Issue Date	July 28, 2006
Audit Report Number	2006-DE-1005

TO: Marcia D. LaPorte, Director, Denver Multifamily Hub, 8AHML

//signed//

FROM: Ronald J. Hosking, Regional Inspector General for Audit, 7AGA

SUBJECT: Utah Non Profit Housing Corporation, Salt Lake City, Utah, Did Not Ensure Properties Generated Sufficient Income and Did Not Comply With Cost Allocation and HUD Requirements

HIGHLIGHTS

What We Audited and Why

We audited the Utah Non Profit Housing Corporation (Utah Non Profit), a management agent for nine properties assisted by the U.S. Department of Housing and Urban Development (HUD). We selected Utah Non Profit because it is the largest nonprofit organization managing low income, elderly housing in Utah. We wanted to determine whether Utah Non Profit ensured projects generated sufficient income to meet obligations, appropriately allocated costs to HUD assisted properties, and followed HUD requirements when purchasing goods and services.

What We Found

Utah Non Profit did not ensure seven properties generated sufficient funds to meet their financial obligations. It deferred payments to itself so that it could pay the projects' other expenses. As a result, the properties' financial condition could continue to deteriorate, and if Utah Non Profit continues to accrue fees and expenses, its ability to manage the properties effectively is in question.

Utah Non Profit improperly charged salary costs to properties based on an arbitrary, unsupported rate and billed properties for a supervisor's salary that its management fee should cover. As a result, HUD assisted properties could be paying salary costs for services not performed and Utah Non Profit improperly charged six properties over $49,000 for the supervisor's salary.

In addition, Utah Non Profit did not comply with HUD requirements when purchasing goods and services. It paid more than $21,000 for unnecessary expenses and may be paying as much as $30,900 more than necessary for services.

What We Recommend

We recommend the director of Denver multifamily Hub require project owners to ensure Utah Non Profit submits rent increases in a timely manner to reduce operating deficits and to pay the accrued management fees. The director should also require project owners to ensure Utah Non Profit implements an acceptable allocation plan, reimburses the properties for ineligible salaries and unnecessary costs, and develops and implements adequate management controls to ensure compliance with HUD requirements.

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

Auditee's Response

We provided the discussion draft of the audit report to Utah Non Profit on July 13, 2006 and received their written comments on July 20, 2006. Utah Non Profit agreed with the findings and recommendations. The complete text of Utah Non Profit's response is in appendix B of this report.

TABLE OF CONTENTS

BACKGROUND AND OBJECTIVES

Founded in 1967, Utah Non Profit Housing Corporation (Utah Non Profit) is a 501(c) (3) nonprofit organization and a community housing development organization. It sponsored 40 family, senior, and special needs properties, providing 1,799 affordable housing units to low income and disabled people. Utah Non Profit is also the management agent for 26 of the properties of which the U.S. Department of Housing and Urban Development (HUD) assists ten properties. Although Utah Non Profit has no ownership interest in the ten HUD assisted properties, Utah Non Profit and the properties' ownership entities share common board members.

We reviewed nine properties that Utah Non Profit manages as shown in the table below. We did not include West Jordan Senior Housing in our review because its initial occupancy began in November 2005. The table includes the financial risk rating for each property based on the properties' financial statements for fiscal year end 2005.

Project	Units	Owner	Date of Regulatory Agreement	Program and Type of Funding	FY 2005 Financial Risk Rating
Brigham City Senior Housing	30	Brigham City Senior Housing, Incorporated	11/01/2000	Section 202 - Capital Advance	56 – Potential Problem
Carl Inoway Senior Housing	41	Carl Inoway Senior Housing, Incorporated	04/10/1998	Section 202 - Capital Advance	27 – Potential Problem
Glendale Senior Housing	41	Glendale Senior Housing Corporation	08/16/1999	Section 202 - Capital Advance	70 - Acceptable
Jerald H. Merrill Senior Housing	30	Jerald H. Merrill Senior Housing Corporation	03/23/1998	Section 202 - Capital Advance	86 - Acceptable
Justin C. Stewart Plaza Housing	12	Justin C. Stewart Plaza Housing Corporation	12/02/1996	Section 811 - Capital Advance	37 - Potential Problem
Martha's Terrace Housing	30	Martha's Terrace Housing Corporation	09/26/1990	Section 202 - Direct Loan	48 – Potential Problem
Hamilton Place	65	Hamilton Place Corporation	02/23/1995	Section 202 - Capital Advance	43 – Potential Problem
Preston Place	65	Multi-Ethnic East Housing Corporation	09/25/1991	Section 202 - Direct Loan	58 – Potential Problem
Multi-Ethnic Senior Citizen Housing	142	Multi-Ethnic Senior Citizen Housing Corporation	07/13/1979	Section 202 - Direct Loan	55 - Potential Problem

Under Section 202 and Section 811 of the National Housing Act, HUD provides direct loans and capital advances to fund the development of low income properties. The Section 202 program helps expand the supply of affordable housing with supportive services for the elderly. It provides very low-income elderly with options that allow them to live independently but with support activities such as cleaning, cooking, and transportation. The Section 811 program allows persons with disabilities to live as independently as possible by increasing the supply of rental housing with supportive services available. HUD provides rental assistance to cover the difference between the HUD-approved operating cost for the project and the tenants' contributions toward rent.

Utah Non Profit's office is located in Salt Lake City, Utah.

We conducted the audit to determine whether Utah Non Profit ensured projects generated sufficient income to meet obligations, appropriately allocated costs to HUD assisted properties, and followed HUD requirements when purchasing goods and services.

RESULTS OF AUDIT

Finding 1: Utah Non Profit Did Not Ensure Properties Generated Sufficient Funds to Meet Obligations

Utah Non Profit did not ensure seven of the nine HUD assisted properties generated sufficient funds to meet their financial obligations. It also deferred payments to itself so that it could pay the projects' other expenses. Utah Non Profit not submitting rent increases in a timely manner and its philosophy to keep rents low and use operating funds rather than reserve funds for capital expenditures caused the properties' operating deficits. As a result, the properties' financial condition could continue to deteriorate, and if Utah Non Profit keeps accruing its fees and expenses, its ability to manage the properties effectively is in question.

Utah Non Profit Was Responsible to Keep Properties Financially Viable

Seven of the nine HUD assisted properties had operating deficits. To address the deficits, Utah Non Profit deferred payment of invoices due to itself and used those funds to pay the properties' other operating expenses. On average, about one-third of the projects' accrued expenses were payable to Utah Non Profit for management fees, payroll costs, and costs allocable to multiple projects. As the management agent, Utah Non Profit was responsible for maximizing project income and keeping the properties financially viable. It must ensure project income equals or exceeds project expenses to keep properties out of financial difficulty. As of April 20, 2006, the seven properties owed Utah Non Profit over $350,000. All but one of the properties had outstanding payables going back to 2004. The properties owed Utah Non Profit the following amounts:

Brigham City Senior Housing	$30,445
Carl Inoway Senior Housing	$62,740
Hamilton Place	$80,482
Justin C. Stewart Plaza	$38,310
Martha's Terrace Apartments	$38,948
Multi-Ethnic Senior Citizen Highrise	$32,840
Preston Place	$72,222

Several Factors Contributed to Operating Deficits

Utah Non Profit took pride in keeping rents low and was reluctant to request rent increases from HUD, which resulted in reduced project income. Even though fully occupied, the projects did not consistently generate sufficient income to pay down outstanding payables. Three of the seven projects had not received rent increases for at least three years and one had not received a rent increase since 1997. Within the last year, HUD approved rent increases for three of the seven properties. Utah Non Profit plans to hire a consultant to review the rents at all of its projects and improve the rent increase process and procedures.

In addition, Utah Non Profit used operating funds to pay capital expenditures in its efforts to maintain the projects in good physical condition and build up the reserve for replacement accounts. However, using operating funds rather than reserve funds to pay for capital expenditures contributed to operating deficits. While increasing the reserve account is a worthwhile goal, Utah Non Profit must be diligent when procuring goods and services and not use operating funds to pay for capital expenditures. Further, it did not procure goods and services at competitive prices (finding 3).

Another factor that increased deficits was that several newly constructed projects incurred large deficits during the rent-up phase and had not generated enough revenue to erase the deficit. These properties will not significantly reduce outstanding payables if they continue having annual operating deficits.

Property Conditions and Utah Non Profit's Ability to Effectively Manage Properties Could Suffer

Seven HUD assisted properties did not generate sufficient income to meet all financial obligations and the properties owed Utah Non Profit more than $350,000. If the properties' financial conditions continue to deteriorate and the payables due Utah Non Profit increase, the projects will not generate enough revenue to maintain the properties adequately. Utah Non Profit needs this revenue to remain solvent. Further, the projects' nonpayment of the accrued fees and expenses will adversely affect Utah Non Profit's ability to manage the properties effectively.

Recommendations

We recommend the director of Denver multifamily Hub require project owners to instruct Utah Non Profit to:

1A. Review the projects' expenses on an annual basis to ensure that it submits rent increase requests to HUD as necessary.

1B. Ensure that reserve for replacement funds are used to pay for capital expenditures when prudent.

Finding 2: Utah Non Profit Improperly Charged Salaries to Properties

Utah Non Profit improperly charged salary costs to properties based on an arbitrary, unsupported rate and billed properties for a supervisor's salary that its management fee should cover. Utah Non Profit did not understand and incorrectly interpreted HUD requirements. As a result, HUD assisted properties could be paying salary costs for services not performed and Utah Non Profit improperly charged six properties more than $49,000 for the supervisor's salary.

Utah Non Profit Improperly Allocated Salaries

Utah Non Profit did not allocate the project managers' salaries based on the project managers' actual time spent at each property; instead, it used an arbitrary unsupported rate. Three project managers managed multiple properties. Under these circumstances, HUD requires the management agent to allocate their time based on actual services provided. Further, Utah Non Profit allocated the project managers' indirect costs, such as cell phone and mileage expenses, to the properties on an estimated basis rather using actual costs.

Utah Non Profit Did Not Understand HUD Requirements

Utah Non Profit did not understand the HUD requirements. It developed and used arbitrary, unsupported allocation rates to allocate the project managers' salaries. Utah Non Profit believed the rates were appropriate based on its interpretation of the rules and because HUD never questioned the costs.

When management set up the allocation rates for the project managers' salaries, it concluded the estimates were more appropriate than using a per unit basis because smaller properties sometimes required more time to manage. Management stated that HUD knew about the allocation rates because Utah Non Profit reported the information in the annual budget notes and the rent increase submissions. HUD never took exception to the rates so they remained in place.

Properties Possibly Billed for Services Not Performed

Utah Non Profit might have charged properties for services not performed because it did not allocate project managers' salaries based on actual services to the properties. Because Utah Non Profit did not base the allocation of front-line salary costs on actual services, the properties requiring fewer resources subsidized properties that required more resources.

For example, Utah Non Profit charged 70 percent of a project manager's salary to a 41-unit project and 30 percent to a 12-unit project. However, the manager's timesheet showed that he spent 90 percent of his time at the 41-unit property. In another case, Utah Non Profit allocated a project manager's time and cell phone costs equally among three properties, consisting of 41, 30, and 15 units. It also split the manager's mileage costs equally between two properties but did not allocate anything to the 41-unit property. In a one-month period, the project manager's mileage sheet showed that he traveled once a week to the 41-unit property. He spent the rest of his time at the other two properties. Although the manager spent 20 percent of his time at the 41-unit property, Utah Non Profit allocated 34 percent of the manager's salary and no mileage costs to the property.

Utah Non Profit Improperly Billed Projects for Supervisor's Salary

Utah Non Profit improperly billed six HUD assisted properties for a maintenance supervisor's salary that its management fee should cover. HUD rules specify that the management agent may not use project funds to pay salaries of its supervisory staff. The management agent's fees should pay these salaries.

Utah Non Profit Incorrectly Interpreted HUD Requirements Regarding Supervisor's Salary

Utah Non Profit incorrectly believed it could pay the maintenance supervisor's salary with project funds because the supervisor spent time performing front line duties. It hired the maintenance supervisor to perform two duties within one position. The maintenance supervisor spent several hours in the morning planning and performing supervisory duties and the rest of the day performing maintenance repairs at the properties. Utah Non Profit allocated his salary costs between fifteen properties on a per unit basis but agreed it was a mistake not to allocate the costs based on the actual time spent doing the repairs.

Properties Improperly Billed Six Properties More Than $49,000 in Supervisor's Salaries

From January 2004 to February 2006, Utah Non Profit improperly billed more than $49,000 to six HUD assisted properties for the maintenance supervisor's salary costs. Utah Non Profit charged the properties the following amounts

- Hamilton Place $13,136
- Preston Place $13,136
- Glendale Senior Housing $ 8,304

- Jerald H. Merrill Senior Housing $ 6,063
- Martha's Terrace Apartments $ 6,063
- Justin C. Stewart Plaza $ 2,425

Although the maintenance supervisor performed repairs at the properties, HUD requires that the management agent pay supervisory costs only from the management fee.

Improvement in Allocation of Salaries

During the review, we discussed the deficiencies with Utah Non Profit's executive director and operations manager. They agreed to take corrective action. Utah Non Profit will base allocations of project managers' salaries who manage more than one property on actual time spent providing services. Utah Non Profit also changed the maintenance supervisor's role to strictly that of a supervisor and agreed to pay all of his salary and not charge the properties.

Conclusion

Utah Non Profit did not establish a salary cost allocation rate based on project managers actual time providing services to the properties. In addition, it charged properties for supervisory costs it should have paid from the management fee. Using actual time as the basis to allocate salary costs ensures projects do not pay improper expenses. Similarly, paying the maintenance supervisor's salary from the management fee would help projects decrease operating deficits.

Recommendations

We recommend the director of Denver multifamily Hub require project owners to instruct Utah Non Profit to:

2A. Allocate all salaries for project managers working at multiple properties based on the actual time providing services at each project.

2B. Reimburse the six HUD assisted properties their respective share of the $49,127 in maintenance supervisor's salary.

2C. Reimburse the six HUD assisted properties any additional salary costs for the maintenance supervisor billed to the properties after February 2006 and discontinue billing HUD assisted properties for the maintenance supervisor's salary.

Finding 3: Utah Non Profit Did Not Comply with HUD Requirements When Purchasing Goods and Services

Utah Non Profit did not follow HUD requirements when purchasing goods and services. It did not implement adequate policies and procedures to ensure it purchased goods and services in accordance with requirements. As a result, it paid more than $21,000 in project funds for unnecessary expenses, and may pay as much as $30,900 more than necessary for services.

Utah Non Profit Did Not Comply with HUD Requirements

In its management agreements with project owners, Utah Non Profit agreed to ensure all project expenses were reasonable and necessary. However, Utah Non Profit spent project funds for catering expenses at nine HUD assisted properties, which were not necessary for project operations. Utah Non Profit also paid a vendor for services that it did not provide.

In addition, Utah Non Profit did not comply with HUD's procurement requirements when obtaining goods and services to ensure prices were reasonable. It allowed contracts to continue month-to-month for years rather than periodically bidding out the work to ensure that vendors provided goods and services at competitive prices. HUD requires

- Cost analyses to determine whether it is more advantageous to (1) lease rather than purchase equipment and (2) pay for services monthly rather than as needed.
- Obtaining the necessary verbal or written cost estimates when procuring goods and services.

In 56 procurements, Utah Non Profit did not comply with these requirements. It also did not maintain procurement documentation such as contracts, invitations to solicit bids, bids from more than one vendor, or bid analyses. Only five of the 56 procurements had more than one bid on file.

Management Was Not Aware of Requirements

Management was not aware of the requirements in its management agreements and did not establish adequate policies and procedures to ensure it purchased goods and services in accordance with requirements. In addition, Utah Non Profit did not follow its own purchasing policies and establish procedures to ensure that it retained appropriate procurement documentation.

Utah Non Profit Paid More Than $21,000 for Unnecessary Expenses

Over three holiday seasons, Utah Non Profit used project funds to pay nearly $17,000 in unnecessary catering costs for holiday events at nine HUD assisted properties. The cost per event ranged from $193 to $1,681 with an average cost of $650 per event. The catering costs charged to each property were as follows:

• Brigham City Senior Housing	$1,159
• Carl Inoway Senior Housing	$1,236
• Glendale Senior Housing	$1,854
• Jerald H. Merrill Senior Housing	$ 849
• Justin C. Stewart Plaza	$1,109
• Martha's Terrace Apartments	$ 849
• Hamilton Place	$2,491
• Preston Place	$2,528
• Multi-Ethnic Senior Housing	$4,832

In addition, Utah Non Profit paid a vendor more than $4,700 when the vendor provided no services at two properties. Brigham City Senior Housing paid $2,056, and Carl Inoway Senior Housing paid $2,665. While the vendor contracted to provide services to the two properties for eight months per year, Utah Non Profit paid the vendor for 12 months.

Utah Non Profit May Pay More Than Necessary for Services

Utah Non Profit may pay as much as $30,900 more than necessary for services:

- $16,700 for leasing rather than purchasing copy machines and accessories for two properties,
- $10,600 for grounds maintenance, and
- $3,600 for elevator maintenance.

Two properties leased the same model copier as Utah Non Profit. Each lease was for 63 months. Based on the property managers' use, the copiers are more complex and costly than needed. If Utah Non Profit purchased, rather than leased, less expensive copiers, the two properties could save more than $16,700.

For at least the past three years, Utah Non Profit has used the same two vendors to provide grounds maintenance at six properties on a month-to-month basis. In

September 2005, three vendors submitted bids to provide grounds maintenance at these properties. A comparison of current costs with the lowest bid showed a savings of more than $10,600 annually.

Utah Non Profit entered into noncancelable seven- and five-year contracts with a vendor for elevator maintenance at two properties. Under contracts that were at least 8 years old, Utah Non Profit paid the same vendor for elevator maintenance at three other properties. Four of the five properties have one elevator for either two or three floors. Another vendor provided elevator maintenance to three similar properties at a lower cost. If the lower cost vendor provided service to all the properties with two or three floors, the properties could save an estimated $3,600 annually.

Utah Non Profit Agreed to Improve its Purchasing Process

We discussed the deficiencies with Utah Non Profit's executive director and operations manager, and they agreed to take corrective action. Management agreed to stop paying catering costs with project funds and designated the maintenance supervisor as the person to solicit bids for contract work and maintain the documentation and contracts. In addition, Utah Non Profit agreed to reevaluate vendor performance every two years to ensure that properties get the best service for a competitive price.

Conclusion

Utah Non Profit did not have an adequate process or documentation to comply with HUD requirements. Hence, it paid more than $21,000 in project funds for unnecessary expenses and may unnecessarily pay as much as $30,900 each year for services. Lowering project expenses with good purchasing policies will help the projects stay within their operating budgets.

Recommendations

We recommend that the director of Denver multifamily Hub require project owners to instruct Utah Non Profit to:

3A. Reimburse the nine HUD assisted properties their respective share of the $16,907 in unnecessary catering costs.

3B. Reimburse the two HUD assisted properties their respective share of $4,721 for vendor nonperformance.

3C. Develop and implement adequate management controls to ensure compliance with requirements when purchasing goods and services.

3D. Evaluate contracts with vendors annually to ensure that properties are receiving necessary services at a reasonable price.

SCOPE AND METHODOLOGY

Our review covered the period from October 1, 2003 through December 31, 2005.

To accomplish our objectives, we reviewed the following documents for the nine HUD assisted properties Utah Non Profit manages:

- Management certifications, regulatory agreements, and audited financial statements
- HUD property files
- Paid invoice files and vendor contracts
- Cost allocations, accounting and payroll records

In addition, we interviewed Utah Non Profit's executive director, operations manager, staff, and HUD personnel.

We selected 56 procurements from the nine properties' vendor detail reports focusing on vendors receiving high dollar amounts or regular monthly payments. We obtained contracts, leases, and proposals from vendors. We scheduled the disbursements and reviewed the related contracts to determine what goods and services vendors provided and for how long. We reviewed the auditee's computerized accounting and payroll records for the properties to identify allocations of payroll and property expenses. We did not rely on computerized data but instead traced all data to source documents.

We classified $30,900 as funds put to better use. If Utah Non Profit complied with HUD requirements, the properties would pay competitive prices for goods and services and have more funds available for operations. For elevator maintenance, we determined the amounts each vendor charged the properties, compared the vendor charges for similar projects, and calculated the cost savings if Utah Non Profit selected the vendor with the lowest cost. For leased copiers, we obtained product and cost information on copier models and accessories, contacted project managers to determine copying needs, compared copier models and usage to determine if a less expensive model would meet project needs, and calculated any cost savings. For grounds maintenance, we obtained the operations manager's spreadsheet comparing bids from three vendors with current charges, calculated the differences in the projects' monthly costs, and estimated annual savings if Utah Non Profit selected the low bidder.

We performed our audit work from March through May 2006. We conducted our fieldwork at Utah Non Profit's office at 223 West 700 South, Suite 200, Salt Lake City, Utah.

We performed our review 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 it achieves the following objectives:

- 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:

- Controls management implemented to ensure proper allocation of expenses and salaries to the properties and
- Policies and procedures management implemented to ensure purchasing goods and services for the properties complied with requirements.

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, we believe the following items are significant weaknesses:

- The auditee did not have controls to ensure it properly allocated expenses and salaries to the properties (finding 2).
- The auditee did not implement adequate policies and procedures to ensure it purchased goods and services in accordance with requirements (finding 3).

APPENDIXES

Appendix A

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

Recommendation number	Unreasonable or unnecessary 1/	Funds to be put to better use 2/
2B	$49,127	
3A	$16,907	
3B	$4,721	
3D		$30,900

1/ 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 a prudent person would incur in conducting a competitive business.

2/ "Funds to be put to better use" are quantifiable savings that are anticipated to occur if an Office of Inspector General 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. The $30,900 is our calculation of savings Utah Non Profit would have incurred for the properties if it had complied with HUD requirements and used prudent business practices.

Appendix B

AUDITEE COMMENTS

UTAH NON PROFIT
HOUSING CORPORATION

July 20, 2006

Ronald J. Hosking
Regional Inspector General for Audit
Region 8 Office of Audit 1670 Broadway, 24th Floor
Denver, CO 80202-4801

Dear Mr. Hosking,

We have reviewed the draft of the proposed audit report (findings) of HUD's Office of Inspector General dated July 13, 2006. We find the proposed report to be consistent with discussions conducted between on site auditors and Utah Nonprofit Housing's executive director and we acknowledge agreement with the findings as stated. The attached corrective action report documents the implementation of the recommended corrective actions contained in the draft report.

We would like to thank the onsite auditors, William F. Taylor and Michael R. Chacon, for their professionalism and assistance. Due to their approach and interaction throughout the audit period, we as an organization have grown and learned and look forward to the implementation of the needed changes to facilitate our future growth.

Thank you for your consideration and inclusion of this letter in the report to be issued.

Respectfully,

Marion A. Willey
Executive Director

telephone 801•364•6117 facsimile 801•364•7070
223 West 700 South • Suite C • Salt Lake City • Utah 84101

Finding 1: Utah Non Profit Did Not Ensure Properties Generated Sufficient Funds to Meet Obligations

Utah Non Profit did not ensure seven of the nine HUD assisted properties generated sufficient funds to meet their financial obligations. It also deferred payments to itself so that it could pay the projects' other expenses. Utah Non Profit not submitting rent increases in a timely manner and its philosophy to keep rents low and use operating funds rather than reserve funds for capital expenditures caused the properties' operating deficits. As a result, the properties' financial condition could continue to deteriorate, and if Utah Non Profit keeps accruing its fees and expenses, its ability to manage the properties effectively is in question.

Recommendations

We recommend the director of Denver multifamily Hub require project owners to instruct Utah Non Profit to:

1A. Review the projects' expenses on an annual basis to ensure that it submits rent increase requests to HUD as necessary.

1B. Ensure that reserve for replacement funds are used to pay for capital expenditures when prudent.

Corrective Actions

1A. Review the projects' expenses on an annual basis to ensure that it submits rent increase requests to HUD as necessary.

As of May 2006 Patsy Donehoo, a management consultant, was retained to deal specifically with the submissions of rent increases and contract renewals for all HUD subsidized properties. Each property will be reviewed annually and increased as project expenses allow. As of the date of this writing 2 projects have implemented rent increases, 4 have been submitted for increase and are being reviewed by HUD Asset Managers and CMS, 3 are in process for submission. Contract renewal documentation is also being submitted by Ms. Donehoo as needed for each project.

1B. Ensure that reserve for replacement funds are used to pay for capital expenditures when prudent.

Each project was reviewed and requests were submitted for the release of Replacement Reserve funds to cover the expenditures from the operational funds. A procedure has been established whereby a review of each project will be completed each quarter and when appropriate a request for release of funds will be submitted. The following chart will demonstrate the impact that the current requests in process will have on the balances owed to Utah Nonprofit Housing. It will allow for a degree of catch up and in combination with the rent increases will allow all projects to maintain the coverage of all current expenses.

		Total Outstanding	UNPHC Reimbursement	Total Outstanding	R4R Submission	Residual Submission
Brigham City		30,445.00	3,214.00	27,231.00		
Carl Inoway		62,740.00	3,901.00	58,839.00	9,993.37	
Glendale					6,539.83	
Hamilton Place		80,482.00	16,328.46	64,153.54	28,169.00	
Jerald H Merrill					5,570.51	
Justin C Stewart Plaza		38,310.00	3,797.71	34,512.29	4,392.14	
Marhta's Terrace		38,948.00	7,572.34	31,375.66	20,467.99	5,640.68
Multi-Ethnic Senior Citizen Highrise		32,840.00	5,581.77	27,258.23	25,364.00	
Multi-Ethnic East - Preston Place		72,222.00	17,093.04	55,128.96	34,925.66	11,789.00
		355,987.00	57,488.32	298,498.68	135,422.50	17,429.68

The "Total Outstanding "column represents the amount cited as owing to Utah Nonprofit as of April 20, 2006.

Less the "UNPHC Reimbursement" column representing amounts paid by properties to UNPHC from funds received for supervisory salary, vendor nonperformance, and unnecessary expenses. This leaves a balance owed to UNPHC of $298,498.68.

When Reserve For Replacement (R4R) Funds of $135,422.50 are approved for release, the funds can be used to further pay done the outstanding balance due to UNPHC. This will leave a balance owing of $163,076.18.

If the release of Residual Receipts funds is granted, that too will lower the outstanding balance to $145,464.50.

Finding 2: Utah Non Profit Improperly Charged Salaries to Properties

Utah Non Profit improperly charged salary costs to properties based on an arbitrary, unsupported rate and billed properties for a supervisor's salary that its management fee should cover. Utah Non Profit did not understand and incorrectly interpreted HUD requirements. As a result, HUD assisted properties could be paying salary costs for services not performed and Utah Non Profit improperly charged six properties more than $49,000 for the supervisor's salary.

Recommendations

We recommend the director of Denver multifamily Hub require project owners to instruct Utah Non Profit to:

2A. Allocate all salaries for project managers working at multiple properties based on the actual time providing services at each project.

2B. Reimburse the six HUD assisted properties their respective share of the $49,127 in maintenance supervisor's salary.

2C. Reimburse the six HUD assisted properties any additional salary costs for the maintenance supervisor billed to the properties after February 2006 and discontinue billing HUD assisted properties for the maintenance supervisor's salary.

Corrective Actions

2A. Allocate all salaries for project managers working at multiple properties based on the actual time providing services at each project.

A procedure has been established and implemented to request reimbursement of allocated costs based on a per pay period percentage as documented by the submitted time sheet of appropriate staff. The following is an example of the allocation method currently being used to more accurately allocated costs for staff positions that provide services for more than one project.

HUD Managers Allocation - Ed Burns

Example for Box Elder Commons, Brigham City Senior, and Carl Inoway Senior

	BC	BCSH	CISH	Total Hrs.
Pay Period Ending 05/31/06	5.50	70.50	20.00	96.00
Total Hours	5.50	70.50	20.00	96.00
Percent Per Prop	5.73%	73.44%	20.83%	100.00%
Salary	92.33	1,183.55	335.76	1,611.64
PR Tax	8.54	109.48	31.06	149.08
Mileage	1.35	17.26	4.90	23.50
Insurance	15.18	194.61	55.21	265.00
Cell Phone	1.43	18.36	5.21	25.00
Retirement	3.69	47.34	13.43	64.47
Billed Total	102.22	1,310.29	371.71	

Salary	1,611.64

PR Tax	149.08
Mileage	23.50
Insurance	265.00
Cell Phone	25.00
Retirement	64.47

2B. Reimburse the six HUD assisted properties their respective share of the $49,127 in maintenance supervisor's salary.

2C. Reimburse the six HUD assisted properties any additional salary costs for the maintenance supervisor billed to the properties after February 2006 and discontinue billing HUD assisted properties for the maintenance supervisor's salary.

As of June 30, 2006 all projects were reimbursed for all improperly billed salary for maintenance supervisory salary as cited in 2B and also amounts cited in 2C. This position is now being paid 100% by management fees received. The following chart will document individual project amounts and Utah Nonprofit check numbers.

Reimbursement From Utah Nonprofit Housing Corp. - Management Agent
For Findings of 2006 Inspector General Survey

	Unallowable Supervisory Costs			UNPHC
	FY 04 & 05	FY 06	Total	Check #
Brigham City	0.00		0.00	8964
Carl Inoway	0.00		0.00	8965
Glendale	5,615.05	3,589.95	9,205.00	8966 & 373
Hamilton Place	8,884.65	5,680.35	14,565.00	8967 & 372
Jerald H Merrill	4,101.03	2,621.97	6,723.00	8968
Justin C Stewart Plaza	1,640.29	1,048.71	2,689.00	8969
Marhta's Terrace	4,101.03	2,621.97	6,723.00	8970
Multi-Ethnic Senior Citizen Highrise	0.00	0.00	0.00	8971
Multi-Ethnic East - Preston Place	8,884.65	5,680.35	14,565.00	8972
West Jordan		1,016.45	1,016.45	8973
	33,226.70	22,259.75	55,486.45	

Finding 3: Utah Non Profit Did Not Comply with HUD Requirements When Purchasing Goods and Services

Utah Non Profit did not follow HUD requirements when purchasing goods and services. It did not implement adequate policies and procedures to ensure it purchased goods and services in accordance with requirements. As a result, it paid more than $21,000 in project funds for unnecessary expenses, and may pay as much as $30,900 more than necessary for services each year.

Recommendations

We recommend that the director of Denver multifamily Hub require project owners to instruct Utah Non Profit to

3A. Reimburse the nine HUD assisted properties their respective share of the $16,907 in unnecessary catering costs.

3B. Reimburse the two HUD assisted properties their respective share of $4,721 for vendor nonperformance.

3C. Develop and implement adequate management controls to ensure compliance with requirements when purchasing goods and services.

3D. Evaluate contracts with vendors annually to ensure that properties are receiving necessary services at a reasonable price.

Corrective Actions

3A. Reimburse the nine HUD assisted properties their respective share of the $16,907 in unnecessary catering costs.

3B. Reimburse the two HUD assisted properties their respective share of $4,721 for vendor nonperformance.

As of June 30, 2006 all projects were reimbursed for all unnecessary catering costs and vendor nonperformance as cited in 3A and 3B. Contributions and donations will be found to funds the catering of meals going forward. Tighter controls of for review of contract duties and billing for included duties and dates have been put in place and will be monitored. The following chart will document individual project amounts and Utah Nonprofit check numbers.

Reimbursement From Utah Nonprofit Housing Corp. - Management Agent
For Findings of 2006 Inspector General Survey

	Ineligible Catering FY 04 & 05	FY 06	Total	Vendor Nonperformance FY 05	UNPHC Check #
Brigham City	1,158.50	0.00	1,158.50	2,055.52	8964
Carl Inoway	1,236.00	0.00	1,236.00	2,665.00	8965
Glendale	985.00	869.00	1,854.00	0.00	8966 & 373
Hamilton Place	2,191.46	300.00	2,491.46	0.00	8967 & 372
Jerald H Merrill	899.34	0.00	899.34	0.00	8968

Justin C Stewart Plaza	815.90	292.81	1,108.71	0.00	8969
Marhta's Terrace	358.72	490.62	849.34	0.00	8970
Multi-Ethnic Senior Citizen Highrise	3,401.25	2,180.52	5,581.77	0.00	8971
Multi-Ethnic East - Preston Place	1,493.60	1,034.44	2,528.04	0.00	8972
West Jordan				0.00	8973
	12,539.77	5,167.39	17,707.16	4,720.52	

3C. Develop and implement adequate management controls to ensure compliance with requirements when purchasing goods and services.

3D. Evaluate contracts with vendors annually to ensure that properties are receiving necessary services at a reasonable price.

The maintenance supervisor has been designated as the person to solicit bids for contract work and maintain the documentation and contracts as well. In addition, we will reevaluate vendor performance at a maximum of every two years to ensure that properties receive the maximum services at a competitive price. A preferred vendor list has been established as a guideline for not only price of service but also quality of services provided. As of May 2006 all contracts were under review. To date, adjustments have been made to 2 copier leases and 5 new elevator contracts will be awarded in January 2007.