Glenbrook Manor, Stamford, CT

HUD-Insured and Assisted Multifamily Project

Office of Audit, Region 1
Boston, MA

Audit Report Number: 2015-BO-1001
December 16, 2014

To:	Richard Daugherty Director, Office of Multifamily Housing, Hartford, CT, Field Office, 1EHMLAT
	//SIGNED//
From:	Edgar Moore Regional Inspector General for Audit, Boston Region 1AGA
Subject:	Glenbrook Manor Could Not Always Show That Project Costs Were Eligible and Supported in Accordance With HUD Requirements

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of the administration of the multifamily project, Glenbrook Manor.

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 212-264-4174.

Audit Report Number: 2015-BO-1001
Date: December 16, 2014

Glenbrook Manor Could Not Always Show That Project Costs Were Eligible and Supported in Accordance With HUD Requirements

Highlights

What We Audited and Why

We audited the multifamily project, Glenbrook Manor, in Stamford, CT, based on a request by officials from the U.S. Department of Housing and Urban Development's (HUD) Hartford, CT, Office of Multifamily Housing Programs. Our audit objectives were to determine whether Glenbrook Manor expended project funds for eligible activities and costs that were reasonable and supported, and whether surplus cash was properly calculated and deposited into the residual receipts account.

What We Found

Glenbrook Manor could not always show that project costs were eligible and supported in accordance with HUD requirements. Specifically, its management agent[1] did not ensure that project costs paid through the agent's revolving fund and salaries paid in 2011 were supported. In addition, surplus cash was not properly calculated and deposited into the residual receipts account as required by the regulatory agreement. These conditions were caused by a lack of (1) proper internal controls over settling the project's payable to the agent's revolving fund, which resulted in noncurrent payables, and charging salaries to the project, and (2) job descriptions showing the frontline and nonfrontline activities employees charged to the project. As a result, officials paid $496,980 in unsupported costs and did not deposit $61,067 in surplus cash into the residual receipts account as required.

What We Recommend

We recommend that HUD require Glenbrook Manor officials to provide support showing that the $239,870 liability to the agent's revolving fund and the $200,000 transferred to the agent's revolving fund represented expenses for eligible project costs or repay the transferred funds and remove the liability from the project's books. In addition, project officials should provide documentation to support that $57,110 expended in 2011 was for eligible project salaries and repay any unsupported amounts from non-Federal funds. Lastly, Glenbrook Manor officials should deposit $61,067 in surplus cash into the residual receipts account.

---

[1] The Housing Authority of the City of Stamford is the management agent for Glenbrook Manor.

Table of Contents

Background and Objectives

Glenbrook Manor is located at 10 Glenbrook Road, Stamford, CT. The property is a 44-unit housing project for which the mortgage is insured by the U.S Department of Housing and Urban Development (HUD) under Section 231 of the National Housing Act. Under this program, HUD controls the project through a regulatory agreement, form HUD-92465, which was signed with the owner, Glenbrook Road Elderly Housing Corporation, on February 27, 1980. The agreement outlines terms and conditions for the insured mortgage, such as what expenses may be paid with project funds, and regulates the project's rent charges and operations.

The Corporation is a not-for-profit corporation created to provide housing to benefit low- to moderate-income elderly people. It is a component unit of the Housing Authority of the City of Stamford, also known as Charter Oak Communities. The Corporation is a component unit because of its close association with the Authority.

The Housing Authority of the City of Stamford is the management agent for the project. In accordance with the management agreement, the project pays a management fee to the agent in return for property management services. Most of the financial operations of the project are managed at the agent's office in Stamford, CT.

The project receives a material portion of its revenue under the Section 8 housing assistance program. The program provides for direct rent subsidy payments on behalf of tenants who qualify under the program's rules. Between January 1, 2011, and December 31, 2013, the project received more than $1.2 million in housing assistance payments.

The mortgage is held by the Connecticut Housing Finance Authority, which is the contract administrator.[2] It holds the reserve accounts for the project, including the reserve for replacement account and the residual receipts account. The reserve for replacement account is used to fund the replacement of property, and the funds may be disbursed only as provided in the regulatory agreement with the approval of HUD and the Connecticut Housing Finance Authority. The residual receipts account is where surplus cash is deposited in accordance with the regulatory agreement.

Our audit objectives were to determine whether Glenbrook Manor expended project funds for eligible activities and costs that were reasonable and supported, and whether surplus cash was properly calculated and deposited into the residual receipts account.

---

[2] The contract administrator is the entity responsible for the administration of the Section 8 assistance program under a particular housing assistance payments contract.

Results of Audit

Finding: Project Costs Were Not Always Eligible and Supported

Glenbrook Manor could not always show that project costs were eligible and supported in accordance with HUD requirements. Specifically, its agent did not ensure that project costs paid through its revolving fund account and salaries paid in 2011 were supported. In addition, surplus cash was not properly calculated and deposited into the residual receipts account as required. This condition occurred primarily because the agent used its revolving fund to pay project expenses but did not identify or invoice the project regularly for those expenses paid, resulting in noncurrent payables. Also, the agent misunderstood HUD requirements and, therefore, incorrectly calculated surplus cash. As a result, the agent could not support that $439,870 in project funds, which was originally paid by its revolving fund, and $57,110 in salaries accrued in 2011 were for eligible project costs. Also, during the period January 2011 through December 2013, the agent did not deposit $61,067 in surplus cash into the residual receipts account.

Project Funds Were Not Used for Supported Expenses

The agent introduced the revolving fund in 2001 and used it to pay salaries and other expenses, which were charged to multiple projects (including Glenbrook Manor) as well as for project expenses when a project's operating account lacked sufficient funds. Rather than invoice and settle the payable to the revolving fund account regularly, the agent allowed the project's liability to increase year after year, and as of December 31, 2013, the fund held a balance of $239,870. Agent officials could not support the costs associated with this balance as they said the costs were accrued before 2011 and they no longer maintained the supporting documentation. In 2011, agent officials began to settle the payable regularly, and in 2012, they developed a policy to ensure this practice. However, the payable that had accumulated remained on the books and could not be supported.

In February of 2012, agent officials made a $200,000 transfer from the project's operating account to the agent's revolving fund account. The transfer was made to remove a portion of the payable from the books. However, project costs that made up this amount were not identified or known and were, therefore, considered unsupported.

Salaries charged to the project in 2011 were not always supported. All salaries incurred by the project were paid directly by the agent's revolving fund and then charged to the project. In 2011, agent officials charged $57,110 in salaries based on the budgeted amounts submitted to the Connecticut Housing Finance Authority. Also, agent supervisory personnel who did not work directly on project-related activities were charged. Positions charged in 2011 included the chief operating officer, executive assistant, and controller. According to HUD regulations, project costs must be charged to the project based on the actual use of services, and management agent supervisory personnel may not be charged to the project.[3] Since salaries at the project were not charged based on the actual use of services and the agent's supervisory personnel were charged, salaries that were not incurred may have been charged in 2011 and were, therefore, questioned. In 2012, the agent developed a method to allocate salaries based on the number of units for administration and work orders for maintenance.

Agent officials also did not have job descriptions that outlined the frontline and nonfrontline responsibilities of each position[4] from 2011 through 2013. According to HUD Handbook 4381.5, a management agent that employs staff members at a project may charge the project for salaries only if the employees work directly at the project. Also, job descriptions must be developed, which outline the frontline and nonfrontline responsibilities of each position. Although we did not question salaries charged to the project in 2012 and 2013, job descriptions should be developed to ensure that salaries charged for agent employees are for direct project purposes and not for indirect responsibilities that should be covered under the management fee.

According to Federal regulations,[5] accounting records must be supported by such source documentation as canceled checks, paid bills, payrolls, time and attendance records, contracts, etc. Glenbrook Manor did not comply as its agent could not support the $439,870 ($239,870 + $200,000) in costs paid from the agent's revolving fund for the project or the questioned $57,110 in salaries charged based on budgeted amounts.

Surplus Cash Was Not Deposited Into the Residual Receipts Account

Glenbrook Manor did not deposit surplus cash into the residual receipts account in the years 2011 through 2013.[6] In each of these years, the agent misunderstood HUD requirements and calculated surplus cash by including noncurrent payables that the project owed to the agent's revolving fund account in the current obligations section on form HUD-93486, Computation of Surplus Cash, Distributions, and Residual Receipts. According to the instructions on form HUD-93486, accounts payable are to be included in the calculation only if they are due within 30 days. However, the payable that the project owed to the agent's revolving fund account was made up of expenses accrued before 2011, which were not current and had not been settled. Therefore,

---

[3] With the exception of supervisory staff providing oversight for centralized accounting and computer services for the project.

[4] Frontline responsibilities include activities directly related to the project, such as the project's legal, auditing, maintenance services, etc., that may be charged to the project operating account. Costs for services that are nonfrontline, such as the agent's supervisory staff, must be paid out of management fee funds, except for centralized account and computer services.

[5] 24 CFR (Code of Federal Regulations) 85.20, Standards For Financial Management Systems

[6] According to section 2(c) of the regulatory agreement, "Owners shall establish and maintain a residual receipts fund by depositing thereto, with the mortgagee, the residual receipts, as defined herein, within 60 days after the end of the semiannual or annual fiscal period within which such receipts are realized."

we recalculated the surplus cash by subtracting the noncurrent payables owed by the project to the agent's revolving fund account on form HUD-93486, covering the years 2011 through 2013, and determined that the project did not deposit $61,067 in surplus cash into the residual receipts account. By including the payable in the computation of surplus cash, the agent incorrectly increased the project's current liabilities, which canceled out any surplus cash that should have been deposited into the residual receipts account. Therefore, those funds were not available to reduce future housing assistance payments.

Surplus cash calculation

	2011	2012	2013	Total surplus cash
Cash	$32,139	$82,924	$102,594	
Cash adjusted for previous year surplus cash	n/a	$0	$37,260	
Cash available	$32,139	$82,924	$65,334	
Current payables – revolving fund payable	$45,145	$45,664	$41,527	
Surplus cash	**$0**	**$37,260**	**$23,807**	**$61,067**

Conclusion

Glenbrook Manor could not always show that project funds were used for costs that were supported in accordance with HUD requirements. This condition occurred because the agent used its revolving fund to pay project expenses but did not identify or settle those expenses paid by the revolving fund account in a timely manner. Also, salaries in 2011 were charged based on budgeted amounts, not the actual use of services. Lastly, agent officials misunderstood HUD requirements and calculated surplus cash by including noncurrent payables due to the revolving fund account as a current liability in the calculation of surplus cash, which canceled out any available surplus cash. As a result, the agent could not support $439,870 in project funds paid by the agent's revolving fund account or show that $57,110 in salaries paid in 2011 was for eligible project costs. In addition, during the period January 2011 through December 2013, the agent did not deposit $61,067 in surplus cash into the residual receipts account as required.

Recommendations

We recommend that the Director of HUD's Hartford, CT, Office of Multifamily Housing Programs require Glenbrook Manor officials to

1A. Provide documentation to support that the $239,870 liability to the agent's revolving fund account was expended for eligible project costs and if such support cannot be provided, remove the liability from the project's books.

1B. Provide documentation to support that the $200,000 transferred to the agent's revolving fund account was expended for eligible project costs and if such support cannot be provided, repay the project this amount from non-Federal funds.

1C. Develop controls to ensure that project expenses paid from the agent's revolving account are adequately supported and related to the project.

1D. Provide documentation to support that the expenditure of $57,110 in 2011 was for eligible project salaries and if such support cannot be provided, repay the amount to the project from non-Federal funds.

1E. Develop job descriptions that show the frontline and nonfrontline activities its employees perform to justify charging expenses to the project as required by HUD Handbook 4381.5.

1F. Deposit $61,067 in surplus cash into the residual receipts account.

1G. Strengthen the project's internal controls to ensure that only current liabilities are included in the computation of surplus cash.

Scope and Methodology

The audit focused on whether agent officials who managed Glenbrook Manor expended project funds for eligible activities and costs that were reasonable and supported in accordance with HUD requirements. We performed the audit fieldwork from March to August 2014 at Charter Oak Communities located at 22 Clinton Avenue, Stamford, CT. Our audit covered the period January 2011 through December 2013 and was extended when necessary to meet our audit objectives.

To accomplish our objectives, we

- Reviewed applicable Federal regulations, HUD handbooks, and the regulatory agreement as well as internal policies and procedures.

- Reviewed the project's audited financial statements and general ledgers.

- Reviewed the project's payable owed to the agent's revolving account and attempted to obtain support for the postings in the general ledger for this payable account.

- Reviewed the project's form HUD-93486, Computation of Surplus Cash, Distributions, and Residual Receipts. We subtracted the payable owed by the project to the agent's revolving account on the form from 2011 through 2013 to determine the amount of surplus that was required to be deposited into the residual receipts account. Each year the balance was adjusted for the next calculation.

- Reviewed project salaries to determine whether they were eligible and properly charged. We reviewed all project salaries from 2011 through 2013 totaling $131,970.

- Interviewed agent officials who managed the project and HUD Hartford Office of Multifamily Housing Programs staff.

We also selected a sample of eight operating expense accounts and reviewed the supporting documentation for transactions in 2011, 2012, and 2013. The accounts were chosen based on high-risk accounts as determined by a review of the general ledgers and financial statements and large dollar accounts. We reviewed a total of $228,384 in operating expenses during that period.

We relied, in part on accounting data provided by the agent. We did not perform a detailed assessment of the reliability of the data, but we determined that the computer-processed data were sufficiently reliable to be used in meeting our objectives because the data in the sampled accounts were corroborated by supporting documentation provided by the agent.

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 objectives.

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 objectives:

- Effectiveness and efficiency of operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.

- Reliability of financial data – Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.

- Compliance with applicable laws and regulations – Policies and procedures that management has implemented to reasonably ensure that resources use 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 Deficiencies

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

- The project did not have adequate controls over the efficiency and effectiveness of program operations when officials did not establish administrative controls to ensure that project costs were always eligible and supported (see finding).

- The project did not have adequate controls over the reliability of financial data when officials did not establish adequate financial controls to ensure that project funds were always used for eligible purposes and surplus cash was deposited into the residual receipts account (see finding).

- The project did not have adequate controls over compliance with laws and regulations when officials did not comply with HUD regulations by repaying a portion of their liability to the revolving fund for costs that were not supported, charging ineligible and unsupported salaries to the project, and incorrectly calculating surplus cash, thereby not depositing these funds into the residual receipts account (see finding).

Appendixes

Appendix A

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

Recommendation number	Unsupported 1/	Funds to be put to better use 1/
1A	$239,870	
1B	$200,000	
1D	$57,110	
1F		$61,067
Totals	**$496,980**	**$61,067**

1/ 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.

2/ 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. In this instance, if the project implements our recommendation to deposit $61,067 into the residual receipts account, these funds will be available to HUD to offset future housing assistance payments.

Appendix B

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

CHARTER OAK COMMUNITIES℠

November 19, 2014

Edgar Moore
Regional Inspector General for Audit
U.S. Department of HUD –Office of Inspector General for Audit
26 Federal Plaza, Room 3430
New York, NY 10278-0068

Re: Audit Report Number: 2015-BO-100X

Dear Mr. Moore:

I am writing on behalf of Charter Oak Communities ("COC") to respond to your letter dated November 4, 2014, which included the above referenced draft audit report ("Draft Report"). Thank you for providing COC with an opportunity to respond.

First, I would like to provide some summary comments and observations. I will then address each finding.

- Charter Oak Communities appreciates the guidance and support of the OIG team as COC staff worked with them through this audit. They were professional during the audit process, communicated with us on a timely basis and offered helpful ideas in our continuing improvement of internal controls.

Comment 1

- As noted in the Draft Report, the audit period was January 1, 2011 to December 31, 2013; however, the balance sheet account in question (i.e. Payable to Revolving Fund or "interfund") began in 2002, and the liability has accumulated since then. Supporting balance sheet items dating back to 2002 is impossible in that it would require us to support all expenses of the property dating back more than 12 years. This time period is well beyond the records retention requirement for expenses. Making the process even more challenging is that our general ledger format and financial operating system has been completely upgraded, and the financial department staff has been completely replaced. Therefore, it is very difficult to extract an explanation for what and how the interfund was controlled during that period.

Comment 2

- Throughout the period of 2002 to present, annual financial statement audits were prepared timely by independent auditors, as required, and issued to parties with interest in the property, including HUD. Those auditors never identified findings or

22 Clinton Avenue, Stamford, CT 06901 | P: (203) 977-1400 | F: (203) 977-1419 | TDD/TFY 203 977-1429

Appendix B

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation	Auditee Comments

questioned any program costs. Further, the surplus cash calculation was included in the audit reports.

Comment 3

- COC agrees that internal controls were lacking in some areas, and it has worked diligently to make comprehensive improvements. As you know, COC brought in a new financial management team in 2011 and has been steadily making improvements in agency operations since then. There was no reason to believe that there was an intent to incorrectly calculate surplus cash, and COC relied on reviews by third party experts (i.e. external auditors) to promote compliance with all HUD requirements.

Please find our responses on specific recommendations below.

1. *Recommendation 1A. Provide documentation to support that the $239,870 liability to the agent's revolving fund account was expended for eligible project costs and if such support cannot be provided, remove the liability from the project's books.*

Comment 4

As noted above, this liability began accumulating in 2002. COC does not have the ability to support expenses back to that time period. In addition, the funds expended during this time period were prior to the creation of a central office cost center; therefore, in order to remove the liability the expenses would need to be reallocated back to the other federal and state programs being managed by the housing authority during that time period (i.e. federal LIPH, HCVP and state properties), which is a time consuming process. We will endeavor to provide additional documentation to support these costs, and we will work with the Field Office on a satisfactory resolution.

2. *Recommendation 1B. Provide documentation to support the $200,000 transferred to the agent's revolving fund account was expended for eligible project costs and if such funds cannot be provided, repay the project this amount from non-federal funds.*

Comment 5

We will endeavor to provide additional documentation to support these costs, and we will work with the Field Office on a satisfactory resolution. We ask for flexibility in any repayment as it is not reasonable to expect repayment for a fund that goes back twelve years.

Comment 6

3. *Recommendation 1C. Develop controls to ensure that project expenses paid from the agent's revolving account are adequately supported and related to the project.*

We have provided the OIG with a thoroughly updated Revolving Fund Policy clearly identifying the process by which timely and supported payments are made to the fund along with supporting documentation demonstrating that we are fully adhering to this policy. We request that this recommendation be classified as closed for audit purposes.

Appendix B

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation	Auditee Comments

4. *Recommendation 1D. Provide documentation to support that the expenditure of $57,110 in 2011 was for eligible project salaries and if such support cannot be provided, repay the amount to the project from non-federal funds.*

Comment 7

We will endeavor to produce backup related to these specific front line fees charged to the property. We agree that, if we cannot support these charges, they would need to be repaid from non-federal funds since a central office cost center existed at the time in question.

5. *Recommendation 1E. Develop job descriptions that show frontline and non-frontline activities its employees perform to justify charging expenses to the property as required by HUD Handbook 4381.5.*

Comment 7

We will provide the Field Office with front line fees charges and the policy we are following; we will work with the Field Office to add the distinction of these costs to the individual position descriptions as required.

6. *Recommendation 1F. Deposit $61,067 in surplus cash into the residual receipts account.*

Comment 8

If we are able to support any of the expenses in Recommendations 1A or 1B, then the surplus cash calculation may change. If we are unable to provide that support then we shall make the deposit from program funds before 12/31/14. . We request that this recommendation be classified as closed for audit purposes.

7. *Recommendation 1G. Strengthen the project's internal controls to ensure that only current liabilities are included in the computation of surplus cash.*

Comment 9

We will work with our new auditors to ensure that surplus cash is calculated in accordance with HUD requirements. The audit firm selected for the 2014 annual audit engagement has extensive and relevant experience in Multi-Family program rules and regulations, and, therefore, we expect to fully comply with this recommendation. We request that this recommendation be classified as closed for audit purposes.

Please do not hesitate to contact me should you require any additional information.

Sincerely,

Vincent J. Tufo
Executive Director and Chief Executive Officer

CC: Kristen Ekmalian: HUD OIG
Lisa Reynolds: COC

OIG Evaluation of Auditee Comments

Comment 1 The management agent believes that since the expenses that make up the project's payable to the agent's revolving fund occurred as early as 2002 it is past the record retention period, and thus the project should not be responsible to provide support for those expenses. We disagree with the agent because although the expenses may have occurred as early as 2002 the agent's revolving fund was not managed correctly and thus the project's payable to the revolving fund remained on its books during the audit period. Without support for those expenses the project could reimburse the agent for expenses that were not eligible when settling the payable.

Comment 2 The agent stated that independent auditors prepared annual financial statements each year from the period of 2002 to the present, and did not question any program costs. We acknowledge other reports may not have questioned program costs, but again without support for the program expenses that make up the payable it is unknown whether those costs were for eligible purposes, therefore, the payable balance is in question.

Comment 3 The agent agrees that internal controls were lacking in some areas. The agent stated it relied on external auditors to promote compliance with HUD requirements and there is no reason to believe that there was intent to incorrectly calculate surplus cash. We did not question intent, but the project was not in compliance with HUD requirements when it incorrectly calculated surplus cash.

Comment 4 In response to recommendation 1A, the agent stated that it does not have the ability to support the project's payable to the agent revolving fund since the expenses began accumulating as early as 2002. However, our recommendation remains unchanged, if the expenses cannot be supported the payable should be removed from the books and also not charged to the other Federal projects if the allocation is not supported. Also see comment 1.

Comment 5 In response to recommendation 1B, the agent does not believe it is reasonable to expect repayment for a fund in which expenses were accrued as early as 2002. However, the agent agreed to work with HUD to attempt to support the expenses during audit resolution process. Also see comments 1 and 4. The agent's actions are responsive to our recommendation, which should be verified with HUD during audit resolution process.

Comment 6 In response to recommendation 1C, agent officials stated that they updated the revolving fund policy to create a process to make timely payments to the revolving fund along with supporting documentation for those payments. We reviewed the policy and supporting documentation and agree that the policy is adequate; however, HUD officials should verify that the policy is being implemented during the audit resolution process.

Comment 7 The agent's actions are responsive to our recommendation, which should be verified with HUD during audit resolution process.

Comment 8 In response to recommendation 1F, agent officials state that they will deposit the appropriate amount of surplus cash by calendar year end but the amount may change based on support for the other recommendations. The agent officials requested the recommendation be closed based on this action. The agent's plan is responsive to our recommendation, which should be verified with HUD during audit resolution process prior to any decision to close the recommendation.

Comment 9 In response to recommendation 1G, agent officials state that they hired a new audit firm with experience in HUD Multifamily rules and regulations. They request that this recommendation be closed as they will work closely with the new audit firm to ensure that surplus cash is calculated in compliance with HUD requirements. Although the agent official's proposed actions are responsive with our recommendation, these actions will have to be verified by HUD officials during the audit resolution process prior to any decision to close the recommendation.