



Taliafaro, Inc., Nashville, TN

Section 202, Supportive Housing for the Elderly
Program, and Section 811, Supportive Housing for
Persons With Disabilities Program



To: Reuben B. Clemons, Branch Chief, Account Executive Team for Housing,
Atlanta Field Office, 4AHMLAP

//signed//

From: Nikita N. Irons, Regional Inspector General for Audit, 4AGA

Subject: Taliafaro, Inc., a Multifamily Housing Management Agent, Did Not Always
Comply With HUD' Requirements or Its Own Policies and Procedures in the
Disbursement of Project Funds and Collection of Its Fees

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of Taliafaro, Inc.'s use of Sections 202 and 811 housing project funds.

HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation without a management decision, please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the audit.

The Inspector General Act, Title 5 United States Code, section 8M, requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at <http://www.hudoig.gov>.

If you have any questions or comments about this report, please do not hesitate to call me at 404-331-3369.



Audit Report Number: 2015-AT-1012

Date: September 30, 2015

Taliafaro, Inc., a Multifamily Housing Management Agent, Did Not Always Comply With HUD's Requirements or Its Own Policies and Procedures in the Disbursement of Project Funds and Collection of Its Fees

Highlights

What We Audited and Why

We reviewed the disbursement of project funds for seven of the Sections 202 and 811 supportive housing projects for the elderly and persons with disabilities managed by Taliafaro, Inc. We initiated the audit under the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's annual audit plan. Our objective was to determine whether Taliafaro used project funds appropriately and operated multifamily projects located in Tennessee, which received housing assistance under Sections 202 and 811 of the Housing Act, in accordance with HUD's and its own requirements and regulatory agreements. Specifically, we wanted to determine whether Taliafaro adequately supported project expenses, properly procured goods and services, and charged only the appropriate fees in managing the projects.

What We Found

Taliafaro did not disburse project funds in accordance with HUD's and its own requirements. In each of the seven projects reviewed, Taliafaro failed to ensure that payments were adequately supported and goods and services were properly procured because it lacked adequate controls to (1) properly support its disbursements and (2) obtain bids for goods and services. As a result, more than \$61,000 in payments was unsupported.

In addition, Taliafaro charged unauthorized management and accounting fees for two projects because it lacked adequate controls over charging fees to the project. As a result, HUD and the project owners lacked assurance that more than \$15,000 in management and accounting fees were eligible and appropriate.

What We Recommend

We recommend that HUD require Taliafaro to (1) support or reimburse the appropriate projects more than \$61,000 from non-project funds for the unsupported disbursements and improper procurements, (2) reimburse the two projects more than \$15,000 from non-project funds for the unauthorized management and accounting fees, (3) reduce the balance of management fees payable by the balance of as much as \$2,876 for ineligible management fees accrued but not paid, (4) stop collecting fees without proper authorization, and (5) implement adequate controls to ensure that payments are adequately supported, goods and services are properly procured, and only authorized fees are collected.

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Background and Objective

Taliafaro, Inc., is a profit-motivated corporation headquartered in Nashville, TN. As a management agent for U.S. Department of Housing and Urban Development (HUD) projects under Sections 202 and 811, Taliafaro is responsible for the financial operations and viability of the projects.

Management agent duties and responsibilities include but are not limited to (1) ensuring that all expenses of the project are reasonable and necessary; (2) exerting reasonable effort to maximize project income; and (3) obtaining contracts, materials, supplies, and services, including the preparation of the annual audit, on terms most advantageous to the project. Therefore, it is essential that project funds be disbursed with due care to ensure the financial viability of the projects.

The Section 202 Supportive Housing for the Elderly program¹ was established to help expand the supply of affordable housing with supportive services for the elderly, with the intent to provide very low-income elderly persons with options that allow them to live independently but in an environment that provides support activities. Likewise, the Section 811 Supportive Housing for Persons with Disabilities program² was established to allow persons with disabilities to live as independently as possible in the community by subsidizing rental housing opportunities that provide access to appropriate supportive services.

At the time of our review, Taliafaro managed 38 HUD-subsidized projects nationwide, of which the subsidy contracts for 15 projects were administered by contracted project-based contract administrators and the remaining 23 were administered by HUD. We reviewed 7 of the HUD-administered projects receiving housing assistance under Sections 202 and 811 of the Housing Act. These projects received a capital advance³ and housing assistance from HUD that totaled \$15.25 million and \$1.85 million, respectively, as shown in the following table.

¹ The Section 202 Supportive Housing for the Elderly program is authorized by Section 202 of the Housing Act of 1959 (12 U.S.C. 1701q) as amended.

² The Section 811 Supportive Housing for Persons with Disabilities program is authorized by Section 811 of the National Affordable Housing Act of 1990 (P.L. 101-625) as amended.

³ HUD provides capital advances to finance the construction, rehabilitation, or acquisition with or without rehabilitation of structures that will serve as supportive housing for very low-income elderly persons, including the frail elderly, and provides rent subsidies for the projects to help make them affordable.

Listing of Sections 202 and 811 projects reviewed

HUD program	Project name	Capital advance	Project rental assistance contract ⁴
811	Cocaine and Alcohol Awareness Program, Place of Hope	\$1,829,200	\$202,921
811	Point Church	1,509,100	157,048
202	Nba Disciples Village	3,422,000	424,455
202	Fifteenth Avenue Baptist Village Manor	2,294,000	137,214
202	Home Mission Haven	1,393,599	400,889
202	Spruce Street Golden Manor	2,427,500	255,603
811	Spruce Street House of Hope	<u>2,379,400</u>	<u>274,611</u>
Totals		<u>\$15,254,799</u>	<u>\$1,852,741</u>

Our objective was to determine whether Taliafaro used project funds appropriately and operated multifamily projects located in Tennessee, which received housing assistance under Sections 202 and 811 of the Housing Act, in accordance with HUD's and its own requirements and regulatory agreements. Specifically, we wanted to determine whether Taliafaro adequately supported project expenses, properly procured goods and services, and charged only the appropriate fees in managing the projects.

⁴ Subsidy received for the audit scope of January 1, 2012, through December 31, 2014

Results of Audit

Finding 1: Taliafaro Did Not Administer Projects' Funds as Required

Taliafaro did not administer projects' funds as required. Of the 14 disbursements reviewed, 9 (64 percent) were not adequately supported or properly procured. This condition occurred because Taliafaro lacked adequate controls to (1) properly support its disbursements and (2) obtain bids for goods or services. As a result, HUD and project owners lacked assurance that more than \$61,000 was used for the benefit of the projects and for reasonable operating expenses.

Project Disbursements Were Not Adequately Supported

According to HUD's requirements,⁵ payments must be adequately supported. However, based on our review 3 (21 percent) of the 14⁶ disbursements did not have sufficient support. Specifically, there was insufficient or missing support for project expenses, such as third-party vendor receipts, a notation to show what the items were for or where they were going, and timesheets for maintenance services provided. Without adequate supporting documentation, Taliafaro failed to ensure that items purchased were for the benefit of the projects. Taliafaro lacked adequate controls to adequately support its disbursements. Therefore, HUD and the project owners lacked assurance that more than \$27,600 was used for the benefit of the projects.

Goods and Services Were Not Properly Procured

Of the 14 disbursements, 7 were for procurement of goods and services that required compliance with established procurement policies and procedures. Taliafaro did not obtain adequate bids for goods and services in accordance with HUD's or its own requirements for six of the seven disbursements. According to HUD's requirements,⁷ management agents must solicit written cost estimates from at least three contractors or supplies for any contract, ongoing supply, or service that is expected to exceed \$10,000 per year. Further, according to its own requirements, written bids (cost estimates) would be solicited from at least three contractors or suppliers for any work items that exceeded \$1,000 per year. For one disbursement, Taliafaro contracted with a vendor for the installation of two water heaters and related services at a cost of approximately \$16,000 but failed to provide adequate documentation showing that it issued requests for proposals or received bid submissions. For the remaining five disbursements, the bids were either outdated or were for dissimilar items. Overall, the bid documentation was not adequate to provide sufficient support that the price paid for the items was competitive. Because Taliafaro lacked adequate controls to ensure that goods and services were properly procured, HUD and the project owners lacked assurance that more than \$33,400 was used for reasonable operating expenses or necessary repairs of the projects.

⁵ HUD Handbook 4370.2, REV-1, CHG-I, paragraphs 2-6(E) and 2-12(B)(3)

⁶ The sample selection of the disbursements is explained in the Scope and Methodology section of this audit report.

⁷ HUD Handbook 4381.5, REV-2, paragraphs 6.50(a), (b), and (c)

The table below identifies the questioned cost by project.

Questioned costs by project

Project name	Amount disbursed	Questioned cost
Cocaine and Alcohol Awareness Program, Place of Hope	\$19,458	\$7,810
Point Church Place	24,989	19,836
Nba Disciples Village	8,412	8,160
Fifteenth Avenue Baptist Village Manor	5,467	3,450
Home Mission Haven	13,608	3,608
Spruce Street Golden Manor	18,728	16,000
Spruce Street House of Hope	<u>3,992</u>	<u>2,255</u>
Totals	<u>\$94,654</u>	<u>\$61,119</u>

Conclusion

Taliafaro’s lack of adequate controls over the disbursement of project funds and failure to follow HUD’s requirements as well as its own policies and procedures could negatively impact the overall cash position of the project. Since a significant portion of income for the supportive housing projects comes from program funds, it is essential that project funds be disbursed with due care to ensure the financial viability of the project. Because Taliafaro failed to ensure that disbursements were adequately supported and goods and services were properly procured in accordance with HUD’s requirements and its own policies and procedures, HUD and project owners lacked assurance that \$27,646 and \$33,473 was used for the benefit of the projects and reasonable operating expenses, respectively.

Recommendations

We recommend that the Asset Management Branch Chief require Taliafaro to

- 1A. Provide documentation to support \$27,646 was spent on eligible purposes or reimburse the appropriate projects for the balance from non-project funds.
- 1B. Provide support that \$33,473 paid for procurements was reasonable or reimburse the appropriate projects for the balance from non-project funds.
- 1C. Implement adequate controls to help ensure that payments are adequately supported and goods and services are properly procured in accordance with HUD’s and its own requirements.

Finding 2: Taliafaro Improperly Charged Management and Accounting Fees to HUD Projects

Taliafaro improperly charged management and accounting fees from two of the seven projects reviewed. It charged management fees without a current management agent certification and \$182 per month in accounting fees without an agreement with the project owner and HUD's approval. This condition occurred because Taliafaro lacked adequate controls to ensure that only authorized fees were collected from the projects. As a result, HUD and the project owners lacked assurance that more than \$15,000 charged in management and accounting fees was eligible and appropriate.

Management Fees Were Collected Without a Current Certification

We reviewed the management fees that Taliafaro charged to seven⁸ projects to determine whether the fees were appropriate and in accordance with the management agent certifications. Taliafaro charged fees in accordance with the management agent certification and the management agreement for five of the seven projects reviewed. However, it improperly charged management fees from the Cocaine and Alcohol Awareness Program (CAAP) Place of Hope, project. Although Taliafaro's management agent certification for CAAP Place of Hope expired in September 2013, it continued to charge a monthly management fee without a HUD-approved management agent certification.

According to HUD's requirements,⁹ management fees are payable from project funds and may be paid only to the entity approved by HUD to manage the project, and HUD determines the amount of the fee that may reasonably be paid from the project funds. This approved amount and the term of the agreement are documented in the management agent certification. Without a HUD-approved management agent certification, the management agent may not collect management fees from project funds. Based on our review, the management agent certification for CAAP Place of Hope was effective from October 1, 2011, through September 30, 2013, and did not renew automatically. Therefore, Taliafaro was required to obtain HUD's authorization to continue charging the project for its management fee beyond September 30, 2013. As a result of its noncompliance, Taliafaro charged \$8,550 (\$570 x 15 months) in unauthorized management fees for CAAP Place of Hope from October 2013 through December 2014. However, according to Taliafaro's chief financial officer, the project did not always have enough income to pay its management fees so the management fee was paid as funds became available.¹⁰ Because of this practice, we cannot determine whether ineligible charges have been paid or only accrued. Therefore, paid fees will need to be repaid and accrued fees will need to be removed from payables.

⁸ The number of projects managed by Taliafaro is included in the Background and Objective section of this audit report.

⁹ HUD Handbook 4381.5, REV-2, chapter 3

¹⁰ As of the fiscal year ending June 30, 2014, the management fee payable was \$2,876.

Accounting Fees Were Not Approved

Taliafaro could not provide a HUD-approved management agent certification or a management agreement¹¹ with the project owner authorizing it to collect a monthly accounting fee of \$182 for the Nba Disciples Village project. According to HUD's requirements,¹² book-keeping services, as a part of a centralized book-keeping system, are treated as a project cost. Therefore, book-keeping services are allowable and may be treated as project costs. However, for the management agent to receive fees for this service, the cost must be HUD approved. Therefore, \$6,552 collected in accounting fees were an unauthorized cost to the project. Taliafaro received a monthly accounting fee of \$182 from the project, Nba Disciples Village, for the years 2012, 2013, and 2014 during our scope as shown in the table below.

Accounting fees collected for Nba Disciples Village

Year	Amount collected
2012	\$2,184
2013	2,184
2014	<u>2,184</u>
Totals	<u>\$6,552</u>

Conclusion

Taliafaro, charged \$8,550 in management fees without a current management agent certification for CAAP Place of Hope for the period October 1, 2013, through December 31, 2014, during our audit scope. In addition, for Nba Disciples Village, Taliafaro collected \$6,552 in accounting fees without approval from HUD. This condition occurred because Taliafaro lacked adequate controls to ensure that only HUD-approved and project owners' agreed upon fees were paid from project funds. As a result, HUD and the project owners lacked assurance that management and accounting fees collected were eligible and appropriate.

Recommendations

We recommend that the Asset Management Branch Chief require Taliafaro to

- 2A. Reimburse the project as much as \$8,550 in management fees collected without a current management agent certification from non-project funds to include amounts paid from January 1, 2015 to present.
- 2B. Reduce the balance of management fees payable by the balance of as much as \$2,876 for ineligible management fees accrued but not paid including amounts accrued since January 1, 2015 to present.

¹¹ The management agreement between the project owner and the management agent, Taliafaro, identifies the responsibilities of the management agent.

¹² HUD Handbook 4381.5, REV-2, paragraph 3.7(c)

- 2C. Immediately stop charging the accounting fee to projects until the fee is approved by HUD.
- 2D. Reimburse the project \$6,552 in accounting fees collected without an approved agreement from non-project funds.
- 2E. Implement adequate policies, procedures, and controls to ensure that only fees approved by HUD and agreed to by the project owner are collected from the projects' funds.

Scope and Methodology

We conducted our fieldwork from April through July 2015 at Taliafaro's headquarters located at 1 Vanguard Way, Suite C250, Nashville, TN, and at our office in Atlanta, GA. Our review covered the period January 1, 2012, through December 31, 2014.

To accomplish our objective, we

- Reviewed applicable laws, regulations, and relevant HUD program requirements, including HUD Handbooks 4370.2 and 4381.5, REV-2;
- Interviewed Taliafaro's staff to obtain an understanding of the controls significant to the audit objective and HUD's Office of Multifamily Housing Programs, Nashville, TN, staff to obtain relevant information about the projects and Taliafaro;
- Reviewed HUD's files for the projects;
- Reviewed the accounting records (general ledger and check register) and annual financial statement audit reports for the projects reviewed; and
- Reviewed the management agent's financial and procurement policies and procedures.

The universe consisted of 5,286 disbursements totaling more than \$3.4 million for the seven projects reviewed. For each project's universe, we summarized the disbursements by name (payee) and identified regular recurring payments, such as utility payments, management fees, etc., and excluded those payees from the universe. We included only disbursements that totaled \$1,000 or more individually to determine the population for our sample selection. The resulting universe was 211 disbursements totaling more than \$513,000 in individual disbursements of \$1,000 or more. We randomly selected for review 14 disbursements, consisting of 2 samples for each of the 7 projects, which totaled \$94,654. Since we did not perform a 100 percent testing and the sample selected was random, the results of this audit apply only to the items reviewed and cannot be projected to the universe of activities.

We did not perform detailed assessments of the reliability of the data; however, we did perform minimal levels of testing and found the data to be adequately reliable for our purposes.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective(s). We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Internal Controls

Internal control is a process adopted by those charged with governance and management, designed to provide reasonable assurance about the achievement of the organization's mission, goals, and objectives with regard to

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

Internal controls comprise the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

We determined that the following internal controls were relevant to our audit objective:

- Program operations – Policies and procedures that management has implemented to reasonably ensure that project funds are properly disbursed for project needs.
- Compliance with laws and regulations¹³ – Policies and procedures that management has implemented to reasonably ensure that the use of funds is consistent with laws and regulations.

We assessed the relevant controls identified above.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations on a timely basis.

Significant Deficiency

Based on our review, we believe that the following item is a significant deficiency:

- Taliafaro did not have adequate controls over the project funds to ensure that (1) disbursements were adequately supported and goods and services were properly procured and (2) the collection of management and accounting fees was eligible and appropriate (see findings 1 and 2, respectively).

¹³ Compliance with procurement policies and procedures was based on HUD requirements and Taliafaro's procurement policy.

Appendixes

Appendix A

Schedule of Questioned Costs and Funds To Be Put to Better Use

Recommendation number	Ineligible 1/	Unsupported 2/	Funds to be put to better use 3/
1A		\$27,646	
1B		<u>33,473</u>	
2A	\$8,550		
2B			<u>\$2,876</u>
2D	<u>6,552</u>		
Totals	<u>\$15,102</u>	<u>\$61,119</u>	<u>\$2,876</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.
- 2/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.
- 3/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified.

Appendix B

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments



VIA EMAIL

September 21, 2015

Nikita N. Irons
Regional Inspector General for Audit
US Department of Housing and Urban Development
Office of Inspector General Office of Audit (Region IV)
75 Spring Street S.W., Room 330
Atlanta, GA 30303

RE: Taliafaro, Inc.

Dear Ms. Irons:

We are writing this letter in response to the draft audit report that was provided to us on September 8, 2015 and which was discussed with representatives of your office during the telephone exit conference on September 11, 2015 (the "Draft Audit Report"). As stated in the cover letter that accompanied the Draft Audit Report, and in our understanding, the written comments set forth in this letter will be incorporated into and addressed in the final Audit Report. We trust that upon consideration of the comments set forth below, you will agree that substantial revisions to the Draft Audit Report favorable to Taliafaro are warranted.

RESPONSE TO FINDING 1: TALIAFARO DID NOT ADMINISTER PROJECTS' FUNDS AS REQUIRED

In the Draft Audit Report, the findings fail to provide a vendor or description of the cost in question and instead provide general dollar amounts that are difficult to place or identify. This has resulted in considerable time and effort on the part of Taliafaro to identify and determine what costs comprise the dollar amounts listed as questionable. For ease of reference, we have added this information where identifiable in the charts below. In some cases, and given the extremely brief time permitted for a response, it has been impossible to determine which disbursements comprise the costs in question. Taliafaro has done its best to identify the questioned costs of the Draft Audit Report.

Taliafaro does not agree that the disbursements in question were not adequately supported, and listed below is the explanation for each disbursement and reference to its supporting documentation.

Response to Sub-finding that Project Disbursements Were Not Adequately Supported:

TALIAFARO, INC.

P.O. Box 292405 • Nashville, Tennessee 37229
Toll free: 1-800-989-1444 • Phone: 615-259-4332 • Fax: 615-259-9195

Comment 1

**Ref to OIG
Evaluation**

Auditee Comments

This sub-finding is based upon questions regarding three (3) disbursements out of the fourteen (14) that were reviewed. According to the Draft Audit Report, Taliafaro did not have sufficient documentation to show that the goods or services purchased were for the benefit of the applicable project. The three questioned disbursements are the following:

No.	Project Name	Date	Name - Description of Cost	Amount Disbursed	Questioned Cost
1	CAAP Place of Hope	7/18/2013	Property Operation Services	\$18,294.40	\$8,707
	Point Church Place			\$24,989	\$19,836
2		6/20/2012	Property Operation Services	\$14,234.08	Unknown
3		4/22/2014	Property Operation Services	\$10,754.92	Unknown

1. COCAINE AND ALCOHOL AWARENESS PROGRAM PLACE OF HOPE, ("CAAP") - Questioned Cost of \$8,707. The questioned cost is a portion of the \$18,294.40 payable to the Cocaine and Alcohol Awareness Program (the "Program"). This cost is attributable to the operational services provided by the sponsor of this fourteen (14) unit HUD 811 project. During the initial weeks of CAAP's existence there was a delay in the receipt of Project Rental Assistance Contract ("PRAC") funds and the Program provided immediate financial support for the operations of CAAP. Documentation for the purpose of the payroll, supplies and materials are attached as Exhibit A(1)(f).
2. POINT CHURCH PLACE - Questioned Cost of \$19,836. This amount was composed of two checks payable to Behavioral Health Initiatives, Inc. ("BHI"), one for \$14,234.08 and another for \$10,754.92. BHI is the sponsor for the fourteen (14) unit HUD 811 project. As the sponsor, they allocated staff to provide managerial and maintenance service to the property in a cost efficient manner. The payments in question reimbursed staff expenses, supplies and materials, and property insurance.

Enclosed as Exhibit A(2)-(3) are invoices for expenses and the time sheets for the staff who provided services at the property. It is important to note that the program code listed on the time sheets for Caldwell Housing is 863. When the code 837 is noted, 20% of the staff's time was for Caldwell Housing.

For each of the above three items, Taliafaro has provided supporting documentation including vendor receipts, the nature of the goods and services and the property for which they were destined or provided, and, where applicable, timesheets for services provided. This addresses recommendations 1A and 1B listed on page 6 of the Draft Audit Report and we recommend that these items be removed in the Final Audit Report.

Response to Sub-Finding That Goods and Services Were Not Properly Procured:

Comment 2

**Ref to OIG
Evaluation**

Auditee Comments

This sub-finding is based upon questions regarding seven (7) of the same fourteen (14) disbursements that were reviewed during the audits referenced above. According to the Draft Audit Report, Taliafaro did not obtain adequate bids for the following goods and services in accordance with HUD's requirements:

No.	Project Name	Cost - Vendor - Description	Amount Disbursed	Questioned Cost
1	CAAP Place of Hope	Property Operation Services	\$18,294.40	\$8,707
2	Point Church Place		\$24,989.00	\$19,836
		Property Operation Services	\$14,234.08	Unknown
		Property Operation Services	\$10,754.92	Unknown
3	Disciples Village		\$8,412.00	\$8,412
		Window Replacement	\$5,110.00	
		Property Maintenance	\$3,301.00	
4	Fifteenth Avenue Baptist Village Manor	County Required Demolition	\$5,467.00	\$3,450
5	Home Mission Haven	Painting Service	\$13,608.00	\$3,608
6	Spruce Street Golden Manor	Water Heater Replacement	\$18,728.00	\$16,000
7	Spruce Street House of Hope	Property Maintenance and Audit Services	\$3,992.00	\$3,992

In the descriptions below, Taliafaro provides evidence of bidding and invoice documentation for all properties except CAAP and Point Place Church. For CAAP and Point Place Church, operational services are provided by the HUD approved sponsors of the projects. The sponsors were chosen for their competency and ability to provide high quality services to the project.

1. COCAINE AND ALCOHOL AWARENESS PROGRAM PLACE OF HOPE, (CAAP) - Questioned Cost of \$8,707 from \$18,294.40 disbursed. As discussed above, this cost was the result of the delayed receipt of PRAC funds from HUD. The project's sponsor's provided immediate support and operations services to the property. Evidence of bids and invoices are enclosed as Exhibit A(1)(i).

TALIAFARO, INC.

P.O. Box 292405 • Nashville, Tennessee 37229
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Comment 2

**Ref to OIG
Evaluation**

Auditee Comments

Comment 2

2. POINT CHURCH PLACE - Questioned Cost of \$19,836. As discussed above, this cost was paid to BHI, the projects' sponsor, for staff expenses, supplies, materials, and property insurance. As the project's sponsor, BHI was selected as a competent and reasonable cost service provided for both behavioral health and property management services. Documentation related to this property is enclosed as Exhibit A(2)-(3).

Comment 2

3. DISCIPLES VILLAGE - Questioned Cost of \$8,412. This cost is attributable to HD Supply Facilities Maintenance ("HD Supply") (\$3,301.71) and Unlimited Windows, Inc. (\$5,110). Payments were made to HD Supply for four (4) HVAC units; twelve (12) halogen light bulbs, 3 range elements, a plumbing valve, and deadbolt cylinders. The invoices and checks were provided to the investigator during the initial investigation and are enclosed as Exhibit B(2)(i).

A payment to Unlimited Windows, Inc. of \$5,110 is attributable to the repair and replacement of window. Bids, invoices, and checks are enclosed as Exhibit B(2)(ii).

Comment 2

3. FIFTEENTH AVENUE BAPTIST VILLAGE MANOR - Questioned Cost of \$3,450. This amount was for county required demolition of two abandoned houses located on land purchased for the construction of the project. The two bids received as a result of the request for proposals are attached. This was a necessary and reasonable cost. Evidence of bids and invoices are enclosed as Exhibit B(3)(i)-(iii).

Comment 2

4. HOME MISSION HAVEN - Questioned Cost of \$3,608. This amount was paid for the labor involved in the provision of painting services. After a request for proposals, the least expensive option was selected. Evidence of bids and invoices are enclosed as Exhibit 1(B)(4).

Comment 2

5. SPRUCE STREET GOLDEN MANOR - Questioned Cost of \$16,000. This cost was paid for the replacement of the boiler room's water heater. Evidence of bids and invoices were presented to the investigator. Evidence of bids and invoices are also enclosed as Exhibit 1(B)(1).

Comment 2

6. SPRUCE STREET HOUSE OF HOPE - Questioned Cost of \$3,992. This amount was comprised of property maintenance (\$1,736.87), and auditing services, (\$2,255.00).

Property Maintenance - Three bids were obtained for the lawn service. Upon receipt and analysis of the bids, the least expensive option was selected. Evidence of bids and invoices are enclosed as Exhibit 1(B)(5)(ii).

Auditing Services - The owner reviewed the enclosed bid as well as auditing services provided to additional Taliafaro managed properties. The CPA selected provided equivalent services for less than CPAs at the additional Taliafaro managed properties. Evidence of other auditor's costs and invoices are enclosed as Exhibit 1(B)(5)(i).

Auditee Comments

RESPONSE TO FINDING 2: TALIAFARO IMPROPERLY CHARGED
MANAGEMENT AND ACCOUNTING FEES TO HUD PROJECTS

Response to Sub-Finding that Management Fees Were Collected Without a Current Certification:

The Draft Audit Report claims that Taliafaro improperly collected management fees from October 2013 through December 2014 as the management agent at CAAP because during that time period, a HUD-approved project owner/management agent certification form HUD-9839-B (the "9839-B") was not in place. In making this sub-finding and reaching the conclusion that such management fees paid must be repaid or if accrued must be removed from payables, the Draft Audit Report does not contend that Taliafaro was being compensated for management agent services that it did not perform during the relevant period. Rather, it contends that the failure to renew the 9839-B that preceded the relevant time period and which would have automatically renewed at the same fee amounts had the "Self Renew" box been checked "Yes" on original 9839-B is sufficient grounds for requiring repayment or removal from payables of the amount at issue. As discussed below, Taliafaro believes that the result sought in the draft Audit Report is unreasonably extreme under the particular circumstances presented.

The project owner and Taliafaro never intended that the certification immediately preceding the time period in question would not automatically renew, as their not checking "Yes" for the "Self-Renew" box was merely a clerical error. See the letter from the owner enclosed at Exhibit 2(A)(2). In fact, during the relevant period, the terms, including the management fee payable to Taliafaro, remained the same as it was under the HUD-approved certification. Taliafaro believes that the reasonable approach under the circumstances is to file an update management certification. A copy of the newly executed management certification is enclosed at Exhibit 2(A)(1). Please note in paragraph 2 of the management agreement, enclosed as Exhibit 2(A)(1), the agreement automatically renews itself, as was the intent of the original 9839-B.

Additionally, on behalf of the Owner and Agent we are enclosing a draft management certification retroactive to October 1, 2013 for your review and approval, enclosed as Exhibit 2(A)(1). We hope you will give a favorable response to our request.

Response to Sub-Finding that Accounting Fees Were Not Approved

According to the Draft Audit Report, accounting fees collected for 2012-2014 were not approved by HUD. Taliafaro disagrees, and contends that the accounting fees were charged in compliance with the applicable HUD guidance and with the owner's approval.

Paragraph 5 of the Management Agreement between Taliafaro and the owner of Disciples Village states that "the Owner agrees to pay the Agent the fees approved by HUD during the terms of this agreement."

Taliafaro followed HUD Circular Letter IV-NAS-08-002 from Ed Phillips, Director, Nashville Multifamily Program Center regarding the bookkeeping fees and computer fees (the "Circular Letter"), enclosed as Exhibit 2(B)(2). The Circular Letter stated "The

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Comment 3

Comment 4

Comment 5

**Ref to OIG
Evaluation**

Auditee Comments

Comment 6

HUD authorized bookkeeping fee for all projects under the Nashville HUD jurisdiction was increased to \$5 per unit per month (PUPM) effective January 1, 2008.³⁹ By the terms of the HUD memo, only fees higher than \$5 PUPM require written approval from HUD and Taliafaro's fees is \$3.50 PUPM. We have been following those guidelines as they provided clarity regarding the bookkeeping fees and no later directive has been presented. Taliafaro has provided this service and the Owner and HUD have reviewed all audits and found no issue with accounting fees. Evidence of the fee amount is enclosed as Exhibit 2(B)(1).

Given that the audits were routinely approved by the Owner and HUD and that this accounting fee would not be classified as a special fee to be placed as such on the 9839-B or approved in any other context, Taliafaro recommends that this finding be struck from the Draft Audit Report.

Comment 7

CONCLUSION

Due to the very general statement and amounts provided in the Draft Audit Report and only nine (9) business days provided to response, Taliafaro has spent significant time and effort to decipher the sources of the amounts referenced. After this process, Taliafaro suggests the recommendations included in the narrative above be considered in the Final Audit Report.

If you have any further questions related to the Draft Audit Report or the information contained within this response and its exhibits, please contact me by email

Sincerely,

Annie J. Carter

Cc: Zakia Haneef, Assistant Regional Inspector General for Audit (*via email*)
Ebonie Ratliff, Senior Auditor (*via email*)
Rueben Clemmons, Branch Chief, Account Executive Team for Housing, Atlanta Field Office (*via email*)

OIG Evaluation of Auditee Comments

- Comment 1 Taliafaro disagreed that the disbursements were not adequately supported. Additionally, Taliafaro stated it was impossible for it to determine which disbursements comprised the costs in question because the findings failed to provide a vendor or description of the cost in question.
- We disagree that the questioned costs were impossible to identify. During the course of the audit we provided schedules of the questioned costs to Taliafaro that identified the costs in question in detail by vendor or description. We reviewed the additional documentation¹⁴ provided after the exit and adjusted the questioned costs accordingly.
- Comment 2 Taliafaro stated that it provided supporting documents and that the questioned costs should be removed from recommendations 1A and 1B. However, the additional documents provided only support \$897 of the projects' disbursements and \$1,989 of projects' procurements. We updated the report to adjust the questioned cost; however, Taliafaro should work with HUD to resolve the remaining cost in recommendations 1A and 1B.
- Comment 3 Taliafaro contended that the expiration of the management agent certification was a clerical error in that the "self renew" box was not checked and should not be grounds for requiring repayment. However, according to HUD's requirements¹⁵, management fees must be authorized by HUD to be paid from project funds. Therefore, due to the expiration of the certification, Taliafaro improperly charged and accrued management fees.
- Comment 4 Taliafaro contended that it did not increase the management fee after the expiration of the certification. While Taliafaro charged only the fees previously approved by HUD, it was not under a current certification with HUD and the project to actually charge the project the fees.
- Comment 5 We commend Taliafaro for its proposed actions to address the finding cited in this report concerning the management fees collected without a current certification. Taliafaro should work with HUD to ensure the draft management certification is appropriate and within HUD's requirements.
- Comment 6 Taliafaro stated the accounting fees charged to Nba Disciples Village project were not questioned either by HUD or in the projects' audited financial statements; therefore, the finding should be removed from this report. However, Taliafaro did not provide documents to support the owner approved the collection of the

¹⁴ Taliafaro provided 163 pages of documentation as exhibits that were not necessary to understand its comments. While the exhibits are not included in this report, they can be obtained upon request.

¹⁵ HUD Handbook 4381.5, REV-2, chapter 3

accounting fee to confirm that these services were authorized. In addition, Taliafaro stated that HUD authorized a bookkeeping fee for all projects under the Nashville HUD jurisdiction. While HUD recognized that such guidance was issued, it did not agree that it waived the requirement for obtaining owner consent to collect the accounting fee. Taliafaro should work with HUD to determine whether appropriate guidance was received previously and to resolve the finding.

Comment 7. Taliafaro stated it had a short period of time to address the findings in this report. However, Taliafaro was kept informed of the findings throughout the audit via conference calls, emails, and in-person meetings. Further, the draft audit report was received by Taliafaro on September 8, 2015, and it provided its comments on September 21, 2015, 14 days after receipt of the draft report.