



Issue Date August 31, 2006
Audit Report Number: 2006-AO-1002

TO: Ben L. Johnson, Director, Single Family Homeownership Center, 8AHH

FROM: *Rose Capalungan*
Rose Capalungan, Director, Hurricane Recovery Audit Oversight Division, GAH

SUBJECT: Cityside Management Corporation, Hammond, Louisiana, Did Not Enforce The Lease Terms Over Payment of Property Utilities

HIGHLIGHTS

What We Audited and Why

We audited Cityside Management Corporation (Cityside), a management and marketing contractor for the U.S. Department of Housing and Urban Development's (HUD) real estate-owned properties held off market to house disaster victims.

The audit was initiated in conjunction with the President's Council on Integrity and Efficiency, as part of its examination of relief efforts provided by the federal government in the aftermath of hurricanes Katrina and Rita. Our objective was to determine whether Cityside complied with HUD's regulations, procedures, and instructions in the management of HUD's real estate-owned properties held off market to house disaster victims.

What We Found

Cityside complied with HUD's regulations, procedures, and instructions in the management of HUD's real estate-owned properties held off market to house disaster victims, with one exception. It did not ensure that all disaster victims transferred the billing of property utility services into their names and paid charges for utility services in full, as required by the lease agreements. This

occurred because Cityside did not take timely and proactive measures to enforce full tenant compliance with the lease terms over payment of property utilities, when staff became aware of the issue. Instead, Cityside used \$17,744 in HUD funds to pay the monthly billings on 133 leased properties during the period October 13, 2005 through March 31, 2006.

What We Recommend

We recommend that the Director of the Denver Office of Single Family Homeownership Center instruct Cityside Management Corporation to take appropriate action against the tenants who do not comply with the instruction and requirements regarding utility payments, and require Cityside Management Corporation to initiate collection actions against tenants to recover the \$17,744 that HUD paid for utility costs and any additional costs HUD had incurred after March 31, 2006.

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

During the audit, we provided the results of our review to Cityside management. We also provided our discussion draft audit report to HUD's staff during the audit. We conducted an exit conference with Cityside's management on July 21, 2006.

We asked the president of Cityside to provide comments on our discussion draft audit report by July 25, 2006. The president provided written comments dated July 25, 2006. The complete text of the written response, along with our evaluation of that response, can be found in appendix B of this report.

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BACKGROUND AND OBJECTIVES

Founded in 1996, Cityside Management Corporation (Cityside) is a real estate company. Cityside specializes in the management and marketing of U.S. Department of Housing and Urban Development (HUD)-owned real estate portfolios as well as the management of many other commercial and residential properties located in the New England area. Christopher Dolloff is the president and founder of Cityside.

In August 2004, HUD contracted with Cityside to provide management and marketing services for its single-family program in the states of Arkansas and Louisiana. In September 2005, HUD made homes available for disaster victims under the Temporary Housing Assistance Program of the Robert T. Stafford Disaster Relief and Emergency Assistance Act following Hurricanes Katrina and Rita. The program was designed to provide people whose homes have been damaged by disaster a temporary place to live until repairs can be completed or a permanent housing solution is identified. The program is available only to homeowners and renters who are legal residents of the United States and who have been displaced by the disaster. HUD modified its initial contract with Cityside to provide services in managing, marketing, preparing and repairing properties held off market to house disaster victims.

In October 2005, HUD advanced \$3.12 million to Cityside to repair and prepare 312 properties, held off market to house disaster victims, for occupancy. As of February 2006, Cityside had expended \$956,800. As of April 25, 2006, Cityside managed 165 properties that were occupied by disaster victims and located in Arkansas and Louisiana.

We audited Cityside's management of HUD's real estate-owned properties for disaster victims. The audit was initiated in conjunction with the President's Council on Integrity and Efficiency, as part of its examination of relief efforts provided by the federal government in the aftermath of hurricanes Katrina and Rita.

Our objective was to determine whether Cityside complied with HUD's regulations, procedures, and instructions in the management of HUD's real estate-owned properties held off market to house disaster victims.

RESULTS OF AUDIT

Cityside Management Corporation Did Not Enforce The Lease Terms Over Payment Of Property Utilities

Cityside complied with HUD's regulations, procedures, and instructions in the management of HUD's real estate-owned properties held off market to house disaster victims, with one exception. It did not enforce the lease terms over payment of property utilities for 133 tenant families during the period October 13, 2005 through March 31, 2006. Cityside was required to ensure that the disaster victims timely transferred the billing of property utility services into their names and paid all charges for utility services. This occurred because Cityside did not take timely and adequate corrective actions, as provided for in the lease agreements. Instead, Cityside used \$17,744 in HUD funds to pay the tenants' obligations.

Under its Marketing and Management contract with HUD, Cityside is responsible for ensuring that the utility costs for properties leased to hurricane victims were paid before lease up, and after occupancy, that tenants timely assumed this responsibility.

Cityside did not enforce the lease requirements over utility payments for all tenants. As of April 25, 2006, Cityside had leased 165 properties requiring tenant payments of utility services. However, for 133 leased properties, Cityside used HUD funds to pay for the utility costs owed by the tenants month after month.

Cityside knew that tenants were not paying for their utility bills, because the utility billings for the 133 noncompliant tenants continued to be addressed to its offices. The president of Cityside told us that Cityside did not see a need to monitor tenants if and when tenants converted utilities into their names. However, as HUD's contractor, Cityside was responsible for taking timely and proactive steps to enforce the lease terms. In this case, enforcement involved converting the utility services and the billing addresses at lease up from Cityside's to the tenants' names and periodic monitoring to ensure that tenants converted utilities into their names.

Cityside took a more proactive approach in February 2006 by sending notification letters to all tenants reminding them of their utility obligations. In addition, Cityside implemented a proactive measure for new tenants such as requiring them to sign the Utility Activation Acknowledgement form that stated their responsibility to transfer utility services into their names and that their continued occupancy in the leased properties was dependent upon such transfer. Tenant noncompliance, however, has not been resolved, and HUD has since (April, 2006) directed Cityside and other Marketing and Management contractors not to disconnect utility services for noncompliant tenants.

By early and proactive enforcement actions, Cityside could have minimized the ineligible utility costs paid from HUD funds. As of March 31, 2006, HUD had paid a total of \$17,744 for utility costs and continues to pay utility costs for tenants who have not transferred the utility services into their names as required.

Recommendations

We recommend that the Director of the Denver Office of Single Family Homeownership Center

- 1A. Instruct Cityside Management Corporation to take appropriate action against the tenants who do not comply with the instructions and requirements regarding utility payments.
- 1B. Require Cityside Management Corporation to initiate collection actions against tenants to recover the \$17,744 that HUD paid for utility costs and any additional costs HUD had incurred after March 31, 2006.

SCOPE AND METHODOLOGY

We performed our audit work between January and May 2006. We conducted our audit at Cityside's Office in Hammond, Louisiana and the HUD Office of Inspector General's (OIG) New Orleans, Louisiana field office.

To achieve our audit objective, we relied on electronic and hard-copy data from Cityside and HUD.

In addition, we interviewed eight tenants; the appropriate HUD management and staff; and Cityside's management, staff, and contractors involved in managing and marketing HUD's real estate-owned properties, overseeing and/or processing the repairs of the properties, lease agreements and other related agreements, and inspecting the properties.

Further, we reviewed HUD's directives, management and marketing contract and any modifications or change orders, monthly evaluation or assessment reports on Cityside's management of HUD's real estate-owned properties, and the standard lease executed between HUD and the tenants. We also reviewed Cityside's property management plan, accounting, inspection, repair, and other relevant records; and the utility activation acknowledgment form signed by the tenants. We performed site visits to six properties.

The audit covered the period September 1 through December 31, 2005. This period was adjusted as necessary. 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,
- Compliance with applicable laws and regulations, and
- Safeguarding resources.

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 objective:

- Program operations - Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Validity and reliability of data - Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.
- Compliance with laws and regulations - Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.
- Safeguarding resources - Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.

We assessed the relevant controls identified above.

A significant weakness exists if internal 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 audit, we determined there were no significant weaknesses existed in Cityside's management of HUD's Real Estate-Owned properties held off market to house disaster victims.

FOLLOW-UP ON PRIOR AUDITS

This is the first audit of Cityside Management Corporation by HUD OIG.

HUD did not require Cityside to submit independent auditors' reports. It modified Cityside's HUD management and marketing contract on September 1, 2005, deleting the annual audit requirement and replacing it with an annual compiled financial statement requirement.

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS

Recommendation number	Ineligible 1/
1B	<u>\$ 17,744</u>
Totals	<u>\$17,744</u>

- 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 policies or regulations.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments



July 25, 2006

Rose Capalungan, Director, HRAOD
U.S. Department of HUD
Office of Inspector General for Audit, HRAOD
500 Poydras Street, 11th Floor
New Orleans, Louisiana, 70130

Subject: Audit Report – Cityside Management Corporation
Management and Marketing Contractor

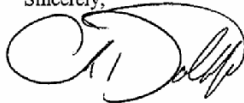
Dear Ms. Capalungan,

Cityside Management Corporation is in receipt of the discussion draft audit report of HUD's Office of Inspector General for Audit.

The report states in part that the audit team found that "Cityside complied with HUD's regulations, procedures, and instructions in the management of HUD's real estate owned properties held off market to house disaster victims, with one exception. It did not insure that all disaster victims transferred the billing of property utility services into their names and paid charges for utility services in full, as required by the lease agreements."

In response to this finding it is important to mention that Cityside was simply following the instructions that were provided by the U.S. Department of HUD, and that it was HUD's position to not evict tenants for failure to pay utilities. HUD specifically directed Cityside to pay all of the utilities that were not transferred by the disaster victims (HUD property tenants).

Sincerely,



Chris J. Dolloff, President
(603) 423-0313, ext. 724

Comment 1

OIG Evaluation of Auditee Comments

Comment 1

Cityside contends it followed HUD's directions/instructions to pay all utilities that were not transferred by tenants and not to evict tenants for failure to pay utilities. Although Cityside was following HUD's directions/instructions, Cityside, as a management and marketing contractor, has the responsibility for taking timely and proactive steps to enforce the lease terms. Cityside did not take timely and proactive measures to enforce full tenant compliance with the lease terms over payment of property utilities, when staff became aware of the issue. In addition, Cityside did not seek guidance from HUD regarding payment of utilities for months. Cityside continued to pay utilities for noncompliant tenants six months before HUD actually provided the direction to not evict noncompliant tenants in April 2006.