Issue Date
February 4, 2008
Audit Report Number
2008-LA-1006

TO: Thomas W. Azumbrado, Director, San Francisco Multifamily Hub, 9AHMLAP

Joan S. Hobbs

FROM: Joan S. Hobbs, Regional Inspector General for Audit, Region IX, 9DGA

SUBJECT: Phoenix Apartments Did Not Use Project Funds in Accordance with HUD Requirements

HIGHLIGHTS

What We Audited and Why

We reviewed the Phoenix Apartments' (the project) expenditures to determine whether the project used its funds in accordance with U.S. Department of Housing and Urban Development (HUD) rules and regulations. The HUD Office of Inspector General received a hotline complaint alleging that the project had not used its funds for eligible purposes.

What We Found

The project did not use project funds in accordance with the requirements of its regulatory agreement and applicable HUD rules and regulations. Specifically, during fiscal years 2004, 2005, and 2006, the project

- Used $89,751 of its funds for unnecessary purposes and

- Did not support the necessity and/or reasonableness of $118,220 spent for the project.

We also found unsafe conditions, some of which the project's management ignored for more than two years. Additionally, we found that the project's resident manager, a

Section 8 recipient, had an unauthorized tenant residing in her unit for approximately three years.

What We Recommend

We recommend that the Director of the San Francisco Multifamily Hub require the project's owner, Phoenix Apartments, Inc., to

- Repay the project $89,751 from nonproject funds for the unnecessary expenditures and provide support for the reasonableness of the $118,220 paid for the unsupported services and goods or repay the project for the unsupported amount from nonproject funds.

- Immediately obtain the services of a HUD-approved professional management agent to manage the project and implement policies and procedures for ensuring that project funds are spent only for reasonable and necessary purposes.

- Immediately procure repair services for all of the unsafe conditions and implement adequate policies and procedures for periodic inspection, reporting, repair, and follow-up of any wear, tear, or other condition that may pose a hazard to the project's residents or visitors.

- Review and recertify the resident manager's eligibility for housing assistance payments from July 1, 2003, through the present and implement policies and procedures for periodic monitoring to ensure that no unauthorized tenants reside in the project.

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 provided our discussion draft report to Phoenix Apartments, Inc., on December 10, 2007, and held an exit conference with its officials on December 13, 2007. Phoenix Apartments, Inc., provided written comments on January 9, 2008. Phoenix Apartments, Inc., agreed in part and disagreed in part with our report findings, conclusions, and recommendations. The complete text of the auditee's response (with the exception of two redacted attachments to preserve the confidentiality of named individuals), along with our evaluation of that response, can be found in appendix B of this report.

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BACKGROUND AND OBJECTIVES

Phoenix Apartments (the project) is an 11-unit project-based Section 8 complex funded by a direct U.S. Department of Housing and Urban Development (HUD) Section 202 loan. Phoenix Apartments, Inc. (the corporation), a California nonprofit corporation, owns and manages the project. Directors of the corporation must also be members of the corporation and in turn must at all times be directors of the project's sponsor, Anka Behavioral Health Services, Inc. (Anka), a California nonprofit corporation. Anka's board of directors appoints the members of the corporation, and Anka establishes the general policies of the project's operations. Until June 2006, Anka's name was Phoenix Programs, Inc.

The project's loan originated on April 1, 1982, in the amount of $616,300 and carries an annual interest rate of 9.25 percent. The monthly payments are $4,873, with the final payment due on February 1, 2023.[1] The project's Section 8 housing assistance payments contract was executed in April of 1982, and it was renewed in December 2002 for an additional five years.

Anka provides bookkeeping and accounting services for the project. With the exception of the project's resident manager, the rest of the management and front-line personnel working or providing services for the project also work for Anka (shared employees). Anka allocates the salaries of the shared employees to the project. Anka also owns, leases, and/or operates more than 50 facilities in addition to the project.

Our objective was to determine whether project funds were used in compliance with HUD requirements. During our review, we also noticed safety hazard conditions and observed an unauthorized tenant living in one of the project's units.

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[1] During our review period between July 1, 2003, and June 30, 2006, the project was not in default of its loan obligations.

RESULTS OF AUDIT

Finding 1: The Project Did Not Use Its Operating Funds for Reasonable and Necessary Purposes

The project did not use its operating funds for reasonable and necessary products and services. This condition occurred because the project's owner and manager, the corporation, and its sponsor and controlling corporation, Phoenix Programs, Inc., did not follow the project's regulatory agreement and applicable HUD regulations and handbooks. The project also lacked basic procurement and internal control procedures, which exacerbated the use of project funds for goods and services that were not necessary or reasonable. As a result, during three fiscal years between July 1, 2003, and June 30, 2006, the project spent $89,751 (approximately 17 percent of its revenues) for unnecessary purposes and did not support the reasonableness of $118,220 (approximately 23 percent of its revenues) used for the project.

The Project Paid $55,476 in Excess of Allowable Management and Bookkeeping Fees and Reasonable Front-Line Salaries

Between July 1, 2003, and June 30, 2006, the project reimbursed its sponsor, Phoenix Programs, Inc., $111,601 for management, bookkeeping, and front-line and other employee salaries and related expenses. Contrary to the requirements of HUD Handbook 4381.5 and approved management and bookkeeping fees for the project's geographic area, the project's sponsor, Phoenix Programs, Inc., overallocated these fees as salaries to the project without regard to allowable limitations. In addition, there was no proportionate allocation of front-line employee salaries among all of the projects owned or operated by the managing company. For example, Phoenix Programs, Inc., allocated 40 percent of its property manager's salary to the project for management and front-line duties, while the property manager managed more than 50 residential facilities owned or operated by Phoenix Programs, Inc.

- Management and bookkeeping fees: The maximum allowable management fees during the project's fiscal years ending June 30, 2004 and 2005, was $53.50 per unit per month and $62 during the fiscal year ending June 30, 2006. In addition, the project was allowed to pay $7.50 per unit per month for bookkeeping fees. Therefore, the allowed management and bookkeeping fees over the three-year period would total $25,278.

- Front-line salaries: To be allowed as the project's operating expenses, the remaining day-to-day services needed for the project's operations must have been provided by front-line employees. According to HUD requirements, the front-line employees' salaries and benefits compensation could not exceed the comparable industry standards. Therefore, the project could pay for reasonable salaries and benefits for a front-line occupancy clerk and a minimal stipend for a resident manager performing minimal duties.

  Generally, an occupancy clerk would be responsible for such tasks as prospective tenant interviews, initial and annual certifications, unit inspections, and other front-line maintenance and operations tasks. We determined that a part-time occupancy clerk's salary and related expenses (benefits, payroll taxes, and unemployment insurance) would be approximately $9,877 for the three years.

  The project's resident manager's duties included collecting monthly rents, answering the residents' calls during the night and when the property manager was absent during regular business hours, and reporting to management any maintenance and repair needs for the project. The resident manager's stipend during the reporting period was $10,800.

  In total, the reasonable front-line salaries of the project for the three years of the audit period should have totaled approximately $20,677.

- Service coordinator salary: In 2000, HUD approved a service coordinator grant in the amount of $45,050 for the project's sponsor, Phoenix Programs, Inc. The purpose of the grant was to pay a social service staff person to link the project's tenants with supportive or medical services between September 1, 2000, and August 31, 2003. Phoenix Programs, Inc., continued to employ a service coordinator beyond August 31, 2003. Beginning January 1, 2004, the project was approved to use $4,068 of its operating funds to pay for a service coordinator. Therefore, from January 1, 2004, to June 30, 2006, the project was allowed to spend a total of $10,170 for a service coordinator. Through June 30, 2006, the allowed amount for a service coordinator would total $10,170.[2]

For the above reasons, the maximum allowable management, bookkeeping, and service coordinator fees and front-line employees' salaries and benefits for the three-year review period amounted to approximately $56,125. The remaining $55,476 paid to Phoenix Programs, Inc., for salary reimbursements were excessive and unnecessary.

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[2] The service coordinator's salary paid with the project's operating funds is included in the $111,601 the project paid for management and bookkeeping fees and for front-line salaries and related expenses.

The Project Used $34,275 to Pay for Unnecessary Services and Products

The project did not follow the requirements of its regulatory agreement with HUD when it approved payments for services and products that were not reasonable or necessary for the project's operation. As a result, the project spent $34,275 of its funds for services and products that were not reasonable or necessary for the project. The payments for unnecessary services totaled $21,738 and included payments for consulting and bookkeeping[3] services, professional liability insurance, and the resident manager's utilities and telephone services (land based and cellular). The project also used $12,537 of its operating funds to pay for unnecessary supplies and materials. The unnecessary items included food and beverage purchases, restaurant meals, parties for the project's tenants, a cellular telephone and a wireless hands-free accessory not used for the project, unnecessary furniture, and a digital camera dock. Other unnecessary items paid for with the project's operating funds included supplies and equipment that should have been paid for by the management agent using management agent fees.

The Project Spent $118,220 on Services and Products without Documenting the Reasonableness of the Amounts Paid

The project did not follow the requirements of its regulatory agreement and the applicable regulations when it approved expenditures for services and products. The regulatory agreement requires the project to ensure that payments for all services, supplies, or materials do not exceed the amounts ordinarily paid in the project's geographic area. HUD regulations also require the project to document the cost or price analysis in connection with every procurement action. The project did not have evidence of cost comparisons for any of its insurance policies, routine landscaping, pest control, and janitorial services. There was also no indication of cost comparisons for maintenance and repair services, which included the building's air conditioning, water heating, and carpet maintenance.

Further, contrary to the requirements of its regulatory agreement, the corporation did not allocate $12,951[4] between the project and other facilities owned by the corporation. It allocated the entire amount of its corporate expenses to the project, although it owned two other residential facilities in Southern California. Over the three years under review, these corporate expenses included

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[3] The project is allowed to use its operating funds to pay $7.50 per unit per month for bookkeeping services. The project's sponsor, Phoenix Programs, Inc., provided those services, and the maximum allowable amount is shown on page 5 of the report along with allowable management fees.
[4] This amount is already included in the $116,604 figure for services without ensuring the reasonableness of the amount paid for those services.

- $9,035 for insurance premiums for its members, directors, and officers and

- $3,916 for tax preparation and filing services.

Failure to allocate these corporate expenses among all the facilities owned by the corporation is a clear indication that the project overpaid for these services.

As a result, the project spent $116,604 on services without ensuring the reasonableness of the amounts paid for those services. Additionally, the project spent $1,616 for supplies and materials without adequate or any supporting receipts to show that the purchased items were necessary or the prices paid were reasonable.

The Project Did Not Have Adequate Internal Control and Procurement Procedures

The project lacked basic internal control and procurement procedures, which exacerbated the use of project funds for goods and services that were not necessary or reasonable. For example, receipts and invoices were not stamped or otherwise marked as "paid," to prevent double payment. The lack of internal controls over cash disbursements resulted in at least one instance of paying for an item twice (a $444 office armoire) and 25 instances of paying for goods and services without an accompanying receipt or invoice. These payments amounted to $3,666. In addition, the project did not have written policies or procedures for procurement and contract administration. This condition resulted in hiring various service contractors (including professional and maintenance service providers) and paying for insurance premiums without ensuring the reasonableness of the prices.

Conclusion

The project did not follow the requirements of its regulatory agreement, HUD regulations, and applicable handbook requirements when it approved expenditures for services and products. Additionally, the project did not have adequate internal controls to ensure that project funds were used for reasonable and necessary purposes. As a result, the project spent $89,751 for unnecessary services and products and did not support the reasonableness of $118,220 spent for other services, supplies, and materials.

Recommendations

We recommend that the Director of the San Francisco Multifamily Hub require the corporation to

1A. Repay the project from nonproject funds $89,751 for the funds spent for unnecessary purposes.

1B. Provide support for the reasonableness of $118,220 paid for unsupported services and goods or repay the project from nonproject funds for the unsupported amount.

1C. Immediately obtain the services of a HUD-approved professional management agent to manage the project.

1D. Implement controls and establish procurement policies and procedures to ensure that project funds are spent only for reasonable and necessary purposes.

Finding 2: The Project Deferred Repairs

The project deferred some substantial external repairs and maintenance items that posed safety hazards. This condition occurred because the project's management ignored the requirements of its regulatory agreement and the Section 8 program requirements. As a result, the project's external premises were unsafe.

The Project Deferred Maintenance and Failed to Repair Potential Safety Hazards

For at least two years,

- The project's outdoor deck has been cordoned off with a tape due to its unsafe surface caused by serious deterioration of the wood floor (see image on the next page), and

- A portion of the project's back yard fence has been leaning to a noticeable and potentially hazardous extent (see image on the next page).

Additionally,

- The back yard soil had eroded to such a significant degree that the irrigation sprinkler pipes became exposed in more than 20 locations and posed potential safety hazards (see image on the next page), and

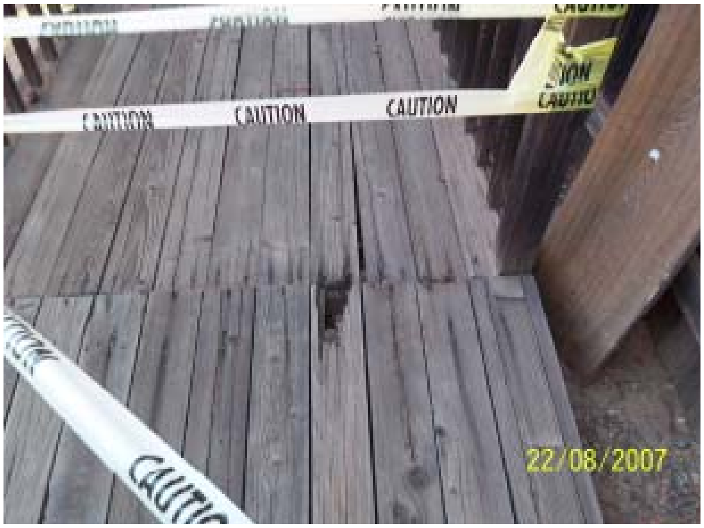
- Some of the stairs leading to the back yard were significantly cracked and weakened, with loose nails protruding out (see image on the next page).

The project's management was aware of these conditions but ignored them.

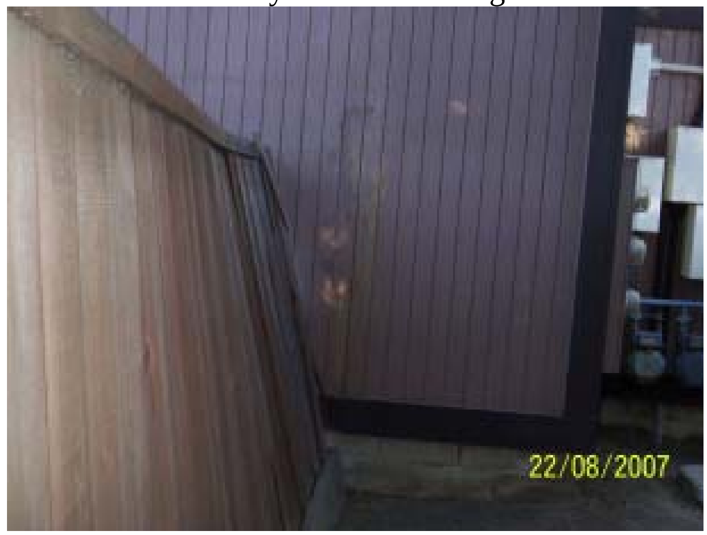
Conclusion

Contrary to the requirements of its regulatory agreement and Section 8 program requirements, the corporation did not maintain the project's premises in a safe condition.

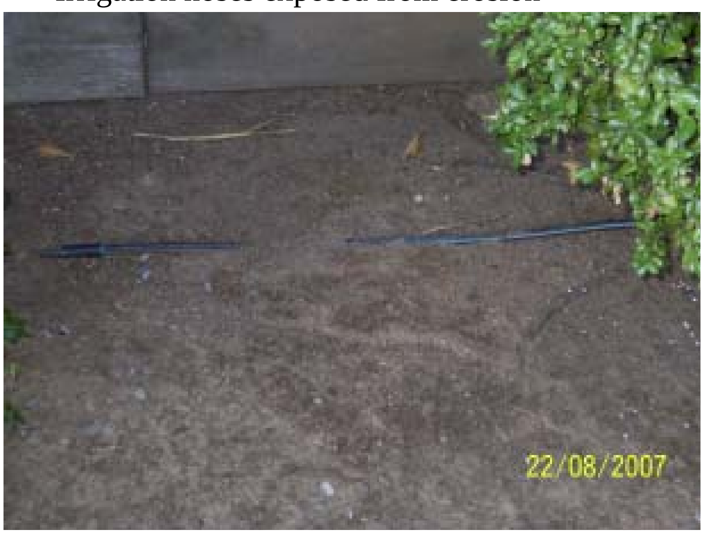
Back yard deck (rotten and cordoned off)



Back yard fence leaning



Irrigation hoses exposed from erosion



Cracked stairs leading to the back yard

Recommendations

We recommend that the Director of the San Francisco Multifamily Hub require the corporation to

2A. Immediately procure repair services for all of the existing safety hazard conditions on the project's property.

2B. Implement procedures and policies for periodic inspection, reporting, repair, and followup of any wear, tear, or other condition that might pose a safety hazard to the project's residents or visitors.

Finding 3: An Unauthorized Tenant Resided in the Resident Manager's Assisted Unit

There was at least one instance of an unauthorized tenant residing in the project. The unauthorized tenant resided in the resident manager's unit. The project's management failed to comply with its regulatory agreement requirements to ensure that Section 8 funds are used to assist only eligible residents. As a result, Section 8 housing assistance payments may have been used for ineligible purposes.

The Project and Its Resident Manager Violated Their Respective Housing Assistance Payment Agreements

The project's resident manager had an unauthorized tenant living in her unit during the three-year review period and into September 2007. The unauthorized tenant indicated that she was employed and had lived at the resident manager's unit since at least 2004.[5] She also stated that she used the project's former property manager's address as a fictitious address. Every year, the resident manager executed her rental and housing assistance payments agreement, whereby she promised to abide by the family income and composition disclosure requirements of 24 CFR [*Code of Federal Regulations*] Part 5. Under these regulations and the project's Section 8 housing assistance payments agreement, the project's owner-manager is also responsible for the accurate calculation of housing assistance payment benefits.

Conclusion

The project's management failed to comply with the project's housing assistance payments agreement when it ignored the regulatory requirements to report and include the unauthorized tenant's income in the resident manager's housing assistance payment calculations. Thus, Section 8 housing assistance payment funds may have been used to subsidize the housing of an unauthorized tenant.

[5] It is noted that the project paid the unauthorized tenant $1,920 for providing repair and cleaning services on three occasions between November 2004 and April 2006.

Recommendations

We recommend that the Director of the San Francisco Multifamily Hub require the corporation to

3A. Review and recertify the resident manager's eligibility for housing assistance payments from July 1, 2003, through the present.

3B. Implement policies and procedures for periodic monitoring and inspection to ensure that no unauthorized tenants reside in the project.

SCOPE AND METHODOLOGY

We performed on-site work at the project's corporate and onsite offices in Concord, California, from May through October 2007. Our review generally covered the period July 1, 2003, through June 30, 2006. Our objective was to determine whether the project used project funds in accordance with HUD requirements. During our review, we also noticed safety hazard conditions and learned about an unauthorized tenant living in the resident manager's unit and developed findings accordingly.

To accomplish our objective, we

- Interviewed HUD and project personnel to obtain background information about the project's operations, policies, and procedures.
- Reviewed the project's accounting records including audited financial statements, general ledgers, bank statements, expenditure vouchers, and supporting documentation.
- Reviewed HUD requirements and regulations regarding the use of Section 202 project funds.

We performed our review in accordance with generally accepted government auditing standards.

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:

- Administering the project operations in compliance with the project's regulatory agreement and applicable HUD regulations,
- Safeguarding the project's resources, and
- Maintaining complete and accurate records.

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:

- The project did not have adequate controls to ensure that its operations complied with its regulatory agreement and HUD regulations (see findings 1, 2, and 3).

- The project did not have controls in place to ensure that project funds were used for reasonable and necessary purposes (see finding 1).

- The project did not have controls in place to ensure that its records for supporting expenditures were complete and accurate (see finding 1).

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS AND FUNDS TO BE PUT TO BETTER USE

Recommendation number	Unsupported 1/	Unreasonable or unnecessary 2/
1A		$89,751
1B	$118,220	

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 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. We determined that the project spent $118,220 on services, products, and materials without adequately supporting the reasonableness or the necessity of the expenses. For details, see appendix D.

2/ Unreasonable/unnecessary costs are those costs not generally recognized as ordinary, prudent, relevant, and/or necessary within established practices. Unreasonable costs exceed the costs that would be incurred by a prudent person in conducting a competitive business. We determined that the project spent $89,751 on services, materials, and supplies that either were not necessary for the project or were excessive. For details, see appendix D.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation | **Auditee Comments**

Anka Behavioral Health, Inc.

January 9, 2008

Ms. Joan Hobbs
Regional Inspector General for Audit
U.S. Department of Housing and Urban Development
Office of Inspector General, Region IX
611 West Sixth Street, Suite 1160
Los Angeles, CA 90017-3101

Subject: **Discussion Draft Audit Report**
Phoenix Apartments

Dear Ms. Hobbs:

Enclosed is our detailed response to the Discussion Draft Audit Report for Phoenix Apartments which was issued by your office on December 10, 2007. In summary, after reviewing your findings we agree with some of your recommendations, but dispute others. Most notably, we provide justification for many of the "unnecessary" expenses detailed in the auditor's report and dispute that we need to repay the $99,921 in its entirety. Also of note, we provide justification for many of the "unsupported expenditures" and believe that we should not have to repay the entire sum of $118,220. Below is a detailed analysis to each of the auditor's findings.

RESPONSE TO FINDING 1: THE PROJECT DID NOT USE ITS OPERATING FUNDS FOR REASONABLE AND NECESSARY PURPOSES

Recommendation 1A: Repay $99,921 for the funds spent for unnecessary purposes
Anka agrees in part with the OIG Audit's finding that there were some unnecessary expenses, but disagrees that the entirety of the $99,921 findings should be reimbursed to HUD.

Comment 1

- Unnecessary Salaries/Services-Management and Bookkeeping Services: Anka does not dispute that we exceeded the HUD prescribed costs for management and bookkeeping fees. The amount billed to HUD was the *actual* amount that it cost Anka to provide both the management and bookkeeping services, which exceeded the HUD set rates. The HUD compensation limits were not enough to capture the actual cost needed to manage this type of project. In the future we will not exceed the HUD set rates for these services.

1875 Willow Pass Rd, #300, Concord, CA 94520 ♦ PO Box 315, Concord, CA 94522-0315
office: 925.825.4700 ♦ fax: 925.825.2610 ♦ www.ankabhi.org

Comment 2

Comment 1

Comment 3

In order to ensure proper management of Phoenix Apartments' financial records and compliance with HUD requirements, it is necessary for Anka to employ professional bookkeeping services. While the $438.75 billed to HUD exceeds the HUD prescribed bookkeeping costs, this was the actual amount that we were charged to employ a professional bookkeeper. Anka, however, will not dispute this charge and will repay the $438.75 that we billed to HUD.

- Unnecessary Salaries – Front-line Employees: As with the management and bookkeeping services, the amount that Anka billed to HUD for front-line salaries was the *actual* cost of providing these services. The Resident Manager stipend for the reporting period was $10,800, which is a "minimal stipend" (as required by HUD) for a person performing those duties. This figure should not be out of line with the HUD requirements and we do not believe that we should have to repay any money for front-line employee salaries. In the future, however, Anka will not exceed the amount of the front-line salaries listed in the auditor's report. Further, we would welcome any assistance that HUD might provide in setting a "minimal stipend" for the Resident Manager.

  Going forward, Anka will employ an occupancy clerk who will be responsible for such tasks as prospective tenant interviews, initial and annual certifications, and other front-line operational tasks. Anka will not exceed the comparable industry standards for this position as detailed on page 6 of the auditor's report.

- Unnecessary Salaries - Service Coordinator: With regards to the Service Coordinator salary, Anka finds the amount of $45,050 was necessary in order to provide the type of services required of a HUD Section 202 Housing provider. HUD's own website states that the purpose of the Section 202 program is to "*expand the supply of affordable housing with supportive services for the elderly. It provides very low-income elderly with options that allow them to live independently but in an environment that provides support activities such as cleaning, cooking, transportation, etc.*"[1] All of our tenants have a mental health disorder and require a higher level of support—the type of support that is typically found in Section 202 HUD Housing.

  From September 2000 until August 2003, Anka received a HUD grant to staff supportive services for the clients at Phoenix Apartments and used the money towards salary for a Service Coordinator position. The grant has since expired, but the clients are still in need of these supportive services. In order to properly provide the supportive services required of a Section 202 Housing provider, Anka continued to provide the services, even though the HUD grant money has been expired for over three years.

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[1] Please note, Phoenix Apartments houses chronically mentally ill individuals and their families. As defined by the HUD Occupancy Handbook Section 202/8 Section H "Elderly" can also include persons with disabilities including chronic mental illness. Phoenix Apartments operates for the benefit of adult individuals with mental illnesses. Any references in this document to "elderly" should include this persons with disabilities definition to encompass mental illness.

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The Service Coordinator position was also necessary to comply with our HUD-approved Articles of Incorporation which state that Phoenix Apartments will provide "housing *and services* [emphasis added] especially designed to meet their [tenants'] physical, social, and psychological needs..." If Anka did not provide both housing *and* supportive services, we would violate our own requirements listed in the Articles of Incorporation. The Service Coordinator position helps link the tenants with supportive services such as medical care, mental health services and coordination, transportation, food services, and household assistance which allow the residents to live independently. A Service Coordinator is necessary to manage the day-to-day operation of these supportive services, which is within the realm of front-line employee activities. Because the Service Coordinator was performing many of the front-line activities which are required of a HUD Section 202 Housing provider, the Service Coordinator's salary, or at least part of it, should have been allowed as a necessary expenditure.

Comment 4

Similarly, the Service Coordinator also managed the supportive services aspect of the Section 202 Housing provided at Phoenix Apartments—services which were essential to ensure that our residents could live independently. The management activities of the Services Coordinator fall within the realm of project management and therefore the Service Coordinator's salary should have been allowed, at least in part. In summary, the money allocated towards the Service Coordinator's salary was necessary to ensure that we were compliant with the purpose and spirit of Section 202 Housing.

Comment 5

- Unnecessary Services – Consulting: Anka hired Sheila Dutton & Associates in order to achieve compliance with the HUD regulations and requirements. As a growing company, it is Anka's standard business practice to hire consultants to manage compliance, especially when there are numerous requirements and regulations governing agreements and contracts. By disallowing consultant fees as an acceptable expenditure, it will become more difficult for Anka to manage the project and ensure compliance with HUD regulations. Therefore, the consultant fees are a necessary expenditure to ensure compliance with HUD regulations and to prevent problems in the future.

- Unnecessary Services – Professional Liability: Professional liability insurance was necessary to protect both Anka and the residents of Phoenix Apartments. The Resident Manager is employed by Anka and one of her duties is to collect rents from clients. If a dispute ever arises between a tenant and the Resident Manager and Anka was found liable in a lawsuit related to that dispute, our professional liability insurance would ensure that the resident could receive any money owed to him or her from a judgment. The professional liability insurance ultimately protects the residents from possible monetary consequences sustained as a result of professional errors, negligence, etc. The insurance also protects Anka from any risks of insolvency that might result from such a claim—an insolvency that could close many of Anka's projects and ultimately harm additional clients. The professional liability insurance is a benefit and necessity not only for the project, but also the clients and should therefore be an allowed expense.

Comment 2

- Unnecessary Services - Resident Manager's Services (expenses other than stipend): Anka has corrected the salary structure for Phoenix Apartments' Resident Manager. Rather than paying for her utilities and phone services, Anka will provide the Resident Manager with a monthly stipend. The auditor's report did not recommend a reasonable amount for the Resident Manager's stipend. Anka is prepared to adjust our current stipend and set the amount based on any recommendation we receive from HUD on this matter.

Comment 6

- Unnecessary Expenditure – Supplies or Materials: It is Anka's position that the expenditures on food, beverages, and parties were directly for the benefit of the tenants and were necessary expenditures. These expenditures were necessary to comply with the mission of Phoenix Apartments which is listed in the HUD-approved Articles of Incorporation: "Phoenix Apartments will provide housing and services especially designed to meet their [the tenants'] physical, social, and psychological needs…." As defined in the HUD Handbook, Section 4571.3, Section 202 Housing projects must provide the "*necessary services for the occupants which may include but are not limited to ... welfare, information, recreational...*" The questioned expenditures on food and parties fell within the definition of "necessary services" as defined above.

  The parties provided residents with recreational opportunities which decreased isolation and improved morale. It is Anka's position that a physically and emotionally healthy tenant preserves the economic life of the building and is more apt to comply with the provisions in the lease. Our tenants suffer from severe and persistent mental illnesses and need social and recreational activities to improve their health and reduce the severity of their symptoms. Frequently reluctant to socialize with other tenants, the parties provide an opportunity for all residents to mingle and break free from their isolation, as well as improve their emotional health.

  The parties also served an educational function. The parties doubled as tenant association events where information on health, safety, preventative maintenance, emergency preparedness, evacuation procedures, and other residential issues were provided to the tenants. The celebrations and free food were used as a way to attract clients to meetings in order to provide them with necessary announcements and information. Without these incentives, many of the residents would not attend tenant association meetings and would therefore miss out on valuable information that impacts their housing and their lives. As such, Anka believes that the $12,536.52 in "unnecessary expenses" for parties and food should be allowed as necessary supportive services (as defined in Section 4571.3 of the HUD Handbook) for the benefit of the tenants.

Recommendation 1B: Provide support for the reasonableness of $118,220 paid for unsupported services or repay the project for the unsupported amount

It is our position that we can provide support for many of the expenditures that were either not supported by a proper procurement process or were disallowed outright by the HUD auditors.

Comment 7

- Procurement procedures: Anka agrees with auditor's finding that the written procurement procedures required by HUD were not closely followed. However, Anka

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disagrees with the statement that the project did not ensure the reasonableness of $116,604 spent on various services. The services questioned by HUD are all within HUD-approved line items and were necessary and essential for operation of this project. In addition, while unsupported by written documentation, the program did receive a direct benefit from all of these services and therefore the costs should not be disallowed in their entirety. Because the program received a benefit from the services, Anka should not have to pay HUD back for the services.

Additionally, while the procurement process was undocumented, there was a system in place to reduce the costs in providing these questioned services. During the third quarter of 2005, Anka hired a Vice President of Real Estate Acquisitions and Management. This individual is skilled in property management and has a long track record of reducing costs in the projects he managed. He examined the services being provided at Phoenix Apartments and made changes which led to a $10,000 reduction in the operating and maintenance expenses for the fiscal year ending 2006. Although the procedures employed to reduce costs were undocumented, the results indicate that a cost savings process was in place and that the prices paid for the services provided were reasonable. As such, we believe that we should not have to pay HUD back for these services.

In 2005, Anka began employing a handyman for basic repairs and janitorial services. The cost of the handyman services was typically below market value when compared to licensed contractors. The cost of these services is reasonable and should be allowed, even though the procurement processes for obtaining the handyman and related services was not documented.

Anka has made efforts to improve our internal costs and procurement procedures. We now have a new procurement policy which is being used for the contracting of all services (please see attached procurement policy document). This new procurement policy will ensure that we do not run into these procurement problems in the future.

Comment 8

- Executive Liability Insurance: The executive liability insurance paid for by Anka was designed to insure our board members, directors and officers and was disallowed by the OIG auditors as an "unallocated" expense. This insurance is necessary for the operation of the project and protects not only the insured individuals, but also the residents of Phoenix Apartments. Because executive liability insurance is a necessary expense that benefits both the project and the residents, it should have been allowed as an allocated expense. Anka's directors and officers frequently make and enforce policies that effect our clients. Our actions or inactions could create a situation that results in litigation. Executive liability insurance will ensure that clients injured by these decisions are protected from possible monetary consequences sustained as a result of professional errors, negligence, etc. As well as ensuring that the project survives in the event of litigation, the liability insurance also protects Anka from possible insolvency which might result from a lawsuit arising out of decisions made by directors and officers. Executive liability insurance is necessary for the safe functioning of any program and as such should be allowed as a necessary expense.

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If HUD finds that the executive liability insurance is an allowable expense, it is Anka's position that there was enough due diligence performed during the procurement of the insurance to approximate the HUD required procurement process. Anka employed the services of our Broker of Record, Ernest Bloomfield of Rehabilitation and Recovery Insurance Agency, in order to acquire the best rate for executive liability insurance. Our broker's own company was unable to provide us with the lowest possible rate quote. Mr. Bloomfield compared the rates of other companies' policies and rates in order to provide Anka with low-cost executive liability insurance. After an exhaustive examination, he concluded that West Callaway offered the lowest rates and this was the insurance we purchased. An attached letter from Mr. Bloomfield attests to this fact. Because his rate search closely approximated a formal procurement process, we believe that the insurance fees were not "unsupported" and should be allowed by HUD.

Additionally, if HUD finds that executive liability insurance is an allowable expense, Anka will stipulate that this insurance could have been partially allocated (approximately 50%) to Anka Behavioral Health, while the rest of the fees could have been allocated towards Phoenix Apartments. Thus, if the executive liability insurance is found to be an allowable expense, Anka agrees to pay back half of the $9,034.78 which was billed to HUD for this expense (at total of $4,517.39). All other insurance including commercial liability, excess liability, and professional liability were strictly for the benefit of the project and the costs should not in any way have been shared with the larger corporation.

Comment 9

- Tax Preparation Services: HUD requires a 990 for any single entity program operating with a HUD grant or loan. Anka employed professional tax preparation services in order to meet with HUD requirements and to ensure an accurate tax return. The money spent on these tax preparation services was necessary in order to comply with HUD requirements and should not be disallowed.

Comment 10

- Undocumented supplies: Anka does not dispute that there were insufficient receipts detailing certain supplies and materials purchased. It is Anka's position that these funds went towards client events and services which benefitted the residents and the project. Regardless, Anka does not dispute that we owe the $1,616 which is being questioned by HUD.

Recommendation 1C: Immediately obtain the services of a HUD-approved professional management agent to manage the project

Anka is currently soliciting bids in an attempt to consider the professional management option. As of January 7, 2008 we have not received a bid from a firm interested in managing this project. We will keep HUD updated regarding our search for a management agent for this project.

Recommendation 1D: Implement controls and establish procurement policies and procedures to ensure that project funds are spent only for reasonable and necessary purposes

Anka has developed a new set of procurement policies and procedures that are compliant with HUD's guidelines. Our new procurement policy is attached to this document. Additionally, the Resident Manager has set up a payment plan to compensate Phoenix Apartments for the $444 office armoire which was inadvertently paid for twice. The new controls ensure that a double payment like this will not occur in the future.

RESPONSE TO FINDING 2: THE PROJECT DEFERRED REPAIRS

Recommendation 2A: Immediately procure repair services for all of the existing safety hazard conditions on the project's property
After an on-site evaluation, the auditors noted four hazardous conditions that needed to be repaired. Anka is currently soliciting bids for contracts to repair these unsafe conditions. Anka has recently made a request to HUD to obtain approval for using reserve dollars to perform these repairs.

Comment 11

As you can see in photo of the backyard deck included in the auditor's report, management has taken interim steps to reduce the hazard by cordoning off the deck area with yellow caution tape. This caution tape will ensure that the use of the deck is restricted until it can be repaired. In a related matter, the fence discussed in the auditor's report is leaning against the deck and access to it is limited by the same caution tape that is cordoning off the deck.

Comment 12

The irrigation line, as shown in the photograph contain within the auditor's report, abuts the fence in the rear of the lot. This area of the property has no foot traffic. The area requires maintenance, but it is Anka's position that soil erosion around the irrigation line does not constitute a health and safety issue. After inspection of the area in question by Anka's staff, we are unable to identify and health and safety issues pertaining to the landscaping.

Comment 13

As part of routine business practices, Anka conducts annual property inspections. The previous property inspection of Phoenix Apartments was conducted in January 2007. Other than the deck issue, the findings identified by the OIG auditors would have been identified by Anka's inspection team during the upcoming January 2008 property inspection.

Comment 14

Recommendation 2B: Implement procedures and policies for periodic inspection, reporting, repair, and follow-up of any wear, tear, or other condition that might pose a safety hazard to the project's residents or visitors
Anka has procedures and policies in place which require Anka to conduct an annual internal and external physical inspection during the mass re-certification. The last property inspected was conducted in January 2007. Anka will improve upon its internal practices to ensure the maintenance issues identified during inspection will be addressed in a timelier manner.

RESPONSE TO FINDING 3: AN UNAUTHORIZED TENANT RESIDED IN THE RESIDENT MANAGER'S ASSISTED UNIT

Comment 15

Recommendation 3A: Review and recertify the Resident Manager's eligibility for housing assistance payments from July 1, 2003 through the present
Anka takes this claim very seriously and has conducted its own investigation into the allegation that the Resident Manager had an unauthorized tenant living with her. The unauthorized tenant stated that she is the significant other of the Resident Manager and was just visiting the property, rather than living on the premises. Attached please find an appointment notification card from

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Kaiser Permanente that demonstrates her residence at a separate location. We are currently interviewing other occupants of Phoenix Apartments to determine whether this unauthorized tenant actually lived on the premises. Our preliminary investigations have all indicated that there was no unauthorized tenant living with the Resident Manager.

As per the HUD auditor's recommendation, Anka will review the Resident Manager's eligibility for housing assistance during the period in question and if applicable, will recertify her eligibility.

Recommendation 3B: Implement policies and procedures for periodic monitoring and inspection to ensure that no unauthorized tenants reside in the project

Anka currently has policies and procedures in place for the periodic monitoring and inspection of the property to ensure that there are no unauthorized tenants residing there. However, we will review these procedures and make any necessary adjustments which would increase efficiency and accuracy of this monitoring process.

CONCLUSION

We appreciate the opportunity to respond to the concerns and recommendations found within the auditor's report. While we concur with some of the conclusions, we also raise objections to a significant number of the findings listed in the report—specifically regarding the unnecessary and unsupported expenditures. This audit directly and significantly affects the operation of Phoenix Apartments, so your consideration is greatly appreciated and we hope for a positive outcome.

If you have any questions about this response or require additional information, please do not hesitate to contact me at 925-825-4700.

Sincerely,

M. Barrington

Michael J. Barrington, MA, M.Ed., Ph.D.
President & CEO
Anka Behavioral Health, Inc.

Anka Behavioral Health, Inc

Procurement of Vendors for Anka & PAI

Effective 9-28-07

The management protocol is:

1. As repairs are needed, staff will contact three vendors, for each repair category.
2. Once each vendor has provided an estimate, the most cost effective, time sensitive / responsive and professional company will be selected.
   a. If vendors fail to respond to our request for a bid, staff will keep records of the companies contacted in order to document their cost control efforts.
3. The chosen vendor will become eligible for placement on our vendor list and will become staff's first call for all repairs (under $2,500) within that category for the next two years.
4. Staff will keep a copy of each estimate and staff notes if the lowest bidder is not selected.
5. Staff will re-bid each repair category every two years to determine if previously selected vendor can remain on our vendor list.
6. Staff will make every effort to execute service contract with a maximum term of 12 months for services such as pest control, lawn maintenance, security, cleaners, etc. Since our contracts are typically on an annual basis, we should try to sign contracts for one year only, if at all possible.
7. Purchases must be reasonable, necessary and allowable to the programs.

Note 1: On occasion an issue may arise involving health, safety and / or habitability. Staff may be required to use the vendor who's available and able to respond immediately. In this case the vendor may or may not be on our approved vendor list, the vendor may not be the cheapest but staff will hire them solely based on response time due to the urgent nature of the matter.

OIG Evaluation of Auditee Comments

Comment 1 The auditee agreed that the $111,601 it paid for management, bookkeeping, and front line employees' compensation exceeded allowed reasonable and necessary amounts. However, the auditee asserts that these charges paid for the actual costs to obtain those services. The auditee did not provide any evidence to substantiate the time and amount Anka charged the project for these services were actually necessary and reasonable. On the contrary, based on Anka's position description documentation, it became apparent to the auditors that Anka over-allocated the front line employees' salary to the project. Additionally, as detailed on pages 5 and 6 of the audit report, the management and bookkeeping fees are fixed amounts for the geographic area. Therefore, even if the auditee was able to provide evidence supporting the actual charges for management and bookkeeping services, the $55,476 over-allocated to the project for those services and front line employees' compensation would still be unreasonable and unnecessary. It is for this reason that recommendation 1C requests the project obtain a professional management agent for all its management, bookkeeping, and front line activities.

Comment 2 The audit report did not question the resident manager's stipend amount. Instead, the audit report questioned the unreported compensation the resident manager received from the project in the form of payments for utilities and other services.

Comment 3 We modified the audit report to show that beginning January 1, 2004, the project was allowed to use $4,068 of its operating funds to pay for a service coordinator.

Comment 4 Consulting fees must be paid out of management fee funds. Section 6.39(a) of HUD handbook 4381.5 states that "[e]xpenses for services that are not front-line activities must be paid out of management fee funds…." In pertinent portions, section 6.39(b) states that the following costs must be paid out of management fee funds:

> (1) Designing procedures/systems to keep the project running smoothly and in conformity with HUD requirements.
>
> (2) Preparing budgets required by the owner or HUD, exclusive of rent increase requests and MIO Plans….
>
> (4) Training for project personnel that exceeds the line item budget for training expenses.
>
> (5) Monitoring project operations by visiting the project or analyzing project performance reports.
>
> (6) Analyzing and solving project problems.
>
> (7) Keeping the owner abreast of project operations….

Therefore, any fees paid for consulting necessary for the project's continued operation in compliance with HUD regulations must have been paid out of the management fee funds.

Comment 5 Professional liability insurance was not reasonably necessary for the project's operation. During the course of the audit, the project's property manager provided a written explanation that the professional liability insurance was for the "paraprofessional" service coordinators employed by Anka for the project's benefit. The property manager's explanation was provided to the auditors via email on October 26, 2007. The property manager in turn obtained this information from the project's insurance broker, whose email was embedded in the property manager's email. The insurance broker wrote:

> The reason for the Professional Liability Coverage is that there is one counselor that is on the policy. If there is any Professional exposure then this coverage is needed. The definition of Professional liability is as follows:
>
> Coverage for specialists in various professional fields. Since basic liability policies do not protect against situations arising out of business or professional pursuits, professional liability insurance is purchased by individuals who hold themselves out to the general public as having greater than average expertise in particular areas.
>
> If there is no counselor and only a building manager that doesn't provide professional advice or professional services, then coverage would not be necessary.

Therefore, the auditee's comment claiming that the professional liability insurance was necessary for the resident manager is not credible because it is inconsistent with the auditee's and its insurance broker's previous assertions that the insurance was only necessary for the "paraprofessional" counselors.

Additionally, as explained in the response to Comment 3, HUD approved $4,068 per year for the project to pay for a service coordinator. The project was not allowed to spend more than the approved amount.

Comment 6 Although the project's expenditures on food and beverages may have been for the benefit of the tenants, these expenditures were not necessary for the project's operation. The only services listed in section 1.1(e) of the project's housing assistance payments contract are water, trash removal, and ground maintenance. No other services have been approved by HUD for the project to provide its tenants. Provisions contained in the project's articles of incorporation about providing unspecified services to its tenants do not expand on the project's regulatory agreement and housing assistance payments contract provisions listing the allowed uses of the project's funds.

Additionally, section 11(c) of the project's regulatory agreement states that no payments may be made for services, supplies, or materials unless such services are reasonably necessary for its operation; and the project's marketing plan incorporated in the project's housing assistance payments contract and marked as "Exhibit 4 to HAPC" states that all its tenants must be capable of living independently. Therefore, the auditee's comment quoting a section from HUD handbook 4571.3 applicable to "Supportive Housing for the Elderly Section 202 Program," is inapplicable to independent living residential facilities.

Therefore, the $12,537 identified in the audit report as expenditures for unnecessary supplies and materials (including parties) were not reasonably necessary for the project's operation.

Comment 7 The auditors found and the report stated that "the project did not have written policies or procedures for procurement and contract administration."

Finding 1 of the report did not conclude whether the $116,604 spent on services were necessary and/or reasonable for the project because the project did not have adequate documentation to support the necessity and/or the reasonableness of these expenditures. As the auditors explained to the project's management during the exit conference held on December 13, 2007, it is incumbent upon the project to provide documentary support for the necessity and/or reasonableness of these expenditures.

Similarly, the corresponding recommendation 1B does not require Anka to pay HUD back for these services. The recommendation requires the corporation to "repay the project from nonproject funds for the unsupported amount."

The project did not have any procurement policies and procedures and it did not have adequate internal controls over expenditures at the time the auditors were conducting the review. In order for HUD to have the opportunity to evaluate any newly implemented internal controls and procurement policies and procedures, the project needs to provide evidence of those controls, policies, and procedures to HUD's San Francisco Multifamily Hub during the audit resolution process. The Multifamily Hub will evaluate the adequacy of these policies and procedures.

Comment 8 The corporation needs to provide satisfactory evidence to HUD to show the paid insurance premiums were reasonable. The auditee enclosed with its comments a letter (redacted) from its insurance broker in which the broker asserted that he recommended insurance to the project at the lowest cost. This letter is insufficient to evaluate the reasonableness of the premiums.

Additionally, any insurance premiums that must have been allocated to other facilities owned by the corporation, must be repaid to the project (not HUD) from nonproject funds. Such payment made with Anka funds would be an acceptable source of funding.

Comment 9 In Finding 1, the auditors did not disallow payments for the tax preparation services. The finding questioned the reasonableness of the amount the project paid for tax preparation services of the corporation, which owned other facilities during the audit period. Therefore, similar to the unallocated insurance premiums mentioned in the response to Comment 8, the corporation needs to allocate the tax preparation service payments between all the facilities owned by it; and the portions allocated to the other facilities must be repaid to the project from nonproject funds.

Comment 10 The auditee did not dispute the auditors' recommendation for the corporation to repay $1,616 to the project from nonproject funds. However, the auditee maintains that these funds were spent on events and services which benefited the project's residents. As explained in the response to Comment 6 above, using project funds to pay for client events (e.g., parties) is not an allowable use of those funds.

Comment 11 The auditee's claim that it has taken interim steps to reduce the hazards posed by the deteriorated deck and the leaning fence by cordoning the area off with "yellow caution tape" does not help remedy the hazardous conditions. These conditions existed for at least two years. The deck and the leaning fence regardless of, or in addition to, the "yellow caution tape" constitute a hazardous attractive nuisance.

Comment 12 Although the one particular picture used in the audit report shows an exposed irrigation line near the fence in the rear of the lot, as stated in finding 2 of the audit report, there are over 20 exposed lines spread throughout the entire back yard. Many of these exposed lines are in the middle of the back yard and pose a safety (tripping) hazard to residents and visitors.

Comment 13 Regardless of Anka's routine business practice of inspecting the project once a year, the project's resident manager stated that she promptly informed the project's management about all four unsafe conditions reported in finding 2 of the report. The project's management should not have ignored these conditions merely because Anka's inspection team may have noticed them during the annual inspection.

Comment 14 The project's management must not only improve its internal practices to ensure the maintenance issues identified during inspection are addressed in a timely manner, but it must also promptly address any safety hazard or other maintenance issues the resident manager or other residents convey to the management.

Comment 15 The auditors interviewed the unauthorized tenant and the resident manager. Although the unauthorized tenant claimed she only visited the resident manager ("quite often"), she also indicated that she has not resided anywhere other than the resident manager's home since at least some time in 2004. This evidence was collaborated by the resident manager's statement that the unauthorized tenant in question spent about one week in the resident manager's unit during each visit and left for two or three days to visit her family before returning to the resident manager's unit for another week.

Additionally, the auditors observed the unauthorized tenant's vehicle parked at the complex around six o'clock in the morning almost every business day during the months of August and September 2007. During the day, the unauthorized tenant was observed using her vehicle and the project's laundry facilities. The auditors' observations are also corroborated by public and employment records evidencing the unauthorized tenant resided in the resident manager's unit since 2004, and has not had another real address of record for herself since then. The unauthorized tenant admitted that she used the project's former property manager's home as a fictitious address.

The Kaiser Permanente appointment card (redacted) submitted by the auditee to support the unauthorized tenant's assertion that she did not reside in the resident manager's unit does not constitute sufficient evidence. The auditors gathered substantial evidence (described in the paragraph above) showing that the unauthorized tenant resided in the resident manager's unit since 2004.

Whether the unauthorized tenant actually moved out of the resident manager's unit at the end of 2007, remains unanswered. However, even this assertion by the resident manager indicated that the unauthorized tenant lived in the resident manager's apartment until a short time before October 16, 2007: the resident manager told the auditors on October 16, 2007, that the unauthorized tenant "just got her own place."

Appendix C

CRITERIA

Management Fees, Bookkeeping Fees, and Salaries:

- Chapter 6 of HUD Handbook 4381.5 (The Management Agent Handbook) provides a listing of the management agent's responsibilities and front-line employees' responsibilities. The handbook also specifies which services, materials, and products must be paid for from the management agent fee and which may be paid for from the project's operating funds. For example, overhead costs, supplies, and equipment are management agent expenses.

- Section 6.38(a)(1) of the handbook states that reasonable front-line salaries may be paid with the project's operating funds.

- Section 6.38(a)(2) requires the management agent to prorate the total associated costs among all of the projects (if more than one) for which the front-line employees provide services. The proration must be done in proportion to the actual use of services.

Use of Project Funds:

- Section 11(a) of the project's regulatory agreement states:

  "If the Mortgagor has any business or activity other than the project and operation of the mortgaged property, it shall maintain all income and other funds of the project segregated from any other funds of the mortgagor and segregated from any funds of any other corporation or person. Income and other funds of the project shall be expended only for the purposes of the project."

- Section 11(c) of the project's regulatory agreement states:

  "Neither Mortgagor nor its agents shall make any payment for services, supplies, or materials unless such services are actually rendered for the project or such supplies or materials are delivered to the project and are reasonably necessary for its operation. Payments for such services, or materials shall not exceed the amount ordinarily paid for such services, supplies, or materials in the area where the services are rendered or the supplies or materials furnished."

- Regulations at 24 CFR 84.44(a) require all recipients to establish written procurement procedures, which at a minimum ensure avoiding unnecessary purchases.

- Regulations at 24 CFR 85.45 state:

- “Some form of cost or price analysis shall be made and documented in the procurement files in connection with every procurement action. Price analysis may be accomplished in various ways, including the comparison of price quotations submitted, market prices and similar indicia, together with discounts. Cost analysis is the review and evaluation of each element of cost to determine reasonableness, allocability and allowability.”

Project Maintenance and Safety:

- Section 8 of the project’s regulatory agreement states:

  “Mortgagor shall maintain the mortgaged premises, accommodations and the grounds and equipment appurtenant thereto, in good and substantial repair and condition....”

- Regulations at 24 CFR 5.703 state:

  “HUD housing must be decent, safe, sanitary and in good repair. Owners… must maintain such housing in a manner that meets the physical condition standards set forth in this section in order to be considered decent, safe, sanitary and in good repair. These standards address the major areas of the HUD housing: the site; the building exterior; the building systems; the dwelling units; the common areas; and health and safety considerations.”

Section 8 Housing Assistance:

- Regulations at 24 CFR 5.216(d)(2)(i) require the participating tenants to immediately inform the responsible entity about the addition of any new household member and provide the Social Security number of that tenant.

- Regulations at 24 CFR 5.240 further require the participating family to promptly provide income information to the responsible entity and in turn, the responsible entity to determine assistance amount changes or eligibility changes.

APPENDIX D

SUMMARY OF UNNECESSARY AND UNSUPPORTED EXPENDITURES

Unnecessary expenditures	
Unnecessary salaries	$55,476.00
Services	
Consulting	$5,718.00
Insurance - professional liability	$5,400.64
Professional bookkeeping services	$438.75
Resident manager's services	$10,180.73
Total unnecessary services	$21,738.12
Supplies or materials	$12,536.52
Total unnecessary expenditures	**$89,750.64**

Unsupported expenditures		
Services	Reason for lack of support	Amount
Alarm	No procurement	$1,732.04
Cleaning	No procurement	$3,285.00
Heating and cooling	No procurement	$18,318.00
Insurance - commercial liability	No procurement	$21,226.71
Insurance - excess liability	No procurement	$5,582.62
Insurance - executive liability	No procurement and not allocated	$9,034.78
Janitorial	No procurement	$5,700.00
Landscaping	No procurement	$14,391.00
Pest control	No procurement	$1,049.00
Repairs	No procurement	$32,368.86
Tax preparation services	Not allocated	$3,916.23
Total unsupported services		$116,604.24
Supplies or materials	No receipt or description on receipt	$1,616.00
Total unsupported expenditures		**$118,220.24**