



Issue Date March 28, 2008

Audit Report Number 2008-PH-1005

TO: Encarnacion Loukatos, Director, Philadelphia Multifamily Hub, 3AHMLA
Henry S. Czauski, Deputy Director, Departmental Enforcement Center, CV

FROM:  John P. Buck, Regional Inspector General for Audit, Philadelphia Regional Office, 3AGA

SUBJECT: Elders Place, Incorporated, Philadelphia, Pennsylvania, Did Not Administer Project Operating Funds in Accordance with HUD Requirements

HIGHLIGHTS

What We Audited and Why

We audited Elders Place, Incorporated (Elders Place, Inc.), at your request, based upon your concern that Greater Germantown Housing Development Corporation (the project's sponsor and former management agent), a nonprofit community development corporation, may have misappropriated project operating funds. Our objective was to determine whether Elders Place, Inc., administered project operating funds in accordance with U.S. Department of Housing and Urban Development (HUD) requirements.

What We Found

Elders Place, Inc., did not administer project operating funds in accordance with HUD requirements. It made more than \$309,900 in unsupported disbursements and more than \$73,400 in ineligible disbursements and, thereby, did not sufficiently protect HUD's and the residents' interests in the project.

What We Recommend

We recommend that HUD direct Elders Place, Inc., to provide documentation to support \$309,929 in unsupported costs or reimburse the project for any unsupported costs from nonfederal funds. Additionally, we recommend that HUD direct Elders Place, Inc., to repay the project \$73,447 from nonfederal funds for the ineligible costs identified by the audit. We also recommend that HUD direct Elders Place, Inc., to develop and implement controls to ensure that project operating funds are administered in compliance with applicable HUD and federal regulations, thereby preventing \$13,155 from being disbursed improperly over the next year. We further recommend that HUD take administrative sanctions against Greater Germantown Housing Development Corporation, the project's sponsor for violations of the regulatory agreement.

For each recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Please furnish us copies of any correspondence or directives issued because of the audit.

Auditee's Response

We discussed the report with Elders Place, Inc., during the audit and at an exit conference on March 4, 2008. Elders Place, Inc., provided written comments to our draft report on March 7, 2008. The complete text of the auditee's response, along with our evaluation of that response, can be found in appendix B of this report.

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BACKGROUND AND OBJECTIVES

Elders Place (project) is a 47-unit housing project funded under the Section 202 program and is located at 53 East Wister Street, Philadelphia, Pennsylvania. The Section 202 Supportive Housing for the Elderly program serves very low-income senior citizens that have few housing options. These projects provide very low-income elderly persons with options that allow them to live independently but in an environment that provides support activities such as cleaning, cooking, transportation, etc. The U.S. Department of Housing and Urban Development (HUD) also provides project rental assistance funds to cover the difference between the HUD-approved operating cost for the project and the tenants' contribution toward rent.

The project owner may enter into a management agreement with a firm to manage the project on its behalf. The management agreement shall conform to the pertinent requirements of the regulatory agreement, the rental assistance contract, and directives issued by HUD. The project owner shall not without the written approval of HUD enter into a management agreement. When the project owner delegates duties to a management agent, the project owner remains responsible for all aspects of management, including duties delegated to the management agent.

The owner of the project is Elders Place, Incorporated (Elders Place, Inc.), a nonprofit corporation formed by the sponsoring organization, Greater Germantown Housing Development Corporation (Corporation). Germantown Settlement is the parent organization of the Corporation. Emanuel V. Freeman is the president of the Corporation and Germantown Settlement. Ernest J. Covington, Jr., is the chairman of the board of directors for Elders Place, Inc. Mr. Covington is also the executive director of the Corporation. The construction of the project was completed in February 1994. In May 1994, HUD approved Elders Place, Inc., the owner of the project, to manage the project. During our period of review, the Corporation was the management agent for the project until July 2006 when Multifamily Management of Philadelphia, LLC, became the management agent for the project. HUD approved Multifamily Management of Philadelphia, LLC, as the management agent for the project. Our audit only covered the period when the Corporation was the management agent for the project.

As of December 2007, Elders Place, Inc., had not submitted to HUD audited financial statements for years 2002 through 2005.

Our objective was to determine whether Elders Place, Inc., used project operating funds in accordance with HUD requirements.

RESULTS OF AUDIT

Finding: Elders Place, Inc., Did Not Administer Project Operating Funds in Accordance with HUD Requirements

Elders Place, Inc., made more than \$309,900 in unsupported disbursements and more than \$73,400 in ineligible disbursements. This occurred because Elders Place, Inc., lacked standard operating procedures to ensure that project operating funds were administered in accordance with HUD requirements. As a result, it did not sufficiently protect HUD's and the residents' interests in the project. Elders Place, Inc., should provide documentation to support \$309,929 in unsupported disbursements or reimburse the payments from nonfederal funds, repay \$73,447 from nonfederal funds for the ineligible disbursements made, and develop and implement controls to ensure that project operating funds are administered in compliance with applicable HUD and federal regulations.

Elders Place, Inc., Could Not Support \$309,929 in Project Operating Fund Disbursements

Elders Place, Inc., did not adequately monitor disbursements made from its project operating account to ensure that expenditures of HUD funds were consistent with the requirements of the regulatory agreement and HUD requirements.¹ We reviewed \$458,259 of \$943,735 that Elders Place, Inc., disbursed from its project operating account during the period January 2001 to July 2006 and determined that \$309,929 was unsupported. This amount includes \$34,257 disbursed from the project's replacement reserve account. Approximately \$202,262, or 65 percent, of the disbursements were made to the Corporation for payroll and employees' salaries. However, Elders Place, Inc., could not provide supporting documentation for employee time allocations to the project, which would include time sheets and payroll records. Staff we interviewed stated that the charges for payroll and salaries were based upon an allocation that was made by a former employee of the Corporation and could not provide any documentation to support the allocation.

Elders Place, Inc., also could not provide adequate support for \$28,006 in disbursements made to a local utility company. We were provided the billing statements from the utility company; however, some of the statements showed that the Elders Place, Inc. account was charged for the bills of another project

¹ Capital Advance Program Regulatory Agreement (HUD-92466-CA), sections 3 and 11(d) and (e); HUD Handbook 4370.2, REV-1, CHG-1, Financial Operations and Accounting Procedures for Insured, paragraph 2-6E.

managed by the Corporation, indicating that some of the utility expenses may not have been related to Elders Place, Inc. Because of the lack of adequate supporting documentation, there was no assurance that the funds disbursed were reasonable, necessary, and used for the appropriate project-related purposes. In addition, Elders Place, Inc., could not provide adequate supporting documentation for disbursements of \$16,030 for accounting-related services, \$14,857 for project insurance, and \$14,517 for miscellaneous credit card and vendor payments.

Elders Place, Inc., also could not support \$34,257 disbursed from its replacement reserve account and did not ensure that the account was consistently funded with the required monthly deposit of \$1,195.² Elders Place, Inc., should have deposited approximately \$78,900 into the account between January 2001 and June 2006. Our review of bank statements indicated that only \$8,400 was deposited during that time. In addition, Elders Place, Inc., could not provide support to show how it used \$34,257 it disbursed from the account. The amount disbursed included \$20,000 to the Corporation, \$7,757 to contractors, and \$6,500 to an accounting firm. Because of the lack of documentation, there is no assurance that the project funds were used for project-related purposes.

**Elders Place, Inc., Made
\$73,447 in Ineligible
Disbursements of Project
Operating Funds**

Contrary to HUD requirements,³ Elders Place, Inc., made \$73,447 in ineligible disbursements from project operating funds. The ineligible disbursements included \$35,100 loaned to the Corporation and Germantown Settlement,⁴ \$31,739 paid to the Corporation for management fees, and \$6,608 paid to vendors. Elders Place, Inc., could not provide any documentation to show that HUD approved the Corporation to manage the project as stipulated by the regulatory agreement and HUD requirements.⁵ Appropriate documentation would include a HUD-approved management agreement between Elders Place, Inc., and the Corporation. The purpose of HUD's approving the management agent is to protect HUD's and the residents' interest in the project. During the approval process, HUD reviews the management agent's performance, experience, and capabilities to manage a project. Since Elders Place, Inc., did not ensure that the Corporation was approved by HUD to manage the project, the \$31,739 in management fees paid to the Corporation was ineligible. The \$6,608

² Capital Advance Program Regulatory Agreement (HUD-92466-CA), section 5(a).

³ Capital Advance Program Regulatory Agreement (HUD-92466-CA), section 11(d) and (e); HUD Handbook 4370.2, REV-1, CHG-1, Financial Operations and Accounting Procedures for Insured, paragraph 2-6 E.

⁴ Germantown Settlement is the parent organization of the management agent.

⁵ Capital Advance Program Regulatory Agreement (HUD-92466-CA), section 7(e); HUD Handbook 4381.5, The Management Agent Handbook, paragraph 2.2.

paid to vendors was also ineligible because the payments were made to cover purchases made for the Corporation and other properties it managed.

Elders Place, Inc., Did Not Have Adequate Controls in Place

Elders Place, Inc., did not establish and implement adequate controls to ensure that it administered project operating funds in accordance with applicable HUD requirements. During the audit, we requested copies of any written policies and procedures related to project operations but found that there were none. By implementing controls in the form of written policies and procedures for project operations, Elders Place, Inc., will ensure that disbursements from its project operating funds are supported and eligible, thereby ensuring that HUD's and the residents' interests in the project are protected. Further, by improving controls over project operations, Elders Place, Inc. will ensure that \$13,155⁶ will only be disbursed for costs that are eligible over a one-year period.

Recommendations

We recommend that the Director, Philadelphia Multifamily Hub, direct Elders Place, Inc., to

- 1A. Provide documentation to support the \$309,929 in unsupported costs identified by the audit and, if the costs cannot be supported, reimburse the project for any unsupported costs from nonfederal funds.
- 1B. Repay the project \$73,447 from nonfederal funds for the ineligible costs identified by the audit.
- 1C. Begin funding the replacement reserve account with the monthly deposit as required by the regulatory agreement.
- 1D. Develop and implement written procedures to ensure that disbursements of HUD funds are eligible and consistent with applicable HUD and federal regulations and, thereby, put \$13,155 to better use over a one-year period.

We also recommend that the Director of the Departmental Enforcement Center

- 1E. Take appropriate administrative sanctions against the project's sponsor, Greater Germantown Housing Development Corporation, for violations of the regulatory agreement.

⁶ \$73,447 divided by 67 months (period audited) multiplied by 12 (to annualize) equals \$13,155 for one year.

SCOPE AND METHODOLOGY

We performed the audit at Elders Place, Inc., in Philadelphia, Pennsylvania, from June through December 2007. The audit was performed in accordance with generally accepted government auditing standards and included tests of internal controls that we considered necessary. During the audit, we assessed the reliability of computer-processed data relevant to our audit by comparing the data to hard-copy information. We found the computer-processed data were sufficiently reliable to meet our audit objectives.

The audit covered transactions representative of operations current at the time of the audit and included the period January 2001 through July 2006. We expanded the scope of the audit as necessary. We discussed operations with staff from Elders Place, Inc., Greater Germantown Housing Development Corporation, Multifamily Management of Philadelphia, LLC, and key officials from HUD's Philadelphia Multifamily Housing Hub.

To determine whether Elders Place, Inc., administered project operating funds in accordance with HUD requirements, we reviewed

- Applicable HUD regulations.
- The internal control structure for Elders Place, Inc.
- The 2001 audit report from the independent auditors for Elders Place, Inc. We also reviewed the draft financial statements submitted to HUD for the period 2002 to 2005.
- The project rental assistance contract and subsidy funds provided by HUD to the project from January 2001 to July 2006.
- All documentation provided by Elders Place, Inc., and the Corporation related to our audit objective, including the capital advance agreement, capital advance program agreements and certification, regulatory agreement, related correspondence, bank statements, cancelled checks, and documentation supporting disbursements.
- \$458,259 of the \$943,735 (49 percent) Elders Place, Inc., disbursed from its operating account from January 2001 to July 2006. We nonstatistically selected the disbursements for review by isolating disbursements to Greater Germantown Housing Development Corporation in excess of \$500, disbursements to utility companies, and some randomly selected disbursements to other companies and individuals. Based on our work, we estimate that Elders Place, Inc., will not spend \$13,155 on ineligible expenses over the next year by implementing our recommendations. The calculation for the \$13,155 is as follows: \$73,447 (the ineligible costs identified by the audit) divided by 67 months (the period audited) multiplied by 12 (to annualize) equals \$13,155 for one year.

- Correspondence related to the failure of Elders Place, Inc., to provide audited financial statements and the results of a monitoring review conducted by the HUD Philadelphia Multifamily Hub.

INTERNAL CONTROLS

Internal control is an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved:

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

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

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

- Policies, procedures, and other management controls implemented to ensure that Elders Place, Inc., administered project funds in accordance with the terms of its agreements with HUD and HUD regulations.

We assessed the relevant controls identified above.

A significant weakness exists if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet the organization's objectives.

Significant Weaknesses

Based on our review, we believe the following items are significant weaknesses:

Elders Place, Inc., did not

- Establish policies and procedures to ensure that it made disbursements of project funds that were eligible, supported, and consistent with applicable HUD requirements.

- Establish policies and procedures to ensure that its replacement reserve account was funded as required, and that withdrawals from the account were approved by HUD and used for eligible purposes.

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		\$309,929	
1B	\$73,447		
1D			\$13,155

- 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 polices 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 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. This includes reductions in outlays, deobligation of funds, withdrawal of interest subsidy costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings which are specifically identified. If the auditee implements our recommendations, it will cease making ineligible disbursements from its operating account. Once the auditee improves its controls, this will be a recurring benefit. Our estimate reflects only the initial year of this benefit.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments



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www.gghdc.org

March 4, 2008

Mr. John P. Buck
US Department of Housing and Urban Development
Regional Inspector General for Audit
Philadelphia Regional Office, 3AGA
Wanamaker Building
100 Penn Square East, Suite 1005
Philadelphia, PA 19107-3380

Dear Mr. Buck:

I am writing to respond to your report on Elders Place, Inc and to specifically address your recommendations and finding. While we appreciate your review of the project and feel that your review has provided Elders Place, Inc. and Greater Germantown Housing Development Corporation with pertinent information as to the need for improved internal controls, we would like to bring to your attention several material conditions which have adversely affected our ability to manage the project as follows:

Comment 1

1. While GGHDC did not submit annual requests for rent increases for the property, we, in spite of inadequate resources, devoted significant resources of the corporation to maintain the property, provide staffing and safeguard the welfare of its residents.

Comment 1

2. After much delay, GGHDC completed an application for a long overdue rent increase and the regional HUD office has acknowledged the need for additional funds to operate the building. GGHDC, as the sponsor, has devoted its own resources to the project and have not ever sought reimbursement from HUD or the project. These contributions have been made in light of the organizations long history and commitment to maintain affordable housing for its community.

Comment 1

3. In recognition of our lack of experience in property management, GGHDC did take action to engage the services of an outside property manager. As a result of this action and GGHDC's broader commitment, the physical conditions of the property and operations of the project have greatly improved and are now deemed to be in acceptable operational order.

In an effort to provide additional information to the items/recommendations identified on page #7, we offer our response as follows:

Mr. John P. Buck
March 4, 2008
Page 2

Comment 2

1A. We dispute the finding of unsupported cost in the amount of \$309,929 and respectfully request 30 days to provide additional supporting documentation for your review.

Comment 3

1B. We dispute the finding of \$73,447 for ineligible cost and respectfully request 30 days to provide additional supporting documentation for your review.

Comment 4

1C. Funding of the Replacement Reserve Fund account has already commenced in compliance with HUD regulations.

Comment 5

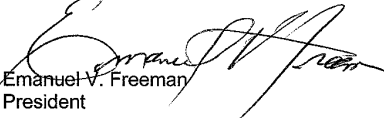
1D. New and improved written procedures with regards to disbursement of funds have already been implemented and submitted to the Regional HUD Office.

Comment 6

Please note that your schedule on page #12 should be corrected to indicate 1A as unsupported cost and 1B as ineligible cost.

Should you require any additional information other than that which we will provide within 30 days, please do not hesitate to contact me as the primary point of contact.

Sincerely,


Emanuel V. Freeman
President

Cc: Forell Grant – Assistant Regional Inspector General for Audit
David E. Kasperowicz – Assistant Regional Inspector General for Audit

OIG Evaluation of Auditee Comments

- Comment 1** Greater Germantown Housing Development Corporation (Corporation), the sponsor for Elders Place, Inc., acknowledges that it failed to request rent increases and that it lacked experience in property management, but maintains that it devoted significant resources to Elders Place, Inc. We do not believe that the Corporation's failure to request rent increases and its lack of property management experience justify the fact that it did not manage project operating funds in accordance with HUD requirements as evidenced by our audit results. We can not attest to the Corporation's statement on improvements of operations resulting from engaging the services of an outside property manager because we did not audit the new property manager. As stated in the report, our objective for this audit was to determine whether Elders Place, Inc., administered project operating funds in accordance with HUD requirements between January 2001 and July 2006 when the Corporation managed the project.
- Comment 2** We provided the Corporation an opportunity to submit additional documentation during the audit. Also, at our exit conference, the Corporation expressed that it provided us all the documentation it had with regards to the transactions we reviewed. However, if the Corporation has additional documentation, the information can be provided to HUD during the audit resolution process. At that point, if HUD approves any additional documentation provided and we determine the documentation to be satisfactory, we will close the recommendation pertaining to the unsupported costs.
- Comment 3** As stated above, we provided the Corporation an opportunity to submit additional documentation during the audit and the Corporation expressed at our exit conference that it provided all the documentation it had with regards to the transactions we reviewed. Further, during the exit conference, we explained that the ineligible costs represent charges to the project funds that were simply not allowable based on HUD requirements. Therefore, additional documentation will not make the costs eligible.
- Comment 4** Recommendation 1C will be closed once we receive evidence that the Replacement Reserve Fund account is being funded in accordance with HUD requirements.
- Comment 5** Recommendation 1D will be considered closed once we receive evidence that HUD has received and approved the new and improved written procedures regarding disbursements of project funds.
- Comment 6** During the discussion of our draft audit report at our exit conference, we notified the Corporation that we inadvertently switched positions for the ineligible and unsupported costs in our schedule on page 12, and that we would make a correction prior to issuing a final report. This final report reflects the correction.