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Audit Case Number	96-FW-219-1003

TO: Ann Kissier
Director, Multifamily Housing Division, 6HHM

FROM: D. Michael Beard
District Inspector General for Audit, 6AGA

SUBJECT: Little Flower Estates
Project Number 064-35026
Ponchatoula, Louisiana

We performed an audit of Little Flower Estates for the period January 1992 through October 1994. The objective of our audit was to determine whether expenditures and disbursements complied with the terms and conditions of the Regulatory Agreement and other HUD requirements. Because of serious problems found at the property, we also reviewed the New Orleans Multifamily Housing Division to determine if it adequately monitored the project.

While the project was in a non-surplus cash position, the owner/management agent improperly spent \$284,786 of project funds. Further, HUD did not take appropriate action to detect and prevent the improperly spent funds.

Within 60 days, please furnish this office, for each recommendation in this report, a status on: (1) corrective action taken, (2) the proposed corrective action and the date to be completed, or (3) why action is not considered necessary. Also, please furnish us copies of any correspondence or directives issued related to the audit.

If you or your staff have any questions, please contact Frank Baca, Assistant District Inspector General for Audit, at (817) 885-5551.

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Executive Summary

We performed an audit of Little Flower Estates. The purpose of the audit was to determine whether expenditures and disbursements complied with the terms and conditions of the Regulatory Agreement and other HUD requirements. The review disclosed the owner/management agent disregarded the Regulatory Agreement and HUD requirements and diverted \$284,786 of Project funds. The \$284,786 includes \$243,555 in ineligible and \$41,230 in unsupported or unreasonable costs. This occurred during a period when the project was in a non-surplus cash position. Because of serious problems found at the property, we also reviewed the New Orleans Multifamily Housing Division to determine if it adequately monitored the project. We found HUD did not take appropriate action to detect and prevent the improperly spent funds.

Owner Made Unapproved Withdrawals and Loan Repayments

During the audit review period, and while the project was in a non-surplus cash position, the owner withdrew \$102,021 in project funds in the form of loan repayments and owner advances. The owner did not have written HUD approval to repay or withdraw the funds. Further, the owner made and repaid loans to third parties in the project's name and without HUD authorization. The repayments totaled \$25,765.

Owner Charged Numerous Ineligible and Unsupported Costs to Project

The owner paid himself from project funds for other ineligible, unsupported, or unreasonable expenses. For example, the owner paid himself a "construction supervision fee" of \$70 per day or \$49,414 during the review period. The owner could not provide us with documentation supporting the need, duties, and accomplishments of his services as a construction supervisor.

Other costs the owner charged to the project should have been included in the management agent fee, or were otherwise ineligible, unsupported, or unreasonable. These costs included travel (\$24,707), health benefits (\$7,460), unreasonable office rent (\$16,200), rent for an off-site office (\$4,400), rent for a laundrette facility (\$10,075), telephone (\$2,700), bookkeeping (\$12,163), consulting (\$8,029), bank charges (\$2,293), and other miscellaneous charges (\$19,559).

Field Office Did Not Effectively Monitor Project Expenditures

The New Orleans Multifamily Housing Division (Multifamily) needs to strengthen its monitoring of owners and management agents. Multifamily staff did not always require the owner to submit audited financial statements or monthly accounting reports. In addition, Multifamily did not question many suspect payments appearing in financial records. Although Multifamily questioned some potential deficiencies, it did not take effective action to ensure the owner corrected the deficiencies. As a result the improper owner/agent activities went unnoticed or unresolved. Also, Multifamily's inadequate monitoring may jeopardize its ability to recover funds or take action against the owner/agent.

Report Recommendations

We are recommending the Multifamily Housing Division require the owner to immediately cease the improper activities. Further, Multifamily should take action to recover the diverted funds and recover any improper payments the owner/agent made subsequent to our audit period. Multifamily should also take administrative sanctions and other appropriate remedies against the owner to protect HUD's interest.

In addition, we are recommending the field office take action to ensure owners' submit financial reports. Multifamily staff should review the reports to detect and prevent improper expenditures and take effective action to correct deficiencies noted.

Owner Disagrees with Finding; HUD Agrees to Take Action

OIG sent a draft of Finding 1 to the owner on January 26, 1996. The owner responded to the draft finding in a letter dated March 4, 1996, strongly disagreeing with the finding (Appendix D). At an exit conference held on April 17, 1996, to discuss Finding 1 results, the owner maintained his strong disagreement. HUD Multifamily officials at the exit conference supported OIG's position.

We provided the Multifamily Housing Division with the a draft of Finding 2 on April 9, 1996. At an exit conference held on April 18, 1996, Multifamily officials agreed with the finding and said corrective action would be taken. Multifamily provided a written response on August 27, 1996 (Appendix E).

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Abbreviations

FHA	Federal Housing Administration
HUD	U. S. Department of Housing and Urban Development
OIG	Office of Inspector General

Introduction

Little Flower Estates, FHA Project 064-35026, is a 50-unit apartment complex located in Ponchatoula, Louisiana. Mr. Michael R. Ragusa owns and manages the project. HUD insured the mortgage of Little Flower Estates under Section 221(d)(3) of the National Housing Act. HUD endorsed the \$622,100 loan on November 18, 1971. All 50 units receive Section 8 subsidies from HUD under a Housing Assistance Payments (HAP) contract.

Mr. Michael R. Ragusa signed the Regulatory Agreement on September 30, 1969, along with Mr. Joseph R. Ragusa and Mr. Sam V. Mannino. Mr. Michael R. Ragusa acquired the remaining 36.111 percent ownership interest from The Estate of Samuel V. Mannino, Sr. on December 3, 1993, to become sole owner of Little Flower Estates.

The owner has kept current on the mortgage; hence, the project is not in default. However, for our review period the project was in a non-surplus cash position. The Regulatory Agreement prohibits any owner distributions, including repayment of owner advances, when the property is in a non-surplus cash position.

Audit Objectives

The purpose of our audit was to determine whether project expenditures and disbursements complied with the terms and conditions of the Regulatory Agreement and other HUD requirements. Because of serious problems found at the property, we performed a limited reviewed of the New Orleans Multifamily Housing Division to determine if it adequately monitored the project.

Scope and Methodology

To determine whether project expenditures and disbursements complied with the terms and conditions of the Regulatory Agreement and other HUD requirements we:

- Reviewed Regulatory Agreement and HUD Handbook requirements for assisted projects. We also reviewed the Renting and Managing Agreement between the owner and project dated October 11, 1988.
- Examined project records and documentation for the audit period, including financial statements, general ledgers, check register, bank records (bank statements, canceled checks, deposit slips), files of paid bills, and supporting invoices.

- Reviewed monthly accounting reports obtained from Multifamily.
- Interviewed the owner, his representatives, and project staff.

To determine if the Multifamily Housing Division adequately monitored the project we:

- Reviewed HUD Handbooks to determine Multifamily's responsibilities relating to monitoring project management.
- Examined documentation maintained by Multifamily, including project financial reports, management reviews, and physical inspection reports.
- Interviewed Multifamily staff.

The audit covered the period January 1, 1992, through October 31, 1994. We did the field work between October and December 1994. We conducted the audit in accordance with generally accepted government auditing standards.

Owner Improperly Spent \$284,000 in Project Funds

Contrary to the Regulatory Agreement, HUD requirements, and the Management Agreement, the owner spent \$284,786 in project funds for ineligible and questionable expenses while the project was in a non-surplus cash position. These payments included: owner withdrawals; loan repayments; payments to the owner for "construction supervision" fees; owner health insurance costs; unreasonable office rent charges; rent subsidies for a laundrette; rent charges for a second office; ineligible and questionable travel, bookkeeping, consulting, and telephone expenses; ineligible bank fees; and other improper disbursements. The improper payments put the project at risk of default and resulted in HUD paying inflated Section 8 rental subsidies to the owner. This occurred because the owner disregarded HUD requirements.

Regulatory Agreement Requirements

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The Regulatory Agreement states owners shall not without the prior written approval of the Secretary:

Assign, transfer, dispose of, or encumber any personal property of the project, including rents, or pay out any funds except from surplus cash, except for reasonable operating expenses and necessary repairs (paragraph 6(b));

- Incur any liability, direct or contingent, other than for current operating expenses, exclusive of the indebtedness secured by the mortgage and necessarily incident to the execution and delivery thereof (paragraph 6(i)); or
- Enter into any contract or contracts for supervisory or managerial services (paragraph 6(k)).

Further, the Regulatory Agreement limits the amount of surplus cash that the owner can withdraw in any 1 year to 6 percent of the initial investment (\$6,620) (paragraph 6(e)). Surplus cash is any cash remaining after the payment of all sums due or currently required to be paid under the terms of any mortgage or note insured or held by the Secretary (paragraph 13(f)).

Owner Improperly
Withdrew \$102,021 in
Project Funds

During the audit review period, and while the project was in a non-surplus cash position, the owner withdrew \$102,021 in project funds in the form of loan repayments and owner advances. The \$102,021 included \$97,645 in ineligible and \$4,376 in unsupported payments. The ineligible amounts represent checks written directly to the owner and affiliates, and amounts charged to the project for materials used to renovate the owner's house. The unsupported amount represents materials that the owner claims to have used to renovate his personal residence but could not locate the related invoices.

The Regulatory Agreement specifies that owners shall not, without prior written approval of HUD pay out any funds except for reasonable operating expenses and necessary repairs. Further, the owner can not make, or receive and retain, any distribution of assets or any income of any kind of the project except surplus cash (as defined in the Regulatory Agreement).

HUD Handbook 4370.2 REV-1, Financial Operations and Accounting Procedures for Insured Multifamily Projects, paragraph 2-11(A) states that repayment of owner advances when the project is in a non-surplus cash position will subject the owner to criminal and civil monetary actions.

Owner Improperly
Borrowed and Repaid
Funds

Contrary to the Regulatory Agreement, the owner, without written authorization, borrowed money in the project's name. The owner repaid the borrowed amounts using project funds, again without HUD's written approval. The amount of the repayments totaled \$25,765. Of this amount, the owner repaid his mother \$14,481, and a business associate \$3,517. HUD staff said they were aware of the loans but believed the owner took out the loans in his name. HUD staff state they never gave approval to the owner for the loans or subsequent repayment of the loans. Although HUD staff may not have had a problem approving the loans, the owner never asked for approval. According to the Regulatory Agreement, the owner cannot without the prior written approval of HUD incur any liability, direct or contingent, other than for current operating expenses. Because the owner did not have approval for the loans, the

subsequent repayment of such loans is an ineligible use of project funds.

Owner Paid Himself
\$49,414 in Construction
Supervision Fees

In addition to the management agent fee, the owner paid himself \$49,414 from project funds for "construction supervisor fees," violating the Regulatory Agreement and HUD requirements. The owner paid himself these fees continuously throughout the review period based on a flat rate of \$70 per day. The owner stated that he used his expertise in construction in providing services to the project. However, he could not provide us with documentation supporting the need, duties, and accomplishments of his services as a construction supervisor. Further, the owner did not have written approval from HUD for this fee.

According to the Regulatory Agreement, the owner cannot without the prior written approval of HUD, enter into any contract(s) for supervisory or managerial services. Additionally, HUD Handbook 4381.5 REV-1, Paragraph 2-13(B) states the "agent must absorb the costs of supervising and overseeing project operations."

Project Paid \$7,460 for
Owner's Health Insurance

The owner used project funds to pay his health insurance (\$7,460). The owner stated he believes he was an employee of the project since he was the "construction supervisor," and therefore the project should pay for his health insurance. However, the owner was not a project employee and, as stated above, the construction supervision fees were ineligible costs. Therefore, the owner's health insurance is not an eligible project expenditure.

Charges for Office Rent
Appear Unreasonable

The owner owns a building adjacent to the property. This building houses the project office and a laundrette. The owner purchased the building from a relative for \$15,000 in 1988. According to the owner and HUD documents, this building is not part of the project. In 1992 the owner charged the project \$400 per month for office space rental, and \$500 per month for 1993 and 1994. During the audit period, the office space rental charges amounted to \$16,200. The rent charges appear to be inflated considering the owner purchased the entire building for \$15,000 in 1988 and has charged the project \$16,200 in rent for use of half

the building during the 34 months under review. HUD should require the owner to support the reasonableness of the rent charges.

Owner Subsidized
Lauderette

The owner rents the laundrette to an unrelated individual for \$175 per month. Using project funds, the owner pays himself the difference between the higher office rent and the \$175 charged for the laundrette. This difference totaled \$10,075 for the audit period. The owner justifies this subsidy for the laundrette by claiming HUD forces him to have a laundrette. HUD staff were unaware of the owner charging the project rent or the laundrette subsidy. Further, there is no documentation in the files indicating that the owner received HUD approval to pay the laundrette subsidy. Other than providing the owner additional income, there is no reason or justification for the subsidy.

Rent Payments Made to
an Identity-of-Interest
Company

The owner paid an identity-of-interest company \$4,400 for "office rent" for an office located in Natalbany, Louisiana. The owner did not have HUD's written approval for these payments. There is no evidence to support the necessity of this office. As discussed above, the owner already has an office adjacent to the project; therefore, these payments are ineligible.

Owner Reimbursed
Himself \$24,707 for
Ineligible Travel Costs

The owner reimbursed himself \$24,707 from project funds for travel expenses that should have been paid from his management fee. Much of the travel expenses related to mileage to and from the project. For example, in September 1992 the owner reimbursed himself \$601 for travel expenses. According to supporting documentation, the owner traveled 2,186 miles during the month at a reimbursement rate of \$.275 per mile. The documentation indicates the owner traveled the miles for purpose of construction supervision, office supervision, and site inspection. Other reimbursed travel expenses did not have a stated purpose. These expenses should have been paid from the management fee and not from project funds.

The Regulatory Agreement states owners shall not without the prior written approval of the Commissioner pay out any funds except from "surplus cash," except for reasonable operating expenses and necessary repairs. Further, HUD

Handbook 4381.5 REV-1, Paragraph 2-14(A) states the management fee must pay for salaries, fringe benefits, office expenses, fees, and contract costs incurred in supervising project personnel, and monitoring project operations by visiting the project.

Owner Charged
Questionable
Bookkeeping Expenses

The Renting and Managing Agreement states all salaries for management personnel, including the bookkeeper (but not the auditing accountant) will be paid by the agent out of the management agent fee. The owner violated this agreement by charging the project \$9,163 for bookkeeping expenses. Also, the owner paid another \$3,000 to an accountant for compilation of annual financial statements. This amount appears to be unreasonable considering the accountant did not audit financial statements.

Owner Improperly
Charged Consultant Fees
to the Project

The owner spent \$8,055 for ineligible and questionable consulting fees. Of this amount, the owner made payments totaling \$6,200 for consulting work involving advice on how to apply for grants to obtain security fencing, and the advisability of enlarging the project to 100 units and the possible syndication thereof. These expenses are neither operating expenses nor necessary repairs and therefore, can't be paid from project funds. Also, the owner's records disclosed payments of \$1,830 to a law firm that do not appear to be eligible expenses.

Owner Paid Himself
\$2,700 for Arbitrary
Telephone Costs

The owner paid himself \$60 per month in project funds for telephone expenses (\$2,700). According to the owner, the reimbursements represent charges in addition to the project telephone, such as the phone at the Natalbany office. The owner could not justify the reasonableness of the \$60 per month reimbursement. Any reimbursement to the owner should be for actual expenses, not an arbitrarily set fee. Additionally, the owner would have to document why the phone charges are project expenses and not management agent expenses. HUD Handbook Figure 2-4 lists overhead expenses such as supplies and equipment, transportation and phone calls to projects, office space, data processing, etc. as examples of costs paid from the management fee.

Project Paid for Ineligible
Bank Charges

The owner incurred and paid \$2,293 in mortgage late fees and non-sufficient fund charges. These expenditures do not

Finding 1

constitute reasonable operating expenses and should not be charged to the project.

Project Incurred \$19,500
in Other Questionable
Costs

In addition to the above ineligible and unsupported payments, the owner improperly disbursed \$19,559 in project funds for various expenses. The \$19,559 included \$3,735 for ineligible and \$15,824 for unsupported purposes.

The ineligible payments include purchase and repairs to a copy machine located at the Natalbany office (\$1,994), flowers for a wedding (\$145), and flowers for a church function (\$249). The owner, also, reimbursed himself from project funds for personal items. For instance, the owner issued a check to himself for \$536.51 for reimbursement of office expenses¹. The supporting receipts show the purchase of such items as aspirin (\$42.38), juice (\$28.57), bubble gum (\$24.87), taper candles (\$9.81), and other items. Ineligible expenses accounted for \$477.51 of the \$536.51 reimbursement. In addition, the owner could not provide support for checks totaling \$15,824 that appeared to be for questionable items.

The owner's improper use of project funds has had adverse effects on both HUD and the project residents. As stated previously, all 50 units are subsidized through the Section 8 Program. The amount of project expenses determines the Section 8 subsidy. The improper expenses have resulted in HUD paying inflated rental subsidies to the owner². The owner has jeopardized the financial position of the project by using project funds for ineligible purposes.

Auditee Comments

In general, the auditee denies any wrongdoing and attempts to portray himself as a victim of "administrative persecution." The owner regards OIG's contention of improperly spent funds as "... simply a partial truth--most of

¹ Check number 2980, dated August 7, 1992.

² Based on available records, we estimate that the inclusion of ineligible costs in budgets may have resulted in the owner receiving inflated rental income of about \$116,000 for 1992 and 1993.

the items quoted were spent in conformity with the regulatory and management agreements for reasonable operating expenses and necessary repairs, no liability was incurred other than for current operating expenses and no contracts or agreements for supervisory services were entered into without the suggestion and approval of the project's loan servicer."

The owner states:

- *Withdrawal and loan repayments.* During the review period, he deposited \$111,821 into the bank account. Further, HUD was aware of borrowing and repayments and received the project's detailed general ledger which reflected every transaction in detail.
- *Construction supervision fees.* The project's loan servicer told him to use this category since the project "...had to practically be rebuilt from lack of maintenance and funds prior to the current managing agent's tenure."
- *Office rent.* The costs are supported. "Just because the owner received this property as a bargain from his family, does not preclude him from receiving rent."
- *Subsidized launderette.* "In order to clean up the project it was necessary to stop tenants from placing washers and dryers in the units since they do not have hookups, therefore it was necessary to contract for a washateria service to operate one on the site, since the site would not produce enough revenue to justify the washateria, the project had to subsidize the washateria by way of rent."
- *Bookkeeping/accounting services.* Have been accepted since 1969 by HUD as an allowable project expense. The owner has reported such expenses under the HUD chart of accounts #6351. The owner and managing agent consider the consulting expenses as ordinary and necessary expenses of the project. The project paid such fees in other years without being questioned by HUD.

- *Legal fees.* "...were all incurred in tenant evictions or other direct project legal expenses."

The owner said he would not attempt to rebut each check or invoice as this would "...bog this project down in more administrative paperwork and thus lose sight of our recovery from HUD for abusive 'administrative persecution' among other things."

The owner disagrees with the OIG's computation of inflated rent. To the contrary, the owner feels that the project has been delayed a rent increase, and therefore, the owner has been damaged "\$20,000 per year plus the costs that he has incurred to deal with and answer this "administrative persecution."

In conclusion, the owner disagrees with "with every assumption and recommendation" that the OIG made."

OIG Evaluation of
Auditee Comments

The owner did not provide any explanations or evidence to significantly change our conclusions. We acknowledge the owner made contributions to the project. Nevertheless, to protect HUD's and the tenants' interests, the Regulatory Agreement prohibits repayments for those contributions, without HUD approval, when the project is in a non-surplus cash position. HUD program staff deny they approved the above practices, and the owner could not provide us with anything in writing to show HUD approval. His response does not explain how the office rent is reasonable. We still do not understand why the project should be subsidizing the launderette. The Renting and Management Agreement signed by the owner, not HUD, deems bookkeeping as a management agent expense, not a project expense. The owner did not submit any evidence why the consultant fees should be considered reasonable operating expenses or for necessary repairs. With respect to the legal fees, we did question items based upon the attorney's statement of account supplied by the owner. The owner must supply additional information to prove the following line items are direct project legal expenses: "closing cost, Genesee Road" (\$1,254.50); "review of abstracts to land and response to Kipp at HUD" (\$400); "office visit re: HUD ltr to

Southeast Bank, Mannino" (\$150); and "preparation of will for mother" (\$25). The owner did not supply any information determining how the above expenses relate to the project.

Overall, the owner argues that because HUD did not enforce the Regulatory Agreement in the past, the owner should be allowed to violate the Regulatory Agreement indefinitely without consequence. The owner freely entered into the Regulatory Agreement with the government. Without HUD, the owner probably would not have this project. According to information supplied by the owner, the government provided \$847,969 of the \$1,076,039 (78.80%) funds deposited into the bank account during the 2-year period ending December 1994. Yet when the government requires adherence to the terms of the Regulatory Agreement, the owner argues he should not have to comply. The owner views any attempt by the government to try to ensure compliance and safeguard the taxpayers against loss as "administrative persecution."

Recommendations

We recommend the New Orleans Office:

- 1A. Require the owner to immediately cease the improper activities described in this finding and adhere to the Regulatory Agreement, HUD requirements, and the Management Agreement;
- 1B. Take action to recover \$243,556 of improperly expended funds;
- 1C. Obtain documentation or justification for the \$40,730 in unsupported expenditures and recover from the owner costs you determine to be unallowable;
- 1D. Review project costs subsequent to October 31, 1994, and recover amounts that you determine are ineligible or unsupported;

- 1E. If the owner does not repay HUD for the improper diversion of property funds, take appropriate civil action and HUD prescribed remedies; and

- 1F. Because of the serious violations of the Regulatory Agreement and disregard of HUD requirements, take appropriate administrative action through sanctions to protect HUD's interest.

Multifamily Division Needs to Improve Its Oversight of Project Management

The Multifamily Housing Division (Multifamily) needs to take proactive measures to ensure that owners/management agents adhere to the Regulatory Agreement and HUD requirements. During the course of our review, we noted two troubling conditions with Multifamily's monitoring of Little Flower Estates (Little Flower). First, clear indications of violations of the Regulatory Agreement and HUD requirements went unnoticed or unquestioned. Second, when Multifamily did question possible deficiencies, it did not pursue and correct the noted deficiencies. As a result, the program deficiencies discussed in Finding 1 went undiscovered or unresolved. Also, Multifamily may have impeded its ability to recover diverted funds.

Multifamily's Responsibilities

HUD Handbooks 4350.1 REV-1 "Multifamily Asset Management and Project Servicing," and HUD Handbook 4370.1 REV-2 "Reviewing Annual and Monthly Financial Reports" provide guidance to field offices on how to oversee multifamily projects.

- Section 3-4 of Handbook 4350.1 REV-1 requires mortgagors to submit to HUD annual audited financial statements. Chapter 2 of 4370.1 REV-2 provides HUD staff with detailed instructions on reviewing annual statements.
- Section 1-4 of 4370.1 REV-2 lists four "Goals of Financial Analysis":
 1. Financial health of project. To provide stability, rents must be set at sufficient levels. The Asset Management staff's objective is to keep rent increases to necessary amounts and to minimize the impact of the increase on lower-income residents.
 2. Protect the FHA insurance fund. Asset Management staff can help protect the FHA fund by monitoring the project's physical and financial status and providing solutions to current and anticipated physical and financial problems.

3. Ensure that rental revenue and rental subsidies are used properly. Asset Management staff should review financial statements carefully to identify instances where funds have been diverted improperly or are not being used in compliance with previous agreements.
4. Compliance with Regulatory Agreement and subsidy contracts. Compliance is essential to providing decent, safe, and affordable housing to all eligible tenants and maintaining a financially sound project with the ability to sustain future operations. Asset Management staff can help by reviewing the auditor's Report on Compliance for reported deficiencies and performing tests on the financial statements.

Violations Went
Unnoticed or
Unquestioned

Multifamily did not notice or question possible violations of the Regulatory Agreement and HUD requirements.

Unaudited financial statements. Little Flower submitted unaudited financial statements for calendar years 1991 and 1992. Multifamily's files do not indicate that the owner was informed of the deficiencies or that Little Flower submitted audited financial statements. Unaudited financial statements do not provide HUD with reasonable assurance regarding the accuracy or completeness of what is being reported. The Regulatory Agreement and HUD Handbook 4350.1 REV-1 require that the owner submit audited financial statements within 60 days of year end.³ According to HUD Handbook 4370.1 REV-2 Paragraph 2-5, HUD's review of the annual financial statements includes ensuring the statements contain an auditor's opinion in proper form.

Multifamily did require Little Flower to submit audited financial statements for 1993. After receiving an extension, Little Flower submitted unaudited financial statements for 1993. On May 9, 1994, Multifamily informed the owner to contract the auditing services to an Independent Public Accountant. Further, the letter states "if project funds were used to pay for this compiled report, we direct you to reimburse the project the total cost of the compiled report."

³ Paragraph 9(e).

The audited financial statements are dated September 28, 1994.

Questionable transactions. The 1991 and 1992 unaudited, and the 1993 audited financial statements disclosed violations of the Regulatory Agreement and other apparent questionable transactions:

Although the Regulatory Agreement Paragraph 6(i) does not allow the owner to incur any liability except for current operating expenses without prior HUD approval, the 1991 and 1992 financial statements disclosed that Little Flower had notes payable to the owner and others of \$73,624 and \$99,507, respectively. The financial statements also showed the notes payable earned \$497 in interest for 1991 and \$4,128 for 1992. According to an asset manager, Multifamily never approved any loans to Little Flower or the subsequent repayments of the loans. Further, the 1993 cash flow statement and related notes to financial statements disclosed that the project spent \$22,145 to repay long-term debt to related parties. Multifamily did not question the repayments of related-party notes while the Project was in a non-surplus cash position.

The 1991 and 1992 financial statements disclosed questionable costs on a page entitled "Compensation of Officers or Owners." The 1993 financial statements disclosed similar questionable costs in the Schedule of Findings and Questioned Costs as "unauthorized distributions to partner and related parties":

Transaction Category	1991	1992	1993
Construction supervision	\$16,730	\$18,410	\$19,387
Office rent	\$6,875	\$8,125	\$12,300
Expense allowed	\$14,445	\$13,540	
Travel			\$14,140
Principal and interest			\$35,762

These payments were in addition to management fees paid the owner. An asset manager said Multifamily never

approved the construction supervision fee or payments for office rent. In fact, the asset manager was not aware that Little Flower paid office rent. The files do not indicate that Multifamily ever questioned the appropriateness of these payments. A review of 1992 and 1993 transactions found most of the above items to be ineligible or unsupported (see Finding 1). The review period did not include 1991.

According to an asset manager, Multifamily does not involve itself with a project unless it hears from the tenants or the mortgage company. Another asset manager said Multifamily questioned some of the payments to the owner in their latest review. On May 3, 1994, Multifamily reported the results of its Management Review of Little Flower. The review noted 45 findings. Finding 12 questioned many payments to the owner between January and March 1994. According to correspondence dated April 25, 1995, the finding remains open pending OIG's report. An asset manager said the owner never sent paperwork addressing the payments. As a result, Multifamily was unable to declare the payments ineligible.

Multifamily did request and receive some Monthly Accounting Reports (MARs) for the project. Based on these reports, Multifamily questioned some of Little Flower's expenditures. The owner's response on September 19, 1994, indicates that many of the questioned payments are ineligible. For example, the owner states that one check for \$2,500 was an "advance"⁴ and another check went to pay consultant fees for "the advisability of enlarging the project to 100 units, and the possible syndication thereof." Both of the above purposes are clearly ineligible uses of project funds, and Multifamily should have taken appropriate measures to have the funds repaid to the project and ensure that such payments do not occur in the future. Further, this correspondence reveals that the owner is charging Little Flower for office rent, a construction supervision fee, telephone, and travel. According to an asset manager, Multifamily has not received any MARs since December 1994 even though it has not instructed the owner to stop submitting MARs.

⁴ The owner's correspondence states that the "advance" was repaid to the project. However, the fact that the "advance" was repaid does not excuse the violation of the Regulatory Agreement.

Multifamily Inaction
Could Hinder Corrective
Action

Multifamily referred Little Flower for OIG review and may have waited for the results before acting. However, Multifamily's silence when the owner provides information indicating that ineligible or questionable expenditures could give the owner the false impression that Multifamily approves of the payments. This could also hinder Multifamily's ability to require the owner to pay back the funds or other sanctions.

Based upon a cursory file review, it appears Multifamily ensured the owner corrected physical discrepancies. Multifamily should use this same efficiency in correcting financial discrepancies.

Auditee Comments and
OIG Evaluation

In its written response to the draft finding, Multifamily said it was taking action to correct reported deficiencies. They now have sufficient staff to ensure files are complete, and also have available contractors to assist them. In addition, they are entering financial statement data into an automated system, and are implementing procedures to ensure timely review and follow-up of possible violations. The response also stated Multifamily is exploring the possibility of converting one of the asset managers to a financial analyst, whose primary function would be to review financial statements.

Multifamily appears to be taking effective action to address concerns reported in this finding.

Recommendations

We recommend the New Orleans Office ensure:

- 2A. Project owners submit required information, including audited financial statement, and Monthly Accounting Reports, when appropriate and take appropriate administrative action through sanctions, if warranted and
- 2B. Multifamily staff review financial statements in accordance with HUD handbook requirements, and question and resolve indications of noncompliance.

Internal Controls

In planning and performing our audit, we considered internal controls relating to the operation of Little Flower Estates. We also considered internal controls relating to the Multifamily Housing Division's monitoring of the project.

Internal controls consist of the plan of organization and methods and procedures adopted by management to ensure that resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data is obtained, maintained, and fairly disclosed in reports.

Relevant Internal Controls

We determined that a review of Little Flower Estates' internal controls was not relevant to accomplishing our audit objectives and accordingly did not review them. We concluded this due to the small size of the operation, and because the owner was the management agent and could override controls.

Our review of the Multifamily Housing Division was limited to Little Flower Estates, and HUD requirements for obtaining and reviewing financial reports as stated in HUD Handbooks 4350.1 REV-1, and 4370.1 REV-2. We assessed Multifamily's controls over obtaining and reviewing financial reports from the project and following up on identified deficiencies.

Significant Weakness

As discussed in Finding 2, Multifamily Housing Division needs to strengthen its controls over its review of financial reports and follow-up of identified deficiencies.

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Schedule of Questioned Costs

<u>Recommendation Number</u>	<u>Ineligible</u> ¹	<u>Unsupported</u> ²
1B	\$243,556	
1C		\$40,730

¹ Costs clearly not allowed by law, contract, HUD, or local agency policies or regulations.

² Costs not clearly eligible but which warrant being considered (e.g., lack of satisfactory documentation to support the eligibility of the cost, etc.).

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Questioned Amounts by Cost Category

Category	Ineligible Amount <u>1/</u>	Unsupported Amount <u>2/</u>	Total Amount
Owner withdrawals	\$ 97,644.42	\$ 4,376.29	\$102,020.71
Loan Repayments	25,764.70		25,764.70
Construction supervision fee	49,414.00		49,414.00
Health Benefits	7,460.37		7,460.37
Office rent - project		16,200.00	16,200.00
Launderette rent	10,075.00		10,075.00
Office rent - Natalbany	4,400.00		4,400.00
Travel	24,706.76		24,706.76
Bookkeeping	9,162.50	3,000.00	12,162.50
Consulting	6,200.00	1,829.50	8,029.50
Telephone reimbursement	2,700.00		2,700.00
Late fees/ NSF charges	2,293.10		2,293.10
Miscellaneous	3,734.70	15,824.55	19,559.25
TOTALS	\$243,555.55	\$41,230.34	\$284,785.89

1/ Costs clearly not allowed by law, contract, HUD, or local agency policies or regulations.

2/ Costs not clearly eligible or ineligible but which warrant being contested (e.g., lack of satisfactory documentation to support the eligibility of the cost, etc.).

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Schedule of Ineligible and Questioned Disbursements Supporting Finding 1

Legend: BS - Bank statement
 DM - Debit memo
 WO - Withdrawal order
 WT - Wire transfer
 NTF - Note to file
 DS - Deposit slip
 NSF - Non-sufficient funds
 OD - overdraft
 Material chg - See section in Finding 1 entitled "Owner Improperly Withdrew \$102,021 in Project Funds"

Owner Advances

Check No\ Source	Date	Check Amount	Ineligible Amount	Unsupported Amount
2956	06/11/92	\$1,434.03	\$1,434.03	
2818	08/03/92	2,965.70	2,965.70	
3056	09/28/92	1,500.00	1,500.00	
3073	10/01/92	2,970.00	2,970.00	
114	10/15/92	2,120.00	2,120.00	
121	10/21/92	2,000.00	2,000.00	
3114	11/02/92	3,600.00	3,600.00	
3176	12/01/92	1,200.00	1,200.00	
3239	12/31/92	4,003.33	4,003.33	
3241	12/31/92	11,807.30	11,807.30	
3411	02/09/93	5,277.81	5,277.81	
BS	02/11/93	1,000.00	1,000.00	
3452	03/09/93	2,105.61	2,105.61	
3465	04/01/93	4,000.00	4,000.00	
3587	05/23/93	5,420.00	5,420.00	
3602	06/01/93	2,000.00	2,000.00	
DM	07/30/93	3,200.00	3,200.00	
DM	07/30/93	5,000.00	5,000.00	
WO	09/14/93	2,500.00	2,500.00	
WT	12/09/93	4,000.00	4,000.00	
BS	01/21/94	1,800.00	1,800.00	
1061	05/03/94	1,223.94	1,223.94	
1157	06/03/94	1,220.82	1,220.82	
1183	06/06/94	1,000.00	1,000.00	
1225	07/01/94	3,500.00	3,500.00	
1393	08/31/94	628.00	628.00	

1466	10/03/94	2,200.00	2,200.00	
1546	10/06/94	2,200.00	2,200.00	
NTF	09/30/92	Material chg	15,767.88	
NTF	09/30/92	Material chg		1,038.15
NTF	09/30/92	Material chg		800.00
NTF	09/30/92	Material chg		1,832.50
NTF	09/30/92	Material chg		<u>705.64</u>
Total Owner Advances			<u>\$97,644.42</u>	<u>\$4,376.29</u>

Loan Repayments

Check No\ Source	Date	Check Amount	Ineligible Amount	Unsupported Amount
2857	05/03/92	\$689.58	\$689.58	
2907	06/01/92	689.58	689.58	
2728	07/02/92	689.58	689.58	
2804	08/03/92	689.58	689.58	
3014	09/02/92	689.58	689.58	
118	10/15/92	689.58	689.58	
3108	11/02/92	689.58	689.58	
3214	12/18/92	689.58	689.58	
3245	01/05/93	689.58	689.58	
3343	02/09/93	689.58	689.58	
3417	03/01/93	689.58	689.58	
3480	04/01/93	689.58	689.58	
3535	05/01/93	689.59	689.59	
3603	06/01/93	689.59	689.59	
3656	07/01/93	689.59	689.59	
3731	08/05/93	689.59	689.59	
3836	09/13/93	689.59	689.59	
3892	10/07/93	689.58	689.58	
3984	11/30/93	689.58	689.58	
4020	12/01/93	689.58	689.58	
4054	01/01/94	689.58	689.58	
2479	01/06/92	763.49	763.49	
2481	01/06/92	439.58	439.58	
2527	02/05/92	763.49	763.49	
2528	02/05/92	439.58	439.58	
2582	03/02/92	439.58	439.58	
2586	03/04/92	763.49	763.49	
2630	03/18/92	151.36	151.36	
2653	04/01/92	763.49	763.49	
2655	04/01/92	439.58	439.58	
2852	05/02/92	439.58	439.58	

2856	05/03/92	763.49	763.49
2901	06/01/92	763.49	763.49
2899	06/02/92	439.58	439.58
2727	07/02/92	439.58	439.58
2729	07/02/92	439.58	763.49
2761	07/08/92	248.02	248.02
2801	08/03/92	763.49	763.49
2803	08/03/92	439.58	439.58
2815	08/03/92	248.02	248.02
3012	09/02/92	763.49	763.49
3013	09/02/92	248.02	<u>248.02</u>
Total Amount of Loan Repayments			<u>\$25,764.70</u>

Construction Supervision Fees

Check No\ Source	Date	Check Amount	Ineligible Amount	Unsupported Amount
3253	01/05/92	\$1,470.00	\$1,470.00	
2625	03/17/92	6,090.00	6,090.00	
2657	04/01/92	1,540.00	1,540.00	
2722	05/01/92	1,470.00	1,470.00	
3069	09/30/92	1,540.00	1,540.00	
3110	11/02/92	1,470.00	1,470.00	
3178	12/01/92	1,610.00	1,610.00	
3353	02/01/93	1,400.00	1,400.00	
3420	03/01/93	1,610.00	1,610.00	
3575	05/01/93	3,010.00	3,010.00	
3606	06/01/93	1,540.00	1,540.00	
3660	07/01/93	1,540.00	1,540.00	
3709	08/01/93	1,570.00	1,570.00	
3788	09/01/93	1,540.00	1,540.00	
3848	10/01/93	1,470.00	1,470.00	
3860	10/01/93	1,087.00	1,087.00	
3937	11/01/93	1,540.00	1,540.00	
3986	11/30/93	1,610.00	1,610.00	
4056	01/01/94	1,610.00	1,610.00	
4103	01/31/94	1,470.00	1,470.00	
4107	01/31/94	1,187.00	1,187.00	
4153	02/28/94	1,400.00	1,400.00	
4269	04/04/94	1,470.00	1,470.00	
1048	05/02/94	1,540.00	1,540.00	
1133	06/02/94	1,540.00	1,540.00	
1224	07/01/94	1,470.00	1,470.00	

1302	08/02/94	1,540.00	1,540.00
1310	08/02/94	70.00	70.00
1391	08/31/94	1,540.00	1,540.00
1513	10/05/94	1,470.00	<u>1,470.00</u>
Total Construction Supervision Fees			<u>\$49,414.00</u>

Health Insurance

Check No\ Source	Date	Check Amount	Ineligible Amount	Unsupported Amount
2477	01/06/92	\$ 992.11	\$ 301.49	
2539	02/05/92	992.11	301.49	
2596	03/04/92	992.11	301.49	
2651	04/01/92	992.11	301.49	
2853	05/03/92	992.11	301.49	
2912	06/03/92	1,008.54	307.28	
2975	07/02/92	1,008.54	307.28	
2799	08/03/92	1,136.48	307.28	
3042	09/09/92	1,232.79	535.08	
3308	01/12/93	575.00	186.00	
3344	02/01/93	698.00	186.00	
3440	03/03/93	698.00	186.00	
3474	04/01/93	698.00	186.00	
3550	05/05/93	514.00	186.00	
3601	06/01/93	515.00	186.00	
3655	07/01/93	754.00	186.00	
3724	08/05/93	634.00	186.00	
3800	09/07/93	634.00	186.00	
3870	10/05/93	634.00	186.00	
3964	11/10/93	634.00	186.00	
4011	12/02/93	915.00	208.00	
4053	01/01/94	806.00	208.00	
4120	02/03/94	806.00	208.00	
4155	02/28/94	806.00	208.00	
4255	04/04/94	806.00	208.00	
1053	05/03/94	812.00	235.00	
1127	06/02/94	852.00	235.00	
1212	07/01/94	832.00	235.00	
1295	08/02/94	544.00	235.00	
1377	08/31/94	736.00	235.00	
1467	10/17/94	736.00	<u>235.00</u>	
Total for Health Insurance			<u>\$7,460.37</u>	

<u>Rent</u>				
Check No\ Source	Date	Check Amount	Ineligible Amount	Unsupported Amount
2474	01/06/91	\$800.00		\$ 800.00
2475	01/06/92	450.00	\$ 450.00 (1)	
2531	02/05/92	400.00		400.00
2532	02/05/92	225.00	225.00 (1)	
2579	03/02/92	685.00	225.00 (1)	400.00
2658	04/01/92	685.00	225.00 (1)	400.00
2721	05/01/92	625.00	225.00 (1)	400.00
2902	06/02/92	625.00	225.00 (1)	400.00
2730	07/02/92	685.00	225.00 (1)	400.00
2805	08/03/92	625.00	225.00 (1)	400.00
2999	09/01/92	625.00	225.00 (1)	400.00
3071	10/01/92	625.00	225.00 (1)	400.00
3111	11/02/92	625.00	225.00 (1)	400.00
3175	12/02/92	625.00	225.00 (1)	400.00
3246	01/05/93	825.00	325.00 (1)	500.00
3359	02/01/93	500.00		500.00
3360	02/01/93	325.00	325.00 (1)	
3421	03/01/93	500.00		500.00
3422	03/01/93	325.00	325.00 (1)	
3432	03/01/93	600.00	600.00 (2)	
3489	04/01/93	200.00	200.00 (2)	
3528	04/23/93	825.00	325.00 (1)	500.00
3540	05/01/93	825.00	325.00 (1)	500.00
3541	05/01/93	200.00	200.00 (2)	
3609	06/01/93	825.00	325.00 (1)	500.00
3610	06/01/93	200.00	200.00 (2)	
3654	07/01/93	825.00	325.00 (1)	500.00
3662	07/01/93	200.00	200.00 (2)	
3711	08/01/93	825.00	325.00 (1)	500.00
3712	08/01/93	200.00	200.00 (2)	
3786	09/01/93	825.00	325.00 (1)	500.00
3791	09/01/93	200.00	200.00 (2)	
3844	10/01/93	825.00	325.00 (1)	500.00
3850	10/01/93	200.00	200.00 (2)	
3934	11/01/93	825.00	325.00 (1)	500.00
3935	11/01/93	200.00	200.00 (2)	
3988	11/30/93	825.00	325.00 (1)	500.00
4027	12/01/93	200.00	200.00 (2)	
4058	01/01/94	825.00	325.00 (1)	500.00

4066	01/04/94	200.00	200.00 (2)	
4109	01/31/94	825.00	325.00 (1)	500.00
4110	01/31/94	200.00	200.00 (2)	
4151	02/28/94	825.00	325.00 (1)	500.00
4152	02/28/94	200.00	200.00 (2)	
4272	04/04/94	825.00	325.00 (1)	500.00
4273	04/04/94	200.00	200.00 (2)	
1046	05/02/94	825.00	325.00 (1)	500.00
1060	05/03/94	200.00	200.00 (2)	
1129	06/02/94	200.00	200.00 (2)	
1131	06/02/94	825.00	325.00 (1)	500.00
1220	07/01/94	200.00	200.00 (2)	
1222	07/01/94	825.00	325.00 (1)	500.00
1301	08/02/94	825.00	325.00 (1)	500.00
1334	08/02/94	200.00	200.00 (2)	
1384	08/31/94	200.00	200.00 (2)	
1390	08/31/94	825.00	325.00 (1)	500.00
1509	10/05/94	200.00	200.00 (2)	
1512	10/05/94	825.00	<u>325.00 (1)</u>	<u>500.00</u>

Total Spent on Rent**Project office**\$16,200.00**Lauderette**\$10,075.00 (1)**Natalbany office**4,400.00 (2)Travel

Check No\ Source	Date	Check Amount	Ineligible Amount	Unsupported Amount
2512	01/27/92	\$577.04	\$577.04	
2521	01/29/92	867.14	765.88	
2575	02/29/92	551.93	551.93	
2627	03/17/92	400.00	400.00	
2648	03/31/92	570.51	570.51	
2701	04/20/92	300.00	300.00	
2704	04/24/92	100.00	100.00	
2715	04/30/92	209.65	209.65	
2884	05/18/92	10.95	10.95	
2893	05/29/92	568.43	568.43	
2972	06/30/92	620.68	620.68	
2795	07/31/92	654.76	562.65	
2991	08/21/92	700.00	350.00	
3064	09/30/92	601.15	601.15	
3118	10/31/92	746.66	746.66	
3168	11/30/92	762.03	762.03	

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3238	12/23/92	757.00	757.00
3357	02/01/93	774.16	774.16
3408	02/09/93	131.47	131.47
3412	02/09/93	161.74	161.74
3428	03/01/93	821.43	821.43
3487	04/01/93	929.78	929.78
3530	04/30/93	500.00	500.00
3544	05/01/93	432.58	432.58
3590	05/23/93	918.40	862.68
3623	06/01/9	334.00	34.00
3653	06/23/93	886.56	886.56
3706	07/15/93	800.00	800.00
3769	08/20/93	267.59	267.59
3774	08/20/93	838.00	838.00
3790	09/01/93	120.00	120.00
3835	09/13/93	560.00	560.00
3840	09/20/93	506.31	506.31
3893	10/07/93	264.64	264.64
3938	11/01/93	920.00	920.00
3930	10/25/93	506.31	506.31
4007	11/30/93	947.00	947.00
4048	12/23/93	348.39	348.39
4060	01/04/94	1,012.00	1,012.00
4173	02/28/94	210.00	210.00
4271	04/04/94	695.24	695.24
1264	07/08/94	932.61	932.61
1304	08/02/94	685.00	685.00
1510	10/05/94	892.40	892.40
4044	12/13/93	212.31	<u>212.31</u>
Total Travel			<u>\$24,706.76</u>

Bookkeeping

Check No\		Check	Ineligible	Unsupported
Source	Date	Amount	Amount	Amount
2573	02/21/92	\$ 500.00	\$ 500.00	
2633	03/18/92	600.00	600.00	
2678	04/07/92	452.34	300.00	
2851	05/03/92	300.00	300.00	
2885	05/20/92	500.00	500.00	
2953	06/11/92	300.00	300.00	
2779	07/16/92	300.00	300.00	
2820	08/07/92	300.00	300.00	
3017	09/03/92	300.00	300.00	

120	10/21/92	300.00	300.00	
3153	11/11/92	475.00	300.00	
3204	12/14/92	300.00	300.00	
3247	01/05/93	300.00	300.00	
3361	02/01/93	500.00	300.00	
3418	03/01/93	300.00	300.00	
3491	04/01/93	475.00	475.00	
3543	05/01/93	300.00	300.00	
3604	06/01/93	405.22	387.50	
3666	07/01/93	700.00	700.00	
3736	08/05/93	300.00	300.00	
3784	09/01/93	400.00	400.00	
3887	10/07/93	300.00	300.00	
3950	11/03/93	300.00	300.00	
4029	12/02/93	300.00	300.00	
1364	08/29/94	500.00	500.00	
154	10/13/94	3,000.00		<u>3,000.00</u>
Total Bookkeeping			<u>\$9,162.50</u>	<u>\$3,000.00</u>

Consultant Fees

Check No\ Source	Date	Check Amount	Ineligible Amount	Unsupported Amount
3230	12/22/92	\$1,825.00	\$1,850.00	
3376	02/09/93	925.00	925.00	
3466	04/01/93	925.00	925.00	
3715	08/03/93	1,000.00	1,000.00	
3953	11/04/93	250.00	250.00	
3952	11/04/93	250.00	250.00	
1108	05/05/94	1,000.00	1,000.00	
3413	02/25/93	1,829.50 ¹		1,829.50
3481	04/01/93	"		
3837	09/13/93	"		
Total Consultant Fees			<u>\$6,200.00</u>	<u>\$1,829.50</u>

Telephone Expense

Check No\ Source	Date	Check Amount	Ineligible Amount	Unsupported Amount
2529	02/05/92	\$720.00	720.00	
2530	02/05/92	120.00	120.00	

¹ The \$1,829.50 relates to checks 3413, 3481, and 3837. The owner made payments on account to the attorney, some for costs that we are not questioning. The \$1,829.50 in questioned costs are not specifically tied to any particular check(s).

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2579	03/02/92	685.00	60.00
2658	04/01/92	685.00	60.00
2725	05/01/92	60.00	60.00
2903	06/01/92	60.00	60.00
2730	07/02/92	685.00	60.00
2806	08/03/92	60.00	60.00
3000	09/01/92	60.00	60.00
3072	10/01/92	60.00	60.00
3112	11/02/92	60.00	60.00
3179	12/01/92	60.00	60.00
3332	01/01/93	60.00	60.00
3358	02/01/93	60.00	60.00
3429	03/01/93	60.00	60.00
3488	04/01/93	60.00	60.00
3608	06/01/93	60.00	60.00
3661	07/01/93	60.00	60.00
3710	08/01/93	60.00	60.00
3789	09/01/93	60.00	60.00
3861	10/01/93	60.00	60.00
3949	11/01/93	60.00	60.00
3987	11/30/93	60.00	60.00
4057	01/01/94	60.00	60.00
4108	01/31/94	60.00	60.00
4166	02/28/94	60.00	60.00
4268	04/04/94	60.00	60.00
1047	05/02/94	60.00	60.00
1132	06/02/94	60.00	60.00
1223	07/01/94	60.00	60.00
1303	08/02/94	60.00	60.00
1392	08/31/94	60.00	60.00
1514	10/05/94	60.00	60.00
Total Telephone Expense			<u>\$2,700.00</u>

Late Fees and Bank Charges

Check No\ Source	Date	Check Amount	Ineligible Amount	Unsupported Amount
2507	01/01/92	\$7,400.37	\$ 81.87	
2574	02/15/92	5,400.37	81.87	
2588	03/02/92	5,326.89	81.87	
BS	08/31/92	NSF Charges	36.00	
BS	09/30/92	NSF Charges	108.00	
3161	11/15/92	5,329.07	81.87	
3227	12/15/92	5,329.07	81.87	

3243	01/05/93	5,818.14	46.54
3457	03/01/93	5,877.49	81.82
3526	04/15/93	5,823.74	28.07
3527	04/15/93	53.80	53.80
3597	05/15/93	5,877.57	81.90
3651	06/15/93	5,920.81	148.94
3697	07/15/93	5,885.35	143.48
3777	08/20/93	5,969.96	174.29
BS	09/30/93	NSF/OD fees	36.00
3845	10/01/93	135.67	135.67
4019	12/02/93	5,953.66	157.99
BS	12/31/93	OD Charges	144.00
1430	09/09/94	21.25	21.25
BS	09/30/94	OD Charges	<u>486.00</u>
Total Late Fees and Bank Charges			<u>\$2,293.10</u>

Other Questionable

Check No\ Source	Date	Check Amount	Ineligible Amount	Unsupported Amount
2618	03/05/92	\$337.45	\$ 337.45	
2677	04/06/92	450.00	450.00	
2871	05/07/92	450.00	450.00	
2884	05/18/92	221.60	200.00	10.64
2893	05/29/92	855.45	263.95	23.07
2778	07/13/92	164.75	117.50	40.25
2795	07/31/92	654.76	60.00	32.11
2988	08/21/92	9.24	9.24	
2980	08/07/92	536.51	477.51	
3153	11/11/92	475.00	25.00	150.00
4135	02/08/94	651.08	162.44	
4252	04/04/94	298.73	290.00	
1096	05/05/94	249.61	249.61	
1097	05/05/94	215.00	215.00	
1353	08/19/94	448.29	427.00	
2502	01/10/92	94.71		94.71
2521	01/29/92	867.14		101.26
2584	03/02/92	300.00		300.00
2585	03/02/92	1,350.00		1,350.00
2600	03/05/92	216.05		216.05
2678	04/07/92	452.34		152.34
2680	04/08/92	1,000.00		1,000.00
2945	06/08/92	200.00		200.00
2968	06/29/92	532.31		532.31

Appendix C

2740	07/07/92	1,054.00	1,054.00
2991	08/21/92	700.00	350.00
3005	08/31/92	496.61	496.61
3050	09/09/92	237.62	237.62
3065	09/30/92	259.64	259.64
122	10/23/92	500.00	500.00
123	10/26/92	122.08	122.08
3102	10/30/92	200.00	200.00
DS	11/06/92	Withdrawal	74.00
3160	11/23/92	664.75	664.75
3170	11/30/92	387.00	387.00
3181	12/01/92	765.00	765.00
3203	12/14/92	200.00	200.00
3202	12/14/92	400.00	400.00
3215	12/18/92	200.00	200.00
3361	02/01/93	500.00	200.00
3590	05/23/93	918.40	55.72
3622	06/01/93	1,400.00	1,400.00
4089	01/11/94	217.09	217.09
4125	02/07/94	100.00	100.00
4133	02/08/94	686.29	686.29
4168	02/28/94	1,133.94	1,133.94
4193	03/08/94	290.07	290.07
1062	05/03/94	1,190.00	1,190.00
1388	08/31/94	438.00	438.00
Total Other Expenses			<u>\$3,734.70</u> <u>\$15,824.55</u>

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Owner Comments (regarding Finding 1)

Pages 37 - 40

Multifamily Division Comments (regarding Finding 2)

Pages 41 - 42

Distribution

Secretary's Representative, 6AS

State Coordinator

Comptroller, 6AF

Director, Housing, 6AH

Director, Accounting, 6AAF

Kizzier, New Orleans (4)

Assistant to the Secretary for Field Management, SC (Room 7106)

Assistant to the Deputy Secretary for Field Management, SC (Room 7106)

Housing ALO, HFM (Room 2108) (5)

Acquisitions Librarian, Library, AS (Room 8141)

Chief Financial Officer, F (Room 10166) (2)

Deputy Chief Financial Officer for Operations, F (Room 10166) (2)

Associate Director, US GAO, 820 1st St. NE Union Plaza,

Bldg. 2, Suite 150, Washington, DC 20002

Attn: Jacquelyn Williams-Bridgers (2)

Auditee