U.S. Department of Housing and Urban Development

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November 18, 1997

Audit Related Memorandum
No. 98-AT-211-1803

MEMORANDUM FOR: Martha A. Littlefield, Director, Office of Housing, Jacksonville, Florida, 4HH

FROM: Nancy H. Cooper
District Inspector General for Audit-Southeast/Caribbean, 4AGA

SUBJECT: Multifamily Project Operations
183rd Street Apartments
FHA Case No. 066-35035
Miami, Florida

In conjunction with Operation Safe Home, we conducted a limited review of 183rd Street Apartments project operations. The review was designed primarily to identify diversion of project funds or serious program abuse.

The project is an 175 unit multifamily complex located at 18451 N.W. 37th Avenue, Miami, Florida. Marlin Limited Partnership, a Florida limited partnership, owns the project. Carib Management, Inc. (CMI) is the management agent for the project. The project's mortgage is insured by the Department of Housing and Urban Development (HUD) under Section 221 (d) (3) of the National Housing Act. The project receives Section 8 rental assistance for all units under the terms of an Annual Contribution Contract.

We interviewed the project's personnel, CMI employees and HUD staff about the operations of the project. We also reviewed selected project's and HUD's records and activities from January 1, 1995, through August 31, 1996. We performed our on-site review during September and October 1996. During the review, we identified deficiencies in the routine project management that warrant your office's and the owner's attention.

SUMMARY

The project management needed corrective actions. For example, CMI improperly used project rental space. This violated the Regulatory Agreement because CMI failed to obtain HUD's approval. We also noted that CMI was overpaid $6,555, paid its management fees prior to rent collections, and maintained inadequate fidelity bond coverage. The owner needs to take action to prevent further violations of the Regulatory Agreement.

Details of our conclusions are contained in Attachment 1. We discussed our report with CMI during our review and at an October 17, 1996 exit conference. CMI personnel generally agreed with our conclusions and recommendations, therefore we did not obtain a written response. We provided a copy of this report to the auditee.

Within 60 days please give us a status for each recommendation on: (1) the corrective action taken; (2) the proposed corrective action and the date to be completed; or (3) why action is considered unnecessary. Also, please furnish us copies of any correspondence or directives issued because of the review.

If you have any questions, please contact Sonya D. Lucas, Assistant District Inspector General for Audit, at (404) 331-3369, or Sam Daugherty, Senior Auditor, at (904) 232-1226.

ATTACHMENTS:

1 - Finding and Recommendations
2 - Schedule of Ineligible Costs
3 - Distribution

Finding **Project Management Needed Improvement**

The project management needed corrective actions. CMI improperly used project rental space. This violated the Regulatory Agreement because CMI failed to obtain HUD's approval. Also, CMI was overpaid $6,555, paid its management fees prior to rent collections, and obtained inadequate fidelity bond coverage. The owner needs to take action to prevent further violations of the Regulatory Agreement.

CMI Improperly Used Project Rental Space

CMI did not use project space for the purposes approved by HUD. HUD approved a two bedroom unit for project resident activities and a three bedroom unit for project office space. Instead, CMI used three bedroom units for both resident activities and office space. In addition, CMI allowed staff and tenants of an identity-of-interest (IOI) property, 187th Street Apartments, to share the project's units for resident activities and office space rent free. HUD did not approve the use of an additional three bedroom unit or any units for commercial rental.

Paragraph 6(h) of the Regulatory Agreement provided that the owner shall not permit the use of dwelling accommodations for any purpose except the use which it was originally intended, or permit commercial use greater than that originally approved by HUD. The IOI's use of project space constituted commercial use of the project. Without HUD's approval, it violated the Regulatory Agreement.

CMI Was Overpaid $6,555

CMI was paid for bookkeeping services in excess of allowable amounts. The project's operating revenues paid $6,555 for bookkeeping services which were not reasonable and necessary. HUD Handbook 4381.5, REV-2, Management Agent Handbook, allows costs of front-line project operations, including bookkeeping fees to be paid from project funds. The allowable costs include only the salaries and fringe benefits of personnel performing front-line duties. The agent must prorate the total associated costs among the projects served in proportion to the actual use of services. The allowable costs do not include bookkeeping expenses attributable to the agent's company. These costs must be paid by the agent.

In a June 19, 1995 memorandum, the Jacksonville Area Office (JAO) established guidelines for reimbursement of bookkeeping fees. The memorandum provided for the management agent's reimbursement for actual costs of bookkeeping/data processing. JAO capped the fees at $3.50 per unit per month. The fees were intended to reimburse actual costs incurred and not provide an additional revenue source for management agents.

In addition to the prorated share of the bookkeepers salaries charged to the project, CMI charged an extra $437 per month for bookkeeping/accounting fees. CMI's Secretary/Treasurer stated the fee was charged for the period July 1, 1995 through September 30, 1996. Therefore, CMI was paid excessive bookkeeping fees of $6,555. CMI agreed to reimburse the project for the excessive fees.

We also determined that CMI received its management fees prior to collection of rents contrary to the Management Certification. By provision 1(a) of the certification, the owner agreed to pay a fee of 6.15 percent of residential and miscellaneous income collected. The fees could not exceed $32 per unit per month. However, management fees are to be paid in arrears as the fee is based on actual collections for a prior given month.

CMI billed the project $5,600 at the beginning of each month before rent collections. CMI calculated the fees based on $32 per unit assuming 100 percent occupancy. This practice exposed the project to possible overcharges. CMI believed payment by the per unit per month method was more accommodating than payment based on amounts collected. Since occupancy was always above 95 percent, the management fees based on 6.15 percent of collections would always exceed $32 per unit per month. However, management fees are based on actual collections and could be less if collections were low. Therefore, the project should not pay for service until the service is provided.

CMI agreed to calculate the fees based on 6.15 percent of residential and miscellaneous income collected in the future and pay the fees at the beginning of the month following collections.

Fidelity Bond Coverage Was Not Adequate

The project's fidelity bond coverage did not name the Mortgagee and HUD as additional loss payees and the amount of coverage was less than required. HUD Handbook 4381.5 REV-2, paragraph 2.14b and d., requires the management agent to provide fidelity bond coverage that names the mortgagee and HUD as additional loss payees. The minimum insurance must be at least 2 months gross potential income. CMI's Secretary/Treasurer requested the insurance company to include the mortgagee and HUD as additional loss payees and increase the coverage.

Recommendations

We recommend you:

1A. Determine if the use of a three bedroom unit is beneficial for resident activities. If so, grant the project approval to use the unit. If not, enforce the approval previously granted.

1B. Determine if commercial use of the project is beneficial. If so, determine a reasonable commercial rent. If not, assess 187th Street Apartments for its use until the time it vacates the property.

We also recommend you instruct Marlin Limited Partnership to:

1C. Reimburse the project $6,555 for ineligible fees. Verify that the bookkeeping fees were properly charged from October 1996 to date.

1D. Pay approved management fees based on actual collections according to the terms of the Management Certification.

1E. Ensure fidelity bond coverage is sufficient and includes the Mortgagee and HUD as loss payees.

SCHEDULE OF INELIGIBLE COSTS

Recommendation	Ineligible[1]
1C	6,555

[1] Costs not allowable by law, contract, HUD or local agency policies or regulations.

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