Issue Date August 4, 2009	
Audit Report Number 2009-BO-1009	

TO: Joe Crisafulli, Director, Boston Multifamily Hub , Region 1, 1AHMLA
Miniard Culpepper, Regional Counsel for New England, Region 1, 1AC
Henry S. Czauski, Deputy Director, Departmental Enforcement Center, CV

FROM: John A. Dvorak, Regional Inspector General for Audit, (Boston) Region 1, 1AGA

SUBJECT: Casa Otonal Multifamily Housing Project, New Haven, Connecticut, Was Not Properly Managed in Accordance with HUD Regulations

HIGHLIGHTS

What We Audited and Why

We audited the Casa Otonal multifamily housing project, located in New Haven, Connecticut, based on a referral received from the U.S. Department of Housing and Urban Development's (HUD) Hartford Program Center. The referral disclosed compliance findings regarding the project's audited financial statements, including instances of unauthorized loans/disbursements to an affiliate.

Our primary audit objective was to determine whether the project owner managed and operated the project in accordance with HUD regulations and the project's regulatory agreement. Specifically, we wanted to (1) determine the extent of unauthorized distributions made while the project was in a non-surplus-cash position, (2) determine whether goods and services were properly procured, and (3) ensure that the project's cost allocation plan adequately prorated staff time and shared office space.

What We Found

The project owner did not always use project funds in accordance with HUD regulations or the regulatory agreement. We identified questioned costs totaling $265,350[1] while the project was in a non-surplus-cash position. Specifically, the owner made $236,439 in unauthorized loans/distributions to an affiliate, Casa Otonal, Inc. Additionally, the owner did not follow proper procurement procedures due to a lack of written policies and procedures and the absence of a contract log, contracts, purchase orders, or related bidding or source selection evaluation documents. Later, the project incurred $18, 031 in ineligible costs, $8,748 in unsupported costs, and $2,132 in unreasonable costs. Finally, the owner did not prepare a formal written cost allocation plan to appropriately allocate staff time spent on nonproject activity or the use of office space by nonproject personnel. However, the nonproject staff time and office space used appeared to be minimal.

What We Recommend

We recommend that the Director of the Office of Multifamily Housing, Boston hub, require the project owner to (1) reimburse the project $254,470[2] for the ineligible disbursements and $2,132 for the unreasonable disbursements and (2) provide documentation to support the $8,748 in unsupported disbursements or reimburse the project. We also recommend that the Director require the project owner to establish a written procurement policy that follows federal procurement regulations and an adequate cost allocation plan to appropriately allocate staff time at the project. Further, we recommend that HUD pursue (1) double damages remedies against the responsible parties for the ineligible/inappropriate unsupported disbursements that were used in violation of the project's regulatory agreement and (2) civil money penalties and administrative sanctions, as appropriate, against the responsible parties for their part in the regulatory violations.

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.

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[1] See appendix A - $254,470 ($236,439 + $12,559 + $5,472) + $8,748 ($7,337 + $1,411) + $2,132.
[2] $236,439 + $18,031 ($12,559 + $5,472).

Auditee's Response

We provided the draft audit report to the project owner on July 17, 2009, and requested a response by July 31, 2009. We discussed the draft audit report at an exit conference on July 22, 2009, and received the owner's written comments on July 31, 2009. The owner generally agreed with the report findings.

The complete text of the auditee's response, along with our evaluation of that response, can be found in appendix B of this report.

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BACKGROUND AND OBJECTIVE

Casa Otonal (project) is a multifamily, 104-unit elderly housing complex located in New Haven, Connecticut. The project receives Section 8 rental assistance from the U.S. Department of Housing and Urban Development (HUD) for each of its 104 units. It is owned and managed by Casa Otonal Housing Corporation (owner). The project owner and an affiliate, Casa Otonal, Inc., share a board of directors.

In August 2007, the project owner refinanced the project under Section 207/223(f) of the National Housing Act. At that time, the project underwent a number of renovations, including replacing the roof, upgrading the heating system, installing a new security gate and fence, and replacing the front and back entry doors. Section 223(f) insures lenders against loss on mortgage defaults, facilitating the purchase or refinancing of existing multifamily rental properties. The program allows for long-term mortgages (up to 35 years) that can be financed with Government National Mortgage Association mortgage-backed securities.

In October 2008, the HUD Hartford Program Center referred the project to the Office of Inspector General (OIG) due to several referrals to the Departmental Enforcement Center for compliance findings regarding the project's audited financial statements. The compliance findings included instances of unauthorized loans/distributions that the project owner acknowledged were due from an affiliate, Casa Otonal, Inc.

Our primary audit objective was to determine whether the project owner managed and operated the project in accordance with HUD regulations and the project's regulatory agreement. Specifically, we wanted to (1) determine the extent of unauthorized distributions made while the project was in a non-surplus-cash position, (2) determine whether goods and services were properly procured, and (3) ensure that the project's cost allocation plan adequately prorated staff time and shared office space.

The issues identified in our report deal with administrative and internal control activities that we feel are necessary to bring to the project owner's attention now. Other matters regarding the owner's management may remain of interest to our office as well as other federal agencies. Release of this report does not immunize any individual or entity from future civil, criminal, or administrative liability or claim resulting from future action by HUD and/or other federal agencies.

RESULTS OF AUDIT

Finding 1: The Project Owner Made Unauthorized Loans/Distributions and Incurred Questionable Costs in Violation of its Regulatory Agreement

The project owner made unauthorized loans/distributions to an affiliate and incurred additional ineligible, unsupported, and unreasonable expenses while the project was in a non-surplus-cash position, violating HUD requirements and the project's regulatory agreement. Specifically, the owner (1) made $236,439 in unauthorized loans/distributions to an affiliate, Casa Otonal, Inc.; (2) incurred $18, 031 in ineligible and $8,748 in unsupported costs; and (3) incurred unreasonable costs totaling $2,132 for excessive cell phone charges related to minute overages and text messaging. These cost exceptions occurred due to weak internal controls and the owner's disregard of HUD regulations and regulatory agreement requirements governing the use of funds. As a result, $265,350 was diverted from the project, contributing to the project's non-surplus-cash position, and may subject the project owner to sanctions under federal equity skimming statutes.

Unauthorized Loans/ Distributions Were Made to an Affiliate

For the period July 1, 2005, through May 14, 2009, the project owner made unauthorized loans/distributions totaling $376,846 to an affiliate, Casa Otonal, Inc (corporation). The majority of these loans/distributions were for payment of the corporation's health insurance costs ($179,512), other types of insurance, various loans, and other cost allocations. During that same period, however, the corporation reduced the amount owed by $140,407 through various payments, loans, and other reclassifications, resulting in $236,439[3] being owed. These costs were not eligible project costs and must be repaid to the project because the owner's regulatory agreement with HUD clearly restricts the use of project funds to only project-related purposes and prohibits distributions while in a non-surplus-cash position.[4]

[3] See appendix A. As of May 14, 2009, the corporation owed the project a net amount of $236,439 ($376,846 – $140,407).

[4] Regulatory Agreement for Multifamily Housing Projects, Form HUD-92466, approved on August 29, 2007 (current), and Regulatory Agreement Housing for the Elderly – Nonprofit, FHA [Federal Housing Administration] Form 2466-EH, approved on December 7, 1984.

The Owner Was Notified Regarding Unauthorized Distributions

In July 2008, the project owner was notified by HUD's Departmental Enforcement Center of the compliance findings related to its audited financial statements. The project's executive director responded to the compliance findings on September 23, 2008, and with respect to compliance findings 4 (unauthorized loan from project funds) and 5 (unauthorized distribution of funds), she acknowledged that the two findings dealt with incorrectly prorating insurance bills and staff time between the project and the corporation. The executive director went on to say that the project was taking steps to ensure that this problem did not occur again and that she was aware that project funds may only be used for project-related expenses. She further stated that the project's business manager would review all such charges to ensure compliance with HUD requirements in the future.

Despite these assurances, the project owner continued making unauthorized loans/distributions to the corporation throughout our audit engagement, although the owner was again reminded by OIG that these unauthorized loans/distributions were in violation of the project's regulatory agreement. The executive director did not explain why the project continued to pay for costs of the corporation and offered no plan for eliminating future unauthorized distributions other than to say that she would need to think about it and that the corporation might need to take out a line of credit.

Ineligible and Unsupported Costs Were Charged to the Project

In addition to the unauthorized loans/distributions, the project owner did not always obtain goods and services for the project that were eligible and/or supported. A review of all available credit card statements and cell phone bills between January 2007 and approximately April/May 2009, identified $26,779[5] in ineligible and unsupported costs charged to the project that included credit card activity for multiple related projects and cell phone charges for nonproject employees, former employees, and/or cell phone equipment for which we could not establish for whom the equipment was purchased.

[5] See appendix A.

Type of charge	Ineligible	Unsupported	Total
Credit card charges	$12,559	$7,337	$19,896
Cell phone charges	$5,472	$1,411	$6,883
Total	**$18,031**	**$8,748**	**$26,779**

The project used four primary credit cards to purchase various goods and services for the project, the corporation, and at least two other related projects: Casa Familia, a related project located adjacent to the project, and Casa Latina, another related project. The purchases for all entities were commingled on the project's credit cards. Without proper internal controls to ensure that the project only purchased project-related goods and services, payments for non-project-related goods were routinely made. In instances in which the supporting invoice/purchase order clearly identified a nonproject entity as the recipient, we classified these expenses as ineligible ($12,559). In instances in which the invoice/purchase order did not identify the recipient or intended recipient, we classified these purchases as unsupported ($7,337).

Additionally, a review of all cell phone bills between January 13, 2007, and May 12, 2009, identified a total of 12 different cell phones in use, three of which were assigned and used by nonproject employees. We further indentified cell phone charges for the cell phone of a former employee that was still being charged to the project eight months after termination of her employment, although the whereabouts of the cell phone was unknown. We questioned these charges as ineligible project expenses ($5,472). Lastly, we identified cell phone equipment purchases for which the documentation available was not sufficient to determine who used the equipment. Therefore, we classified these costs as unsupported ($1,411).

Unreasonable Costs Were Charged to the Project

We identified unreasonable and unnecessary cell phone costs totaling $2,132. Although these costs were associated with employees of the project, the costs were unnecessary and unreasonable because they were for minute overages and text messaging, in some cases for hundreds of dollars more than the typical monthly charge according to the cell phone contract. Although we recognize that the use of cell phones may facilitate the project's operations and make them more efficient, the project is not responsible for paying the costs associated with personal calls and/or text messaging. The executive director stated that she would seek reimbursement for these charges.

Security Costs Appear to Be Excessive

Although proper procurement procedures were not followed, our review of the project's 48 goods/services procurements (see finding 2) disclosed that a majority appeared reasonable or necessary with the exception of the security provided to the project. During the period July 1, 2005, through April 8, 2009, the project expended $356,773, including more than $100,000 in two of the years reviewed. For a 104-unit, five-story building, that cost appeared excessive. However, the executive director stated that as of December 2008, the project reduced the number of hours during which security was provided and, based on those revised hours, we estimate a savings of approximately $26,000 per year. Nonetheless, the project owner should evaluate the need and extent of security required because recent renovations to the project included a rear parking lot entry that is enclosed by an iron gate with coded access and a front building entry that is locked after dark and is only accessible with a key.

Conclusion

The project owner did not always use project funds in accordance with HUD regulations or the regulatory agreement. We identified questioned costs totaling $265,350 while the project was in a non-surplus-cash position, including unauthorized loans/distributions to an affiliate, ineligible and unsupported costs for the purchase of goods and services for related projects, and unreasonable costs associated with the misuse of cell phones by project employees. These cost exceptions occurred due to weak internal controls. Also, the owner's disregard of HUD regulations and regulatory agreement requirements governing the use of funds may lead to sanctions under federal equity skimming statutes.

Recommendations

We recommend that the Director of the Office of Multifamily Housing, Boston hub, require the project owner to

1A. Deposit $254,470 for the ineligible disbursements[6] cited in this report into the project's reserve for replacement or a restricted capital account that requires HUD approval for the release of the funds.

1B. Deposit $2,132 for the unreasonable/unnecessary disbursements cited in this report into the project's reserve for replacement or a restricted capital account

[6] $236,439 + $12,559 + $5,472.

that requires HUD approval for the release of the funds.

1C. Provide documentation to support the $8,748 in unsupported disbursements[7] cited in this report or reimburse the project's reserve for replacement or restricted capital account that requires HUD approval for the release of the funds for the applicable portion.

1D. Develop procedures to ensure that only project-related goods and services are acquired with project funds.

1E. Evaluate the need and extent of security required given the recent renovations to the project, and and submit documentation to HUD showing that the service was properly procured.

1F. Implement procedures and controls to ensure that future disbursements for project expenses comply with the regulatory agreement and HUD's requirements.

We also recommend that the Director

1G. Evaluate the project owner's capacity to effectively manage the project as an owner/management agent and consider the need for professional management services.

We recommend that HUD's Regional Counsel, in coordination with the Director of the Office of Multifamily Housing, Boston hub, and HUD's Office of Inspector General,

1H. Pursue double damages remedies against the responsible parties for the ineligible/inappropriate and applicable portion of the unsupported disbursements that were used in violation of the project's regulatory agreement.

We recommend that the Director of HUD's Departmental Enforcement Center

1I. Pursue civil money penalties and administrative sanctions, as appropriate, against the owner, operator, and/or their principals/owners for their part in the regulatory violations cited in this report.

[7] $7,337 + $1,411.

RESULTS OF AUDIT

Finding 2: The Project Owner Did Not Follow Proper Procurement Procedures When Acquiring Goods and Services

The project owner did not follow proper procurement procedures when acquiring goods and services. This condition occurred due to the lack of written policies and procedures regarding procurement and the absence of

- A contract log,
- Contracts and/or purchase orders available for review, and
- Related bidding and source selection evaluation documents.

Therefore, HUD had no assurance that contracted services were properly bid, resulted in adequate competition, or resulted in reasonable costs to the project.

The Project Owner Did Not Follow HUD Procurement Regulations

The project owner failed to ensure that proper procurement procedures were followed when contracting for goods and services. The project lacked written policies and procedures governing the purchase of goods and services, a contract log identifying the services contracted for, and the majority of contracts and related bidding and evaluation documents that would normally be associated with contracted services. In accordance with HUD requirements, when contracting for goods and services, written cost estimates from at least three sources must be solicited for any contract or ongoing supply or service expected to exceed $10,000 per year or the threshold established by the local HUD office with jurisdiction over the project.[8]

For the period July 1, 2005, through April 8, 2009, we identified 48 goods/services procurements that required written cost estimates. As illustrated in the table below, in the majority of instances, the owner failed to maintain the bidding/evaluation documents or the applicable contract.

[8] The HUD Hartford Multifamily Program Center established a threshold of $5,000.

Period	Number of contracts	Bidding and evaluation documents provided	Contract/agreement provided
July 1, 2005, to June 30, 2006	11	0	4
July 1, 2006, to June 30, 2007	11	0	4
July 1, 2007, to June 30, 2008	13	0	5
July 1, 2008, to Apr. 8, 2009	13	1	3

Although proper procurement procedures were not followed, our review of the project's 48 goods/services procurements disclosed that a majority appeared reasonable or necessary with the exception of the security provided to the project (see finding 1). Our review of the goods/services procurements also disclosed that invoices were maintained on site, supporting the costs charged to the project. However, without conducting a complete analysis of similar goods/services offered in the area, we could not be certain whether the project received the goods/services at the best possible price.

The Executive Director Expressed Skepticism about the Bidding Process

After repeated requests during our audit, the project's executive director eventually provided a two-page memorandum detailing how goods and services were procured. The memorandum, however, was informal, was not very descriptive, and lacked clear direction regarding how goods and services were to be procured and who had the applicable authority. More importantly, within the memorandum, the executive director essentially admitted that federal procurement regulations were not followed, including stating that she had "professional skepticism" about bidding, that bidding was quite expensive and too often failed to ensure the best quality of product or work, and that she found it more efficient and effective to do what she referred to as "comparison shopping."

Conclusion

The project owner did not follow proper procurement procedures due to a lack of written policies and procedures and did not have a contract log, contracts or purchase orders, or related bidding or source selection evaluation documents available for review to support project procurements. As a result, HUD had no assurance that contracted services were properly bid, resulted in adequate competition, or resulted in reasonable costs to the project.

Recommendations

We recommend that the Director of the Office of Multifamily Housing, Boston hub, require the project owner to

2A. Establish a written procurement policy that follows federal procurement regulations and provide training to its staff regarding the new policy.

2B. Evaluate existing services provided to the project and submit documentation to HUD showing that the service was properly procured and, if not, establish a timeframe for reprocuring the applicable service.

RESULTS OF AUDIT

Finding 3: The Project Owner Did Not Establish an Adequate System for Allocating Staff Costs

The project owner did not establish a formal cost allocation plan to appropriately allocate the time spent by the executive director and the business manager on nonproject activities. This condition occurred because the executive director did not believe that a formal allocation plan was required, considering the amount of office space used by nonproject employees and that only her and the business manager worked on nonproject activities. Instead, an arbitrary allocation rate with no documented basis was set each year. As a result, the project incurred and may continue incurring costs that should be allocated to other entities.

An Allocation Plan Was Not Established Despite the Advice of an Independent Public Accountant

The project owner did not develop a formal written cost allocation plan to appropriately allocate the time spent by staff on nonproject activities despite being informed by its independent public accounting firm that one was needed. As part of the audited financial statements for the fiscal year ending June 30, 2005, the project owner received a recommendation that it assess all costs shared and document proper allocations based on actual time spent and space used. The executive director stated that she did not recall responding to that recommendation and indicated that the project owner had begun informally allocating staff time.

The Allocation Lacked Basis or Support

At the onset of our audit, we were informed by the executive director that 90 percent of her and the business manager's time was allocated to the project. She went on to say that the percentage allocated over the years had varied depending on workload. Nonetheless, she was unable to show how the allocation was determined and could not provide documentation to support its basis.

Regardless, we reviewed the total dollar amount allocated for the fiscal years ending June 30, 2007, and June 30, 2008. We learned that both the executive director and business manager had 11 percent of their wages and benefits allocated to an affiliate, Casa Otonal, Inc., for the fiscal year ending June 30, 2007. For the year ending June 30, 2008, however, those percentages decreased to 5 percent for the executive director and 7.5 percent for the business manager. Although some charges were allocated, it was difficult to determine whether those amounts were actually allocated to the corporation as there were a number of entries and reclassifications.[9] However, there was no clear basis for the allocation to support the costs charged.

Two nonproject employees and the Hospital of Saint Raphael used office space at the project's location. The space used was minimal and appeared to directly benefit the residents.

Conclusion

The project owner did not prepare a formal written cost allocation plan to appropriately allocate costs for staff time spent on nonproject activity or the use of office space by nonproject personnel. A formal allocation plan was not developed because the executive director did not believe one was required, given the small amount of office space used by nonproject employees and that only her and the business manager worked on nonproject activities. As a result, the project incurred and may continue incurring costs that should be allocated to other entities.

Recommendations

We recommend that the Director of the Office of Multifamily Housing, Boston hub, require the project owner to

3A. Establish an adequate cost allocation plan to appropriately allocate staff time and office space at the project.

[9] Our review of unauthorized loans/distributions disclosed that the some amounts were allocated to the corporation by the project over the years, but with the number of transactions and reclassifications, it was difficult to determine the exact amount, and it was not worth the time required to pursue further as the amount questioned was appropriate (see finding 1).

SCOPE AND METHODOLOGY

Our audit generally covered the period July 1, 2005, through June 30, 2008, but was expanded when necessary. We conducted our fieldwork between December 2008 and June 2009. We carried out our audit work at the project's location in New Haven, Connecticut, and the local HUD Hartford field office in Connecticut.

To accomplish our audit objective, we

- Reviewed federal laws and multifamily housing regulations to determine applicable HUD requirements governing the operation of the Casa Otonal project. Reviewed the owners' regulatory agreement with HUD and the project management files at the local HUD field office for applicable HUD requirements.
- Obtained an understanding of the project owner's corporate structure and reviewed the organizational chart, identifying lines of authority and functional control of staff as it relates to the project.
- Reviewed the available audited financial statements for our audit period to determine management and internal control weaknesses and reportable conditions identified previous to our audit.
- Reviewed and evaluated financial and operational controls identified through an internal control questionnaire and interviews regarding procedures applicable to our audit period.
- Reviewed project accounting records for the audit period to determine the extent the project owner made unauthorized distributions (loans or transfers) to related parties (individuals, related projects, or other businesses) while the project was in a non-surplus-cash position.
- Evaluated the project's procurement practices for the period July 1, 2005, through April 8, 2009, by selecting for review 48 goods/services procurements. In addition, we evaluated whether the project owner obtained only goods and services that were reasonable and necessary for the project and whether costs were adequately supported.
- Determined whether the project owner/management agent followed proper procurement procedures.
- Reviewed the accounting records for the audit period to evaluate whether the auditee had a formal system for allocating salaries and costs among related companies/projects.

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. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

INTERNAL CONTROLS

Internal control is an integral component of an organization's management that provides reasonable assurance that the following controls are achieved.

- Program operations,
- Relevance and reliability of information,
- Compliance with applicable laws and regulations, and
- Safeguarding of assets and resources.

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

Relevant Internal Controls

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

- Use of project funds.
- Ensuring that project costs are eligible, supportable, necessary, and reasonable.
- Procurement of goods and services.
- Proper allocation of staff time and office space.

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 that the following items are significant weaknesses:

- The project owner did not have adequate procedures for use of funds to ensure that distributions were made only when the project was in a surplus-cash position (see finding 1).

- The project owner did not have adequate procedures to ensure that resources were properly safeguarded when it charged ineligible, unsupported, and unreasonable expenditures to the project (see finding 1).

- The project owner did not establish adequate procedures to ensure that goods and services were properly procured (see finding 2).

- The project owner did not establish and adequate system for allocating staff time spent on nonproject activities (see finding 3).

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS

Recommendation number	Ineligible 1/	Unsupported 2/	Unreasonable or unnecessary 3/
1A	$254,470		
1B			$2,132
1C		$8,748	

1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or federal, state, or local policies or regulations.

2/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.

3/ 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.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation | **Auditee Comments**

CASA OTOÑAL

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July 29, 2009

Mr. John A. Dvorak
U.S. Department of Housing and Urban Development
Office of Inspector General for Audit, Region I
Thomas P. O'Neill Jr. Federal Building
10 Causeway Street, Room 370
Boston, Massachusetts 02222-1092

Dear Mr. Dvorak:

This letter is in response to the draft audit report issued by your department concerning the Casa Otoñal Housing project in New Haven, CT., dated July 17, 2009. Our response is based on the written report as well as the exit conference held on our premises on July 22, 2009.

Comment 1

Casa Otoñal, Project Number 017-11101, located at 135 Sylvan Avenue, New Haven, Connecticut, hereinafter called "the Project" is owned and operated by Casa Otoñal Housing Corporation, a non-stock, non-profit corporation organized under the laws of the State of Connecticut, herein after called "the Owner". It is a single asset entity which was created for the purpose of owning and operating the Project and represents the culmination of efforts by many people but mostly by Casa Otoñal, Inc., a non-stock, non-profit corporation organized under the laws of the State of Connecticut, hereinafter called "the Corporation," which has broader goals and objectives than those of the Project and the Owner. The Corporation does not have any formal connection or control over the Owner as is demonstrated by the certificate of incorporation of the Owner, a copy of which is attached. The Owner and the Corporation share the same board members and in this sense are related organizations.

Comment 2

Before responding in detail to the full report, we wish to inform you that as a gesture of good faith and as a demonstration of our determination to remedy the findings of the audit, we have instructed the Executive Director to deposit the $2,132.00 in unsupported disbursements into the Casa Otoñal Corporation Replacement Reserve account no later than August 21, 2009 unless otherwise instructed by HUD.

Regarding Finding I: Unauthorized Loans/Distributions were made to the affiliate.

Comment 3

We have instructed the Executive Director that there must be an immediate cessation of inter-company loans or disbursements. Nevertheless, we wish to note that any and all loans and disbursements were used to operate programs and provide services that benefit the neighborhood in which we are located. These include affordable housing for families at Casa Familia, after-school and summer programs for elementary and middle school children, case management to numerous needy families in our vicinity as well as valuable

MISSION *The mission of Casa Otoñal is to create a community that functions as an extended family providing a range of housing, soci[al,] educational & cultural services to elders, families and children, with a focus on strengthening the Hispanic community.*

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation	**Auditee Comments**

Casa Otoñal response to HUD-OIG draft audit

job training and career advancement opportunities to low income individuals throughout New Haven. While we understand, that HUD-OIG is not concerned with the value nor the nature of the services involved, we feel that it is important to note that all the loans and/or disbursements were aimed at building a better community.

The owner was notified Regarding Unauthorized Distributions.

Comment 4

In reference to the second paragraph on page 7 of your report, we wish to clarify from our perspective some of the statements made therein. Ms. McCann received a request to meet with Mr. Hebert, the OIG auditor via email while he was on the premises. She interpreted that email as a courtesy and not as an announcement of a formal meeting for which she needed to prepare and have ready an action plan. At that same meeting in May, 2009, the OIG auditor informed the Executive Director that disbursements were continuing to be paid on behalf of the other entity. Once informed of the continuing practice, Ms. McCann immediately instructed the business manager to stop all such disbursements; hence, since then no further disbursements have been made. Furthermore, please note that in September, 2008 the Executive Director verbally instructed the business manager to cease all loans/disbursements to the other entity. Shortly thereafter, Ms. McCann began to have a serious family problem that culminated in her having to take a five (5) week family leave starting in February, 2009 through early March, 2009, this unfortunately delayed her giving the business manager written instructions and resulted in her not providing sufficient oversight. We intend to take steps to insure oversight by the Owner particularly should the Executive Director be absent for any period of time in the future.

Ineligible and unsupported costs were charged to the project

Comment 5

Action has already taken place regarding the inappropriate use of a project cell phone by our employee, Julio Cirino. Upon being notified by the business manager of Mr. Cirino's misuse of the cell phone, the Executive Director immediately gave Mr. Cirino a memorandum, a copy of which is attached, demanding he reimburse the project in the amount of $ 833.00 no later than July 3, 2009 and failure to do so would result in immediate termination. (Enclosed are copies of Mr. Cirino's paystubs that show direct deductions from his pay.) The Executive Director has been instructed to continue to look through the organization's files and records in order to provide other supportive documentation that demonstrates that many of the alleged ineligible and supported costs were appropriate.

Security Costs appear to be excessive

Comment 6

Regarding the security costs appearing to be excessive, the Executive Director has been instructed to implement further cost reductions beyond those already taken earlier in the fiscal year. To that end, she has written to two (2) reputable security companies that have expressed an interest in providing said service, as well as the one currently providing that service. As you can see from the enclosed copy, she has requested from them a final best offer of an hourly rate based on an additional reduction in hours from the present schedule as well as suggestions and or proposals of other methods than would result in reduced

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation	Auditee Comments

Casa Otoñal response to HUD-OIG draft audit

costs. She has also been instructed to evaluate and assess any changes after a two month period with the objective of further reducing the cost by refining the changes up to including the possibility of eliminating security services entirely.

Regarding Finding 2: The Project Owner Did Not Follow Proper Procurement Procedures When Acquiring Goods and Services

Recommendation 2A (Establish a written procurement policy that follows federal procurement regulations and provide training to its staff regarding the new policy)

Comment 6

The Owner accepts the recommendation of the auditors and shall direct the Executive Director and legal counsel to prepare written procurement policies that comply with applicable federal regulations and proposed staff training on those policies for review and adoption by the Owner no later than September 30, 2009.

Recommendation 2B (Evaluate existing services provided to the project and submit documentation to HUD showing that the service was properly procured and, if not, establish a timeframe for reproducing the applicable service)

Comment 6

The Owner accepts the recommendation of the auditors and shall direct the Executive Director to prepare a list of the existing services and for each such service to indicate if the service was procured in accordance with federal procurement regulations by indicating how the service was procured and if not properly procured, to indicate on said list when the service contract ends or can be legally terminated so that the service can be re-procured in accordance the Owner's procurement policies to be adopted by no later than September 30, 2009.

Regarding Finding 3: The Project Owner Did Not Establish an Adequate System for Allocating Staff Costs

Allocation of Staff Costs

Comment 7

The Executive Director has occupied that position for 16 years. During that time, she has managed the Casa Otoñal building and directed the programs of Corporation. While there is no documented basis for a cost allocation of the time that she and the business manager spent on non-project activities, the informal allocation which the Executive Director has made is not arbitrary but is based on her experience over those 16 years of managing the Casa Otoñal building and the Corporations' programs and as such represents a good faith effort to allocate those costs.

The Owner recognizes that a written allocation plan of staff costs for the Executive Director and business manager best serves the interests of the Owner and the Corporation. The

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation	**Auditee Comments**

Casa Otoñal response to HUD-OIG draft audit

Owner also recognizes that the time demanded of project activities and non-project activities varies over time.

The Owner proposes that the Owner engage a consultant who would track the time of the Executive Director and the business manager and offer suggestions as to a time allocation with a methodology so that actual time would be allocated on a periodic basis (weekly, monthly, or quarterly) which reaches a balance between administrative necessities and accomplishing a time allocation.

Allocation Of Office Space

Comment 8

The Auditor's report indicates that two non-project employees and the Hospital of Saint Raphael used office space at the project location. The space which the auditor designated as "office space" is or was designed as "closet space" in the original building plans and do not take away from the project's intended uses nor impact rent revenues. The space used by the Hospital of Saint Raphael is a primary care clinic operated one day a week solely for the residents of Casa Otoñal. The other "closet space" is used by the Social Service & Support Service Case Worker of the Corporation whose time is 100% dedicated to the residents at Casa Otoñal without cost to the residents and to assist them with their entitlement issues, translation issues, appointment issues with providers, coordination of services, operation of resident support groups, and overseeing the nightly Tuck-In Program which drastically reduces injuries to residents with "sun-downer's symptoms." Typically, these would be services for which the project would have to pay or would be considered an in-kind contribution. The Owner's position is that there should be no need to allocate the use of these spaces so long as the uses of these closet spaces go solely for the benefit of the residents at Casa Otoñal.

On behalf of the Casa Otoñal housing Corporation Board of Directors, we appreciate this opportunity to respond to your findings and hope to be able to continue to work together with HUD to resolve these issues.

Should you have any questions, please feel free to contact me.

Sincerely yours,

Alicia Caraballo

Alicia Caraballo,
President

OIG Evaluation of Auditee Comments

Comment 1 The report was amended to refer to the Casa Otonal Housing Corporation (project) and Casa Otonal, Inc. (corporation) as affiliates of the project, since they are two separate and distinct entities and no parental relationship exists.

Comment 2 HUD will need to review any corrective action/implementation with respect to the recommendations of this report. It should be noted that recommendation 1B incorrectly referred to the $2,132 as unsupported disbursements. The amount was correctly referred to as unreasonable /unnecessary in appendix A, and the wording to recommendation 1B was corrected to reflect this also.

Comment 3 We disagree that all loans and disbursements were used to operate programs and provide services, since a large portion of the disbursements went directly toward paying the health insurance costs of an affiliate, Casa Otonal, Inc. In addition, the regulatory agreement governs the operations of the project and any loan or disbursement made while the project was in a non-surplus cash position was a violation of the regulatory agreement.

Comment 4 It is unclear what the owners are trying to clarify with their comments. The owners were initially notified of the compliance findings in July 2008 and at numerous times subsequent to that during our audit engagement, including the May 2009 meeting referred to. We cannot confirm that the executive director verbally instructed the business manager to cease all loans/disbursements to its affiliate in September 2008. Regardless, the practice continued until at least May 14, 2009. Also, we are not aware of or were not given any written instructions that were supposedly provided to the business manager. We agree that the owners should take steps to ensure proper oversight should the executive director be absent for any period of time in the future. The statements made in the report are factually correct based on the evidence gathered during the audit.

Comment 5 The owner’s efforts only address one instance of inappropriate cell phone use by one of their employees. The comments did not address the ineligible and unsupported cell phone costs related to nonproject employees, a former employee, or the misuse of cell phones by other employees. HUD will need to review any corrective action/implementation with respect to the recommendations of this report.

Comment 6 HUD will need to review any corrective action/implementation with respect to the recommendations of this report.

Comment 7 As stated in the report, there is no documented basis for a cost allocation of the time the director and the business manager spent on nonproject activities. Without such a documented basis, the allocation established was arbitrary in nature. HUD will need to review any corrective action/implementation with respect to the recommendations of this report.

Comment 8 Although, the office space used was minimal and appeared to directly benefit the residents of the project, HUD will need to review the practice of providing cost free space to non- project employees and make a determination of whether to require a cost allocation in this instance or any space provided in the future. HUD will also need to review any corrective action/implementation with respect to the cost allocation plan to appropriately allocate staff time.