MEMORANDUM FOR: Frederick S. Roncaglione, Director, Multifamily Division, West Virginia State Office, 3CHM

FROM: Edward F. Momorella, District Inspector General for Audit, Mid-Atlantic, 3AGA

SUBJECT: Nelson & Associates Management Agent Operations Cincinnati, OH

We have completed a review of Nelson & Associates (Agent) management operations of projects in HUD's Mid-Atlantic district.

Specific areas reviewed were:

- payroll;
- management and accounting fees;
- general physical condition of units;
- leasing and occupancy; and
- work order system.

We interviewed Multifamily Division staff, Agent and project personnel. Files were reviewed at the West Virginia State Office, Pittsburgh Field Office, and Agent's office. Physical inspections and tenant file reviews were conducted at the following projects:

**West Virginia State Office Jurisdiction**

- Vandalia Terrace
- Rotary Gardens
- Westwood Acres

**Pittsburgh Field Office Jurisdiction**

- Third East Hills Park
Our review disclosed that the Agent paid ineligible salary and benefits of $75,559 and $14,337 respectively from project operating funds of the three West Virginia projects. The costs supplemented salary and benefits for the Senior Site Manager. The costs were charged contrary to HUD requirements and should have been paid from the management fee. The West Virginia State Office was aware of the practice.

We recommend the Agent discontinue the practice of charging projects for management agent personnel and repay the projects $89,896 of ineligible salaries and benefits cited through August 4, 1995, and any costs incurred thereafter.

We discussed the draft finding with the Agent who provided a written response, which we have considered in the finding and included as Attachment 3.

Several minor problems identified in Agent and project operations were either resolved or corrective action planned in the other areas reviewed.

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

If you have any questions, please contact Irving I. Guss, Assistant District Inspector General for Audit at (215) 656-3401.

Attachments
1. Finding and Recommendation
2. Schedule of Ineligible Costs
3. Auditee Comments
4. Distribution
Finding 1 Agent Employee's Salary And Benefits Improperly Charged To Projects

Nelson & Associates used funds from three HUD-insured projects to pay for an employee's salary and benefits which should have been paid from the management fee. The costs were charged the projects contrary to HUD requirements. Agent staff said the project operating accounts were charged because the employee performed front-line duties. HUD was aware of the practice and did not inform the Agent that the practice was inappropriate. As a result, projects were charged ineligible salary and benefit costs of $75,559 and $14,337 respectively.

HUD Handbook 4381.5 REV-1, CHG 3, Chapter 2, Section II states:

"(2-13.B.) The agent must absorb the cost of supervising and overseeing project operations."

"(2-14.B.) Supervisory personnel are paid from the management fee, whether or not they perform supervisory or front-line tasks (e.g. if agent or agent's staff fills in for manager, cannot charge project for time.)"

HUD Handbook 4370.2 REV-1 for Account 6130, Office Salaries, states:

"...Front-line responsibilities include for example, taking applications, verifying income and processing maintenance requests. The account does not include salaries paid to occupancy, maintenance and regional supervisors who carry out the agent's responsibility for overseeing supervising project operations and personnel. These salaries are paid from the management fee."

Between December 27, 1991 and August 4, 1995, the Agent charged a portion of its Senior Site Manager's salary to the operating accounts of two HUD-insured projects and charged benefits to three HUD-insured projects, see Attachment 2.

Payroll records provided by the Agent were used to schedule salary and benefits charged to each project. Nelson & Associates inadvertently failed to include payroll reports for the time period January 1993 through September 1993 for one project and records covering June 1992 through March 1993 for the other project. We calculated the payroll for the 19 and 21 pay periods, respectively, by averaging the last and beginning payroll amounts documented for the above periods. The result, approximately $3,312 was disbursed.
by one project and $10,181 by the second project for the salary of the Senior Site Manager. Both amounts are incorporated into the total ineligible salary cost of $75,559.

Paid invoices documented that three West Virginia based projects managed by the Agent were charged for the health and dental costs of the Senior Site Manager. The costs were initially charged to one project then equally divided between all three projects in July 1992. From August 1993 to August 1995 the allocation changed and only two projects were charged for the Senior Site Managers health and dental benefits. Health and dental costs charged to the projects totaled $14,337.

The Senior Site Manager's duties included: the direct supervision and training of Property Administrators and other administrative personnel, supervising and setting priorities for maintenance supervisors, evaluating employees, etc... at three West Virginia projects, one Pennsylvania project, and one Ohio project. The Senior Site Manager spent four days a week at the two West Virginia projects charged for salary and benefits. One day a week was spent at the third West Virginia project, charged for benefits, and one day each month at the Pennsylvania and Ohio projects.

According to the President, the Senior Site Manager performs front-line duties and is considered a project employee at the two West Virginia properties charged for salaries and benefits. When working at the other three properties the Senior Site Manager trouble shoots for the management agent, performs no front-line duties, and is considered the Agent's employee.

The Agent's President explained that the West Virginia State Office was aware that the two projects were being charged for the salary and benefits of the Senior Site Manager. The costs were reported in annual budgets, financial statements, and discussed during a meeting between HUD and the Agent. The President stated, "I am willing to discontinue the practice if it is wrong, but Nelson & Associates should not be made to repay any of the funds."

Officials from the West Virginia State Office were aware that the Agent charged three West Virginia projects for the Senior Site Manager's salary and benefits, though nothing was approved in writing. As long as costs for the Senior Site Manager did not exceed prior years budgeted staff costs, HUD allowed the practice. HUD officials also stated there may have been an interim verbal arrangement to allow the costs to be charged to the projects, however, it was not the intent to make this practice permanent.

Because the projects were charged with the salary and benefits of
a supervisory employee of the Agent, three West Virginia projects expended $89,896 which was the Agent's cost.

Auditee Comments

The agent contends that the Senior Site Manager performed typical front line duties for the three West Virginia properties. The HUD Office was aware of and verbally approved the concept. The Agent should not be asked to repay the $89,896 and any costs incurred thereafter.

Effective October 1, 1995, the Agent agrees to incur the cost of all salary and benefits of the Senior Site Manager, who will become the District Manager of the Agent.

OIG Evaluation of Auditee Comments

The duties performed by the Senior Site Manager were supervisory, as such, an Agent cost and ineligible.

Recommendation

1A. We recommend your staff assure the Agent has discontinued the practice of charging projects for management agent personnel. Further assure the Agent repays the three projects the $89,896 of ineligible salaries and benefits cited through August 4, 1995, and any costs incurred thereafter.
SCHEDULE OF INELIGIBLE COSTS

**SALARY COSTS**

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**BENEFITS COSTS**

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Finding/Recommendation 1A
TOTAL INELIGIBLE COSTS $89,896 1/

1/ Ineligible costs are not allowed by law, contract, or HUD policies or regulations.