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UNITED STATES GENERAL ACCOUNTING OFFICE  
WASHINGTON, D.C. 20548



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Community  
RESOURCES AND ECONOMIC  
DEVELOPMENT DIVISION

JUN 7 1976

The Honorable James L. Young  
Assistant Secretary for  
Housing Management  
Department of Housing and  
Urban Development

Dear Mr. Young:

The General Accounting Office recently completed a review of certain operations of the Department-subsidized Sheridan Manor and Hanover Village housing projects in the Wilkes-Barre, Pennsylvania, area. Sheridan Manor is a section 236 project and Hanover Village is a section 221(d)(3) project.

This review was made at the request of Congressman Daniel J. Flood and included identifying and verifying the validity of reasons for increases in operating costs which resulted in requests for rental increases at the two projects. Copies of our report to Congressman Flood on the results of this review (RED-76-88 dated April 8, 1976) were sent to you as well as other Department officials. We noted the following additional matter during our review which we believe warrants your attention. Because this matter did not directly pertain to Congressman Flood's interests in the projects, it was not included in the report sent to him.

Recent computations supporting rental increases at Sheridan Manor and Hanover Village included allowances for decorating, repairs, and ground expenses. For Sheridan Manor, \$11,144 was allowed by the Department in the computation for a July 1, 1975, rental increase. A similar allowance of \$11,144 was included in a computation leading up to a September 1, 1973, rental increase. For Hanover Village, a \$3,500 decorating allowance was included by the Department in the computation supporting an August 1, 1975, rental increase. In an earlier computation supporting an August 1, 1974, rental increase, \$769 had been allowed, which was the actual decorating expense incurred during the prior year.

We discussed the decorating, repairs, and ground expenses allowance with Department headquarters and Philadelphia Area Office officials who advised us that it is needed to insure that projects

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such as Sheridan Manor and Hanover Village accumulate funds to meet additional maintenance expenses that occur when projects get older. We were further advised that the Department does not require that projects establish reserve accounts to preclude the use of funds generated by the allowance for other purposes so that they are available when they are actually needed.

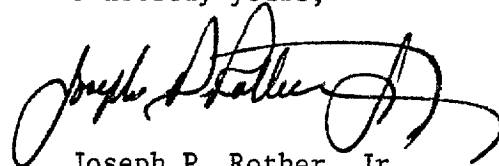
In this regard, we found that funds generated by the allowance at Sheridan Manor and Hanover Village were commingled with other funds and had lost their intended identity. Consequently, we were unable to determine for the two projects whether these funds were spent for the purposes intended or whether the balances of any funds were held in reserve.

We believe that there is a need for the Department to require projects to establish controls over funds generated by maintenance allowances. Such controls would help insure that these funds are not spent for purposes other than those for which they were intended and that they are available for future maintenance expenses.

Accordingly, we recommend that you require each subsidized multifamily project to establish, as a part of its accounting system, a reserve account to protect the integrity of the funds generated by the allowance. The funds in such a reserve account should be accumulated over the years from the allowance provided in computing rental rates and should only be used for contemplated expenses as they are incurred.

We would be pleased to discuss with you or members of your staff the above matter and would appreciate your comments on any actions taken or planned. Copies of this letter are being provided to the Inspector General.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "Joseph P. Rother, Jr.", written in dark ink.

Joseph P. Rother, Jr.  
Assistant Director