed to make and disburse a $4.1 million capital advance for constructing a 41-unit Section 202 elderly housing development at 45 George E. Pipkin's Way, Bridgeport, Connecticut, known as Hall Commons. The total budget for the Hall Commons project is $5.8 million including HUD's $4.1 million award of Section 202 funds and the State of Connecticut Department of Economic and Community Development's $1.7 million award of HOME funds. As of March 30, 2006, HUD had provided $2 million of the $4.1 million capital advance for the project's development.

Our overall audit objective was to determine whether Hall Commons Inc. administered the funds advanced for construction in accordance with federal requirements. The specific objectives were to determine whether Hall Commons (1) maintained complete and accurate project financial records to accurately account for project financial transactions and safeguarded project assets, and (2) ensured that project funds were disbursed in compliance with the controlling regulatory agreements, (3) properly recorded payments to vendors and contractors, and (4) paid project real estate taxes and insurance premiums when due.

RESULTS OF AUDIT

Finding 1: Hall Commons Inc., Did Not Properly Administer its $4.1 Million Section 202 Capital Advance Construction Grant

Hall Commons Inc. did not follow federal requirements in the administration of its Section 202 capital advance construction grant funds. Hall Commons failed to follow federal requirements because it did not (1) maintain complete and accurate project financial records for more than $2 million in HUD capital advances received, (2) properly disburse $199,411 in project funds, (3) properly record payments to vendors and contractors, and (4) pay real estate taxes or insurance premiums when due. They also improperly charged HUD for $7,500 in insurance premiums that was paid for by the State. This occurred because Hall Commons did not establish adequate or effective internal controls to administer HUD funds and safeguard project assets, or a functioning board of directors to exercise management oversight over the project's development. As a result, the project's development and HUD's potential investment of $4.1 million is at risk.

Complete and Accurate Project Records Were Not Maintained

Hall Commons Inc. was required to maintain complete and accurate records and accounts. The books of original entry were to be kept current at all times, and postings made at least monthly to ledger accounts. However, Hall Commons' financial records[3] were incomplete and did not reflect an accurate or current accounting of Hall Commons' financial transactions. For instance, Hall Commons failed to maintain a general ledger for the project. During the audit, Hall Commons produced a general ledger report showing undated posted general ledger transactions. For example, there were 10 capital advance drawdowns totaling $2 million, but only the first drawdown for $457,000 was shown on the report. Separate general ledger accounts and accurate and complete financial records are necessary to support the cost certification audit required to reach final endorsement.

Unsupported and Unauthorized Disbursements of $199,411

A review of bank records[4] for Hall Commons showed that there was $199,411 in disbursements that were in violation of the capital advance regulatory agreement and the minimum capital investment agreement. Federal requirements restrict disbursements from the capital advance account to costs approved by HUD. In addition, withdrawals from the operating deficit escrow account are not allowed without HUD's knowledge or approval. However, Hall Commons made

[4] The bank records for Hall Commons Inc. included monthly bank statements and canceled checks.

withdrawals of $184,584 from the capital advance account and $14,827 from the escrow account without HUD approval.

The $184,584 in unauthorized disbursements from the capital advance account included $154,093 in unsupported costs and $30,491 in ineligible costs as follows: (1) $154,093 payment to Hall Neighborhood House in March 2005 for "developer fees" paid to the Sponsor that was not supported, (2) $15,346 improper payment to Hall Neighborhood House in March 2005, (3) $12,270 payment used to establish the project's initial escrow account required under the minimum capital investment agreement that was not an approved use of the capital advance funds, and (4) $2,875 improper payment to a vendor. The $14,827 withdrawal from the operating deficit escrow account was also not authorized. These funds were set aside to fund any operating deficits during the project's first 3 years of operations. Hall Commons should not have withdrawn these funds for any reason during the development phase.

Payments Were Not Recorded Properly

The general ledger report provided by Hall Commons was also incomplete. For example, there was $500,562 in payments to vendors and contractors that was not included in the report. In addition, the showed that construction cost accruals were misclassified as contractual other instead of construction in process, and the project's transactions had been recorded in the project sponsor's (Hall Neighborhood House) accounting records. Timely, accurate and complete information is necessary for management decision-making. In addition, the lack of complete and accurate records will hamper final closing for the project.

Insurance Lapsed and Delinquent Real Estate Taxes

In March 2006, Hall Commons was notified that they were seriously delinquent in the real estate taxes due to the City of Bridgeport by January 1, 2006. The tax bill showed that over $11,000 was unpaid and overdue. The notification stated that Hall Commons' ownership of the property was in jeopardy and that the next notification would be a lawsuit requesting that the properly be sold at auction or transferred to the City of Bridgeport. Hall Commons' non-payment of real estate taxes put HUD's investment at risk. On May 1, 2006, HUD advanced funds from the capital advance to pay for the property taxes and interest according to the security agreement.

The project's builder's risk and crime insurance policies were also canceled for non-payment of premiums in March 2006. HUD Officials advised that the builder's risk policy was reinstated on April 11, 2006, after it was paid using State project funds. On May 4, 2006, HUD advised that the crime insurance policy also had been reinstated. During the period the insurance was canceled, the project the project was not covered for any property damage that may have occurred and HUD's investment was put at risk of loss.

Adequate Board of Directors Oversight Lacking

Hall Commons did not establish adequate internal controls over cash accounts. There was no segregation of duties or board of director's oversight over cash accounts. One officer only (the treasurer or the president), not two as required, signed the checks. In addition, the treasurer worked and held the position of bank manager at the bank where the accounts were held. Also, Hall Commons' bank statements were mailed to the treasurer at the bank. The treasurer resigned sometime in October or November 2005.

On April 18, 2006, we were provided access to the original bank statements directly from the bank manager and former treasurer. These documents showed that no bank account reconciliations were ever performed. In addition, Hall Commons requested and HUD approved $7,500 in capital advance funds to pay for insurance in May 2005. In August 2005, Hall Commons requested HOME funds from the State of Connecticut for the same item and since the funds came from the HOME funds, they should not have been requested from the capital advance, too. This lack of segregation of duties and poor record keeping are significant internal control weaknesses. These weaknesses and a lack of board oversight put the long-term viability and HUD's $4.1 million investment in elderly housing at risk.

The Hall Commons' project development under Section 202 of the Housing Act of 1959 was required to be managed and overseen by a board of directors of at least seven directors. Hall Commons had submitted and HUD approved a seven member board of directors. However, a complete board of directors was not established as represented to HUD. During the audit, we determined that a functioning board of directors did not exist. For example, one of the seven-listed board members advised that they were not and never were a board member. As of April 18, 2006, the board consisted of only one member/officer, the President and one pending member. Therefore, Hall Commons could not conduct business without the required quorum of four members. Management responsibilities of the board included establishing internal controls over the project development to ensure 1) project assets were properly safeguarded, 2) funds were only disbursed in accordance with regulatory agreement, and 3) project costs billings were appropriate. Since Hall Commons Inc. did not have a functioning board these responsibilities were not met.

Conclusion

Hall Commons Inc. failed to follow federal requirements because it had not maintained complete and accurate project financial records for more than $2 million in HUD capital advances received, properly disbursed $199,411 in project funds, properly recorded payments to vendors and contractors, or paid real estate taxes or insurance premiums when due. They also improperly charged HUD for $7,500 in insurance premiums that was paid for by the State. The actions and inactions that were demonstrated by Hall Commons' management and board of directors have put the project's viability of going forward at risk and will ultimately result in a project that won't be built or will be mismanaged without an active board. Additionally, the seriousness of the deficiencies indicates that Hall Commons does not have the capacity needed to successfully develop the project. HUD should ensure its investment is protected, and pursue available actions against the owner and sponsor, and should require repayment of the funds disbursed incorrectly or in violation of the governing project agreements. In addition, HUD should ensure that a proper board of directors is established and adequate internal controls are developed to safeguard funds and assets. Without effective internal controls or board oversight, the project's development and HUD's $4.1 potential investment is at risk.

Recommendations

We recommend that the Connecticut multifamily program center director

1A. Pursue all applicable sanctions available to HUD under the regulatory agreement to ensure that HUD's $4,079,100 investment is protected, including issuing a notice of default and if the violations are not corrected within 30 days declaring a default under the regulatory agreement and pursuing such actions as taking possession of the project, foreclosing on the mortgage, or requiring a transfer of physical assets to a HUD approved private nonprofit corporation.

1B. Pursue all applicable administrative sanctions against Hall Neighborhood House (sponsor), Hall Commons Inc. (owner), and their principals, including, but not limited to debarment.

1C. Require Hall Commons to provide adequate support to show the use of the $154,073 classified as development fees was an eligible grant expense.

1D. Require Hall Commons Inc. to repay the $30,491 in project funds that were disbursed in violation of the capital advance program regulatory agreement, and the $14,827 that was disbursed in violation of the minimum capital investment agreement, a total of $45,318.

1E. Require Hall Commons Inc. to repay the project $7,500 for insurance premium billings that were reimbursed by both HUD and the state of Connecticut.

If Hall Commons Inc. is allowed to remain the owner, we recommend the Connecticut multifamily program center director require Hall Commons to

1F. Establish a financial accounting system and maintain current and accurate books and accounts, and

1G. Establish a functioning board of directors to provide adequate oversight over project operations.

SCOPE AND METHODOLOGY

To accomplish the objective, we reviewed HUD's regulations regarding the Section 202 Program, project regulatory agreements, HUD handbook requirements, and the owner's certifications. We interviewed the project Sponsor's Executive Director, Director of Finance and HUD Multifamily Housing officials in Hartford, Connecticut. We reviewed bank statements and other financial records provided by the Sponsor and project development files maintained by HUD. Our audit fieldwork was conducted onsite at the project Sponsor's offices in Bridgeport, Connecticut and HUD's offices in Hartford, Connecticut from February through May 2006. The audit covered the period January 1, 2005 through March 31, 2006.

We conducted the audit in accordance with generally accepted government auditing standards.

INTERNAL CONTROLS

Internal control is an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved:

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

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

- Safeguarding of Assets – Policies and procedures that Hall Commons, Inc., has implemented to ensure that project assets are safeguarded.
- Disbursement of Funds – Policies and procedures that Hall Commons, Inc., has implemented to ensure project funds are disburdened in accordance with program regulations.
- Requisitioning of funds – Policies and procedures that Hall Commons, Inc., has implemented to ensure proper billings for project development cost reimbursements.

We assessed the relevant controls identified above.

A significant weakness exists if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet the organization's objectives.

Significant Weaknesses

Based on our review, all three internal controls assessed had significant weaknesses. (See Finding 1)

SCHEDULE OF QUESTIONED COSTS AND FUNDS TO BE PUT TO BETTER USE

Recommendation number	Ineligible 1/	Unsupported 2/	Unreasonable or unnecessary 3/	Funds to be put to better use 4/
1A				$4,079,100
1C		154,073		
1D	$45,318			
1E			$7,500	

1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or federal, state, or local polices or regulations.

2/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.

3/ Unreasonable/unnecessary costs are those costs 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.

4/ "Funds to be put to better use" are quantifiable savings that are anticipated to occur if an Office of Inspector General (OIG) recommendation is implemented, resulting in reduced expenditures at a later time for the activities in question. This includes costs not incurred, deobligation of funds, withdrawal of interest, reductions in outlays, avoidance of unnecessary expenditures, loans and guarantees not made, and other savings. In this instance the total project funds will be put to better use if the project is properly managed or transferred to another HUD approved private nonprofit corporation.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation **Auditee Comments**

HUD - OIG
OFFICE OF AUDIT
BOSTON, MASSACHUSETTS
2006 JUN 27 AM 11:16

HALL COMMONS INC.

52 GEORGE E. PIPKIN'S WAY
BRIDGEPORT, CONNECTICUT 06608

Joel R. Kent
Chairman

June 20, 2006

Mr. John A. Dvorak, Regional
Inspector General for Audit IAGA
U.S. Department of Housing and Urban Development
Thomas P. O'Neil, Jr. Federal Building
10 Causeway Street, Room 370
Boston, MA 02222-1092

Dear Mr. Dvorak:

Enclosed please find Hall Commons, Inc.'s response to your January 8, 2006 letter regarding the draft audit report.

We appreciate the extension you have granted us to structure our response to your audit findings. Our comments will provide additional information that will hopefully adjust the wording and tone of your findings.

The staff and Board of Directors of Hall Commons, Inc. is confident that we can resolve these issues and regain HUD's trust that is needed to manage this project.

If you have any questions, please contact me at (203) 228-0756 or (203) 345-2008. Thank you.

Sincerely,

Joel R. Kent
Chairman
Hall Commons, Inc.

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation **Auditee Comments**

Hall Commons, Inc.
HUD 202 Audit Response

Findings: Hall Commons, Inc. did not properly administer its $4.1 million Section 202 Capital Advance Construction Grant

Complete and Accurate Project Records were not maintained.

Comment 1

Response: Hall Commons, Inc. did not accurately maintain complete and accurate records and accounts. The sponsor lacked the leadership in initiating sound financial management on behalf of Hall Commons, Inc. The accounting staff did not have the capacity to perform the detail accounting and grant management functions nor was the board informed of the accounting staff's shortcomings. Very few records and bank transactions were maintained which resulted in the negative findings.

With the assistance of board members, the accounting staff and outside accounting consultants we have structured and assembled the appropriate financial and bank transactions. These documents are available for review and will be submitted to HUD at their request.

Unauthorized Disbursements of $199,411

Comment 2

Response: Prior to the March 2005 closing between Hall Commons, Inc and HUD, the sponsor Hall Neighborhood House submitted an invoice dated February 2005 (see exhibit "A") to Hall Commons for professional services rendered, in lieu of consulting fee/ sponsor and developer's administration. The $154,093 represents the sponsor's time over a four (4) year period, preparing preliminary and final applications for HUD approval. This invoice was then submitted by Hall Commons, Inc. to HUD as a description of the intended use of Developer's Fee (Section G, Line

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation	Auditee Comments

44- HUD 92013). Our position is that this should not be classified as unauthorized payment to Hall Neighborhood House, Inc.

Comment 3

The $12,270 payment to Hall Commons with a notation that indicated "open escrow" was a transaction that withdrew $12,270.00 from the Capital Advance Account and a $9,975.00 withdrawal from the Capital Investment Account to open the Ecrow Account in the amount of $22,245.00 (See exhibit "B")

The $2,875 improper payment to a vendor was an error. This transaction should have been drawn from the State of Connecticut Department of Economic & Community Development funds which there is a budgeted line item for material/concrete testing. Hall Commons will be obligated to pay back these funds to HUD at their request.

The $14,827 withdrawal from the operating deficit escrow account, which was not authorized by HUD was an administrative error. The sponsor was not certain or versed on the regulations that governed these funds nor was the board member and bank official who authorized the withdrawal of funds from this account. As we openly stated the project was in jeopardy and the contractor was threatening to stop work and eventually did for the two (2) months because of the lack of environmental testing report and identification of an approved landfill to deposit the contaminated soil. The sponsor paid Triton Environmental Associates $9,368.00 from the operating escrow account for the report, $2,832.00 was transferred to Capital Advance account and $2,627.00 to Capital Reserve account to cover negative cash balances. (See Exhibit "C").

Payments were not recorded properly.

Response: The general ledger for the Hall Commons has been completed. Original entries are established and cash receipts disbursement journeys have been set-up. Construction cost accruals in progress are now classified properly and are not a part of the sponsor's accounting records. This document is ready for HUD review at their request.

Insurance Lapsed and Delinquent Real Estate Taxes.

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AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation	Auditee Comments

Response: The City of Bridgeport is very aggressive in the collecting of real property taxes, to stabilize the increasing costs for city services. Once the sponsor received these tax bills, we were in touch with the Mayor and Tax Review Board and the Tax Collector on the back taxes due. The City was not going to initiate any type of foreclosure since we proved that the taxes would be paid by HUD funds. Since the sponsor did not have the funds to pay the back taxes, negotiations were taking place. The City was informed that funding from HUD was available to pay the taxes during construction (Section G, Line 24-HUD 92013) and that we would submit our request to HUD. Unfortunately, at this time HUD had terminated any request for funds by the sponsor and was initiating direct vendor/contractor payments to Haynes Construction. The sponsor was informed by HUD officials not to submit the request for payment of the taxes at this time.

Comment 4

The project's builder's risk and crime insurance policies were cancelled for a short period of time in March 2006. This once again was due to the sponsor not having the funds because of its severe financial difficulties. The sponsor prior to the cancellation had been trying to resolve the problem with HUD and the State of Connecticut, Department of Economic and Community Development to identify funds to pay the insurance. (See Exhibit "D") No immediate resolution to the problem occurred even though there was an approved line for insurance in the state budget.

Comment 5

The $7500 in capital advance funds to pay for insurance in May 2005 was not misappropriated. These funds were drawndown to pay for a portion of the insurance premiums. Subsequently state funds were also drawn down and paid to total cost of the insurance policy. The $7500 was not paid out to any vendor.

Adequate Board of Directors oversight lacking.

Response: Hall Commons, Inc. is in the process of obtaining HUD approval for the seven (7) required board memberships. To date, four (4) individuals have been approved by HUD. Three (3) prospective members have been recruited and the HUD 2530 forms will be submitted for HUD's review approval.

Comment 6

The four (4) members have been totally informed and briefed about the Inspector General's Audit of the HUD 202 project and have accepted complete responsibility. They have all worked with Hall Common staff to

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AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation **Auditee Comments**

address HUD's concerns and to correct the problems. The board has pledged total cooperation with HUD and hopes to regain their confidence and trust to complete the project. Interviews for the property management of Hall Commons are being scheduled within the next two weeks by the board.

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OIG Evaluation of Auditee Comments

Comment 1 Hall Commons Inc. concurs with our finding that complete and accurate records were not maintained and payments were not properly recorded. HUD should review the adequacy of the accounting records that Hall has recently established.

Comment 2 The February 2, 2005 invoice for $154,093 from Hall Neighborhood House to Hall Commons for consulting and administrative fees was not included in the requisition approved by HUD, nor was it provided to us during the course of the audit although support was requested several times. In addition, the invoice is very general and does not provide a breakout for the costs associated with the services provided.

Since we could not determine what specific items were paid for with the developer fee, we could not make a determination whether the items were eligible grant expenses. HUD approved the developer fees to Hall Commons Inc. to be used for actual and eligible development fee items, which could include consulting and some administration expenses. Hall Commons Inc. needs to provide a complete detailed breakout of actual expenses paid by Hall Neighborhood House on behalf of Hall Commons Inc. to account for how the $154,093 was applied, and support that the expenses were allowable and eligible grant expenses. We reclassified the costs from ineligible to unsupported to allow Hall Commons Inc. the opportunity to submit it to HUD for review/approval.

Comment 3 Documentation provided showed that the funds were used to establish the escrow account. However, the use of the capital advance account funds to establish the escrow account was not an approved use of the funds. The disbursement is still considered ineligible; however, the report language was revised accordingly.

Comment 4 Hall Commons Inc. was responsible to make timely payments for property taxes and for insurance. Not paying the project expenses because management failed to act and/or HUD or the State did not provide the funds did not change Hall Common's responsibility to make timely payments.

Comment 5 The $7,500 in Capital Advance funds was drawdown for insurance expenses that the State funds paid in full. Whether or not they were used to pay a vendor or remained in the Hall Commons Inc. account is not relevant to the finding. The $7,500 needs to be repaid to the project.

Comment 6 Hall Commons Inc. has operated without the required seven member board members since inception and has not maintained any board minutes or provided any documentation demonstrating adequate oversight.

Appendix C

APPLICABLE REGULATIONS AND VIOLATIONS

Capital Advance Regulatory Agreement - 11(d) & 11(e)	Did not maintain adequate books/records
Capital Advance Agreement - 4 (d)	Unauthorized disbursements
Capital Advance Agreement – 10 & Property Insurance Requirements - Form HUD 90164)	Failure to maintain insurances
Mortgage – form HUD-90165-CA - 13	Delinquent Tax Liens
Depository Agreement - Minimum Capital Investment	Unauthorized withdrawal from escrow
Hall Commons Inc. Articles of Incorporation – Article VIII	Failure to maintain a Board of directors and manage operations
By-Laws of Hall Commons Inc. 10.02	Checks only signed by one person