



U.S. Department of Housing and Urban Development
Office of Inspector General

Pacific/Hawaii District
450 Golden Gate Avenue, Box 36003
San Francisco, California 94102-3448

Audit Memorandum
2001-SF-1802

February 8, 2001

MEMORANDUM FOR: Jerome Champion
Director, Los Angeles Multifamily Housing HUB, 9AHM

FROM: "SIGNED"
Mimi Y. Lee
District Inspector General for Audit, 9AGA

SUBJECT: Audit of HUD Earthquake Loan Program (HELP) Funds
Fountain Park Cooperative, Inc. (Project No. 122-92004)
Woodland Hills, California

INTRODUCTION

In response to a citizen's complaint, we completed an audit of Fountain Park Cooperative, Inc.'s (FPC) use of HUD Earthquake Loan Program (HELP) funds. The complainant generally alleged FPC improperly spent HELP funds for earthquake repairs that were either not completed as claimed, or were completed in an unsatisfactory manner. The purpose of our audit was to determine whether the complainant's concerns had merit, and also to determine whether FPC's receipt and expenditure of HELP funds complied with the Financial Assistance Contract with HUD.

SUMMARY

At the time of our audit, the Los Angeles Multifamily HUB also conducted a management review and physical inspections of FPC's dwelling units to determine whether repairs were either actually made or completed satisfactorily. Since the HUB was already addressing the issue concerning the repairs, we excluded this portion in our audit scope. Instead, we reviewed other areas relating to FPC's receipt and expenditure of HELP and other earthquake-related funding sources to determine FPC's compliance with the Financial Assistance Contract (FAC). Contrary to the provisions of the FAC, FPC did not use \$55,524 that shareholders also received from other sources to pay for the same repair items also funded by HUD.

We discussed the results of our review with FPC officials during the audit and at a January 31, 2001 exit conference. On January 8, 2001, we provided a copy of our draft report to FPC for their review and comment and received their response on January 24, 2001. FPC generally disagreed with the

finding and the recommendations. We considered FPC's comments and made revisions where appropriate. The response and our evaluation are discussed in the finding and the full text of their response is included as Appendix B.

BACKGROUND

HUD Earthquake Loan Program (HELP)

On February 10, 1994, former President Clinton signed into law the Emergency Supplemental Appropriations Act of 1994 to provide relief to the victims of the January 1994 Northridge earthquake. Chapter 7 of this Act provided \$100 million in Flexible Subsidy Loans to help HUD-assisted multifamily projects to recover from damages caused by the earthquake, which HUD administered through its HELP.

Project owners seeking HELP funding were required to submit a Management Improvement and Operating (MIO) Plan to HUD which identified the extent of the earthquake-related damages and estimated repair costs, other sources of funds expected to be received for earthquake damages, and all expenses incurred for which reimbursement was being sought. The Financial Assistance Contract (FAC) between HUD and the project owner required funds received from other sources be placed into the project's bank account and used first for approved costs and/or repairs under the MIO plan, and any excess funds shall be used to prepay the HELP loan.

Fountain Park Cooperative (FPC)

FPC consists of 221 dwelling units (51 townhouses and 170 garden apartments) located in Woodland Hills, California. FPC is insured under Section 213 of the National Housing Act, which enables non-profit cooperative ownership housing corporations or trusts to develop or sponsor housing projects operated as cooperatives. The Beaumont Company managed FPC operations during our audit.

On March 11, 1997, HUD approved a \$1,789,342 HELP loan for earthquake repairs. In addition, FPC also received \$2,701,088 in earthquake insurance proceeds and related interest income. In total, FPC received funding of \$4,490,430 for earthquake-related repairs and other approved costs.

In August 1999, we received a citizen's complaint alleging FPC spent funds for earthquake repairs that were either not completed as claimed, or performed in an unsatisfactory manner. At the time of our audit, the Los Angeles Multifamily HUB also performed a management review of FPC operations and conducted physical inspections of 95 of 221 units to determine whether earthquake-related repairs had been completed in accordance with the MIO Plan. The Los Angeles Multifamily HUB issued a June 16, 2000 Management Report. Resolution to the issues contained in that report was still pending at the issuance of this audit memorandum.

OBJECTIVE, SCOPE AND METHODOLOGY

The overall objective of our audit was to determine whether FPC's receipt and expenditures of HELP funds were in compliance with the Financial Assistance Contract. To accomplish our objective, we interviewed appropriate HUD and management agent staff and FPC shareholders and board members.

We also reviewed earthquake-related funding records from HUD, FPC, Federal Emergency Management Agency (FEMA), State of California Individual and Family Grant Program (IFGP), and U.S. Small Business Administration (SBA).

The audit generally covered the period from January 17, 1994 through September 30, 1999. We conducted the audit in accordance with generally accepted government auditing standards.

REVIEW RESULTS

Finding - FPC Did Not Reduce Its HELP Loan For \$55,524 Received From Other Sources

Contrary to the provisions of the FAC, FPC did not reduce its HELP loan for \$55,524 that shareholders also received from other sources for earthquake-related damages. Specifically, some of FPC's shareholders obtained funding from FEMA, IFGP, and SBA which duplicated repair items paid with HELP funds. As a result, HUD provided more HELP funds than was necessary to restore the project to its pre-earthquake condition.

In the Rider to the FAC between HUD and FPC, Item 9 states all funds received by the Housing Owner on account of earthquake-related damage, including but not limited to insurance proceeds, tax refunds or rebates, and assistance from other government agencies, shall be placed into the project account and used first for approved costs and/or repairs under the MIO Plan, and where funds remain after payment of such costs or repairs, shall be used to repay the Flexible Subsidy Loan.

After the Northridge earthquake, FPC shareholders obtained loans and grants totaling \$404,619 from FEMA (\$142,379), IFGP (\$27,840), and SBA (\$234,400) for temporary living expenses, repair and replacement of personal property, and repair of damages to property units. However, our analysis showed \$55,524 (See Appendix A - Schedule of Units That Received Duplicate Funding) of those amounts was for repair items also being funded by HELP funds. Details of the repair items and the duplicate funding received are shown in the table below:

MIO Plan Repair Item	Duplicate Funding Source ¹		
	FEMA/IFGP	SBA	Total
94-1: Emergency repairs	\$10,382	\$480	\$10,862
94-8: Remove & replace sheetrock in unit walls	3,878	0	3,878
94-10: Drywall repair	11,656	0	11,656
94-14: Remove & reinstall toilets	1,570	0	1,570
94-26: Paint walls	22,812	2,334	25,146
94-27: Paint ceilings	0	700	700
94-33: Spray acoustic ceilings	0	630	630
94-39: Remove & replace fireplace bricks	125	0	125
94-44: Repair hot water heater	700	0	700
94-49: Re-nail sub floor	258	0	258
Total	\$51,380	\$4,144	\$55,524

¹ Any differences are due to rounding.

Before HUD disbursed any of the HELP funds to FPC, some of its shareholders applied for and received duplicate funding of \$55,524 from other sources for earthquake-related damages also included in the approved MIO Plan. In some cases, the shareholders already made the repairs. FPC, however, did not determine which shareholders had received additional funding and the extent of any repairs they may have already completed. Instead, it requested and received all HELP monies from HUD, including those amounts earmarked for repairs the shareholders had already received funding for from other sources. FPC then entered into a contract with a contractor, Western Builders Group, to repair the items approved under the MIO Plan, including those already been funded from other sources the shareholders already received.

The contractor could not provide us with a breakdown of repairs it completed on a unit-by-unit basis. Therefore, we could not determine whether the contractor or the shareholders made the repairs, or if any of the repairs were made at all. We interviewed and obtained documentation from some of the shareholders. The shareholders informed us some made the repairs, but others used the money for repairs other than those approved under the MIO Plan or living expenses. Our review of the contractor's repair contract showed FPC did not prepare work specifications on a unit-by-unit basis; therefore, it was difficult to identify which repair items were completed or not and if so, by whom.

In our opinion, insufficient program knowledge and inattention to details caused the problem to occur. Neither FPC nor the contractor prepared work specifications on a unit-by-unit basis. As a result, FPC was unable to determine which shareholders received duplicate funding for line items already included in the approved MIO Plan funded by HELP. In addition, the former president told us she was unaware of the provision in the FAC requiring the use of funds from other sources first, before using HELP funds. Therefore, she was unable to anticipate which repair items or dwelling units should have been excluded from any repair work FPC agreed to be performed by the contractor.

AUDITEE COMMENTS

In its written response, FPC claimed shareholders that received funds did not duplicate the repairs paid with HELP funds because the funds received were either for personal items, or were for repairs not included in Western Builders' repair contract. FPC cited three examples to support its claim.

FPC also disagreed with the recommendations because it may be difficult to collect the duplicate payments due to changes in ownership of the units and doubt whether the shareholders could be held liable.

OIG EVALUATION OF AUDITEE COMMENTS

As discussed in the finding, we obtained documentation directly from FEMA, IFGP and SBA showing FPC shareholders received loans and grants totaling \$404,619. Our analysis of repair items paid by these other agencies and HUD showed \$55,524 of the \$404,619 was also paid with HELP funds. We did not question the remaining \$349,095 the shareholders received for personal items or for repairs reimbursed from insurance proceeds.

Contrary to FPC's claim, the three examples cited in its response clearly showed duplicate funding for repair work items paid by HUD and other agencies. First, FPC claimed one shareholder (Item 97) received FEMA funds of \$5,060 of which \$1,200 was for window repairs and \$50 for water heater repairs. HUD also provided HELP funds for these repairs.

Second, FPC claimed a shareholder (Item 45) was not eligible for FEMA funds and did not make any repairs. The documentation we obtained directly from FEMA, however, showed the shareholder received \$826. A portion of this amount was designated for the same repair items also paid with HELP funds.

Third, FPC claimed another shareholder (Item 57) repaired cracks with funds received from FEMA but the cracks needed more repairs. Documentation we received from FEMA showed the shareholder received \$4,299 and \$1,224 of this amount was for sheet rock repair, painting, water heater, and duct repairs. The MIO Plan also included these repair items and paid out of HELP funds. Additional repairs to the cracks relate to the sheet rock that had an estimated repair cost of only \$84.

We cannot comment on whether FPC can or cannot collect any duplicate payments from either the contractor or shareholders. We believe, however, FPC should make an effort to recover the duplicate payments from either the contractor or shareholder who received a payment but did not make the repair.

RECOMMENDATIONS

We recommend you require FPC to:

- 1A. Determine which repair items shown in Appendix A have been completed either by the repair contractor or the shareholders.
- 1B. Collect \$55,524 from either the repair contractor or the shareholders based on your determination in Recommendation 1A above and then prepay this amount to the HELP loan.

* * * * *

Within 60 days, please furnish us a status report on the recommendations stating (1) the corrective action taken, (2) the proposed corrective action and the date to be completed, or (3) why action is not needed. Also, please furnish us copies of any correspondence or directives related to this review.

If you have any questions concerning this report, please call Ruben Velasco, Assistant District Inspector General for Audit, at (213) 894-8016.

APPENDICES

- A Schedule of Units That Received Duplicate Funding
- B Auditee Comments

C Distribution

Schedule of Units that Received Duplicate Funding ¹												
MIO Plan Action Item:												
	Address	94-1	94-8	94-10	94-14	94-26	94-27	94-33	94-39	94-44	94-49	Total
1	22030 Calvert St. #4			\$9		\$ 25						\$ 34
2	22030 Calvert St. #5	\$ 50										\$ 50
3	22050 Calvert St. #8	\$ 50				\$ 395						\$ 445
4	22059 Oxnard St.	\$ 144		\$ 168		\$ 245				\$ 90		\$ 647
5	6040 Nevada Ave. #7			\$ 134								\$ 134
6	6020 Nevada Ave. #17			\$ 188		\$ 1,048						\$ 1,236
7	22035 Oxnard St.	\$ 28		\$ 13		\$ 50						\$ 91
8	6030 Nevada Ave. #16	\$ 275		\$ 344	\$ 140	\$ 500						\$ 1,259
9	6031 Fountain Park Ln. #8	\$ 175	\$ 67	\$ 22		\$ 450						\$ 715
10	22040 Calvert St. #16	\$ 50	\$ 11	\$ 160		\$ 235						\$ 456
11	22050 Calvert St. #14			\$ 42		\$ 50						\$ 92
12	22149 Oxnard St.		\$ 358	\$ 336		\$ 600						\$ 1,294
13	6031 Fountain Park Ln. #10	\$ 50		\$ 13		\$ 8						\$ 70
14	6041 Fountain Park Ln. #2		\$ 314	\$ 188		\$ 224						\$ 726
15	6030 Nevada Ave. #11			\$ 84	\$ 65	\$ 150						\$ 299
16	22050 Calvert St. #11	\$ 35		\$ 76		\$ 652						\$ 763
17	22147 Oxnard St.	\$ 219			\$ 65	\$ 160						\$ 444
18	6031 Fountain Park Ln. #17	\$ 900		\$ 42		\$ 25						\$ 967
19	22127 Oxnard St.	\$ 98		\$ 3	\$ 65							\$ 166
20	22109 Oxnard St.	\$ 126	\$ 90	\$ 89	\$ 65	\$ 180						\$ 550
21	6041 Fountain Park Ln. #5			\$ 58		\$ 501						\$ 558
22	6021 Fountain Park Ln. #2	\$ 100	\$ 90	\$ 54		\$ 64						\$ 307
23	6021 Fountain Park Ln. #10			\$ 104		\$ 255						\$ 359
24	6021 Fountain Park Ln. #8			\$ 53		\$ 32						\$ 84
25	22107 Oxnard St.	\$ 428	\$ 90	\$ 161		\$ 96						\$ 775
26	6041 Fountain Park Ln. #6	\$ 216		\$ 235	\$ 65	\$ 140						\$ 656
27	6020 Nevada Ave. #10	\$ 405		\$ 302		\$ 180						\$ 887
28	6021 Fountain Park Ln. #3			\$ 4		\$ 3						\$ 7
29	6050 Nevada Ave. #4		\$ 179	\$ 108		\$ 200						\$ 487
30	6031 Fountain Park Ln. #9			\$ 8	\$ 65	\$ 452						\$ 525

¹ Any differences are due to rounding.

Schedule of Units that Received Duplicate Funding ¹												
		MIO Plan Action Item:										
	Address	94-1	94-8	94-10	94-14	94-26	94-27	94-33	94-39	94-44	94-49	Total
31	6020 Nevada Ave. #14	\$ 50		\$ 118		\$ 190						\$ 358
32	6041 Fountain Park Ln. #10	\$ 160		\$ 40		\$ 2,130	\$700					\$ 3,030
33	6050 Nevada Ave. #7	\$ 150		\$ 64	\$ 65	\$ 395						\$ 673
34	6020 Nevada Ave. #12	\$ 320	\$ 224	\$ 134		\$ 744		\$ 630				\$ 2,052
35	6041 Fountain Park Ln. #16	\$ 150	\$ 7	\$ 44		\$ 26						\$ 227
36	6030 Nevada Ave. #2			\$ 134		\$ 160						\$ 294
37	2635 Apollo Dr	\$ 300	\$ 14	\$ 84		\$ 105						\$ 503
38	6020 Nevada Ave. #2	\$ 80	\$ 1	\$ 41		\$ 25						\$ 147
39	22030 Calvert St. #1		\$ 15			\$ 108						\$ 123
40	22050 Calvert St. #12		\$ 179	\$ 215		\$ 560						\$ 954
41	22030 Calvert St. #9	\$ 160	\$ 45	\$ 370	\$ 65	\$ 220						\$ 859
42	6050 Nevada Ave. #3			\$ 8		\$ 18						\$ 26
43	6030 Nevada Ave. #10			\$ 131		\$ 220						\$ 351
44	6030 Nevada Ave. #13			\$ 67	\$ 65	\$ 445						\$ 577
45	6031 Fountain Park Ln. #16			\$ 563		\$ 538						\$ 1,101
46	6021 Fountain Park Ln. #7			\$ 16		\$ 72						\$ 88
47	6021 Fountain Park Ln. #6			\$ 134		\$ 180						\$ 314
48	22115 Oxnard St.		\$ 134	\$ 168		\$ 300						\$ 602
49	22073 Oxnard St.		\$ 6	\$ 32		\$ 19						\$ 57
50	6040 Nevada Ave. #14			\$ 104		\$ 183						\$ 287
51	6021 Fountain Park Ln. #15		\$ 45	\$ 84		\$ 153						\$ 282
52	22040 Calvert St. #6			\$ 143		\$ 500						\$ 643
53	6040 Nevada Ave. #11			\$ 9		\$ 169						\$ 178
54	22050 Calvert St. #10	\$ 240										\$ 240
55	6031 Fountain Park Ln. #14	\$ 400		\$ 84		\$ 650				\$ 90		\$ 1,224
56	6020 Nevada Ave. #9	\$ 500		\$ 210		\$ 200						\$ 910
57	23433 Califa	\$ 1,055	\$ 70	\$ 151	\$ 65							\$ 1,341
58	6050 Nevada Ave. #2			\$ 36		\$ 480						\$ 516
59	22069 Oxnard St.		\$ 358	\$ 396	\$ 65	\$ 368				\$ 50		\$ 1,238
60	6040 Nevada Ave. #16	\$ 600		\$ 189		\$ 113						\$ 902
61	6031 Fountain Park Ln. #15		\$ 8			\$ 10						\$ 18

Schedule of Units that Received Duplicate Funding ¹												
		MIO Plan Action Item:										
	Address	94-1	94-8	94-10	94-14	94-26	94-27	94-33	94-39	94-44	94-49	Total
62	22040 Calvert St. #17			\$ 21		\$ 50					\$ 86	\$ 157
63	22139 Oxnard St.	\$ 177	\$ 358	\$ 341	\$ 65	\$ 203						\$ 1,144
64	6041 Fountain Park Ln. #3		\$ 22		\$ 65	\$ 186						\$ 273
65	22030 Calvert St. #10			\$ 328		\$ 430						\$ 758
66	6050 Nevada Ave. #8	\$ 285		\$ 336		\$ 200						\$ 821
67	22030 Calvert St. #17					\$ 40						\$ 40
68	6020 Nevada Ave. #6			\$ 420		\$ 250						\$ 670
69	22101 Oxnard St.	\$ 69		\$ 8	\$ 65	\$ 5						\$ 147
70	22067 Oxnard St.			\$ 302		\$ 365						\$ 667
71	6041 Fountain Park Ln. #15		\$ 90	\$ 34		\$ 150						\$ 273
72	22103 Oxnard St.	\$ 102		\$ 24		\$ 140			\$125	\$ 50		\$ 441
73	22135 Oxnard St.			\$ 43	\$ 130	\$ 40						\$ 213
74	22063 Oxnard St.		\$ 90	\$ 54		\$ 60						\$ 203
75	22121 Oxnard St.	\$ 190	\$ 300		\$ 65	\$ 75				\$140		\$ 770
76	6040 Nevada Ave. #3		\$ 20	\$ 48		\$ 120					\$ 173	\$ 360
77	6021 Fountain Park Ln. #13			\$ 231		\$ 219						\$ 450
78	22145 Oxnard St.			\$ 42	\$ 65	\$ 125						\$ 232
79	6041 Fountain Park Ln. #9		\$ 56	\$ 101		\$ 182						\$ 339
80	6031 Fountain Park Ln. #11	\$ 300				\$ 607						\$ 907
81	22151 Oxnard St.			\$ 26	\$ 65	\$ 45						\$ 136
82	22071 Oxnard St.			\$ 63		\$ 193						\$ 256
83	22030 Calvert St. #16		\$ 84	\$ 252	\$ 65	\$ 295						\$ 696
84	22117 Oxnard St.	\$ 917		\$ 18		\$ 457				\$ 140		\$ 1,532
85	6030 Nevada Ave. #5			\$ 47	\$ 65	\$ 25						\$ 137
86	22123 Oxnard St.			\$ 29		\$ 275						\$ 304
87	6031 Fountain Park Ln. #6				\$ 65							\$ 65
88	22030 Calvert St. #14			\$ 151		\$ 90						\$ 241
89	6031 Fountain Park Ln. #2		\$ 403	\$ 414		\$ 680						\$ 1,497
90	22030 Calvert St. #2			\$ 25		\$ 30						\$ 55
91	22050 Calvert St. #16			\$ 92		\$ 150						\$ 242
92	6041 Fountain Park Ln. #11	\$ 110	\$ 45	\$ 27		\$ 40						\$ 221
93	22141 Oxnard St.			\$ 412		\$ 245				\$ 90		\$ 747
94	6040 Nevada Ave. #15			\$ 94		\$ 161						\$ 255
95	22033 Oxnard St.	\$ 1,200								\$ 50		\$ 1,250
96	6050 Nevada Ave. #14		\$ 14	\$ 118		\$ 280						\$ 412

Schedule of Units that Received Duplicate Funding ¹												
		MIO Plan Action Item:										
	Address	94-1	94-8	94-10	94-14	94-26	94-27	94-33	94-39	94-44	94-49	Total
97	6040 Nevada Ave. #1			\$ 168		\$ 350						\$ 518
98	6050 Nevada Ave. #10		\$ 45	\$ 34		\$ 240						\$ 318
99	22125 Oxnard St.			\$ 47		\$ 464						\$ 511
100	6041 Fountain Park Ln. #17			\$ 40		\$ 138						\$ 178
101	22030 Calvert St. #8			\$ 92		\$ 230						\$ 322
102	6030 Nevada Ave. #15			\$ 189		\$ 113						\$ 302
103	22129 Oxnard St. #8			\$ 36		\$ 83						\$ 119
104	22040 Calvert St. #1					\$ 364						\$ 364
105	6040 Nevada Ave. #12			\$ 17		\$ 53						\$ 70
106	22040 Calvert St. #2		\$ 46	\$ 122		\$ 363						\$ 531
107	6030 Nevada Ave. #12			\$ 39		\$ 140						\$ 179
	Total	\$ 10,862	\$ 3,878	\$11,656	\$ 1,570	\$ 25,146	\$ 700	\$ 630	\$ 125	\$700	\$ 258	\$ 55,524

AUDITEE COMMENTS

FOUNTAIN PARK COOPERATIVE, INC.
22115 ½ OXNARD ST., WOODLAND HILLS, CA. 91367
PHONE: (818) 883-5790 FAX: (818) 883-8067

January 23, 2001

Ruben Velasco, Assistant District Inspector General for Audit
Ms. Tanya Voight, Senior Auditor
U.S. Dept. of Housing and Urban Development
611 West Sixth Street
Suite 1160
Los Angeles, Calif. 90017

Subject: Draft Report of audit findings of HELP Funds, HUD Project Number 122-92004

Dear Mr. Velasco:
Dear Tanya:

I need additional information on the Duplicate Funding Source for FEMA, IFGP, and SBA. It is the cooperative's policy not to interfere in the personal financial transactions of the individual Stockholders. A history of the various events that followed the January 17, 1994 earthquake will help explain a good part of what appears to be duplicate payments by different state and federal agencies of earthquake repairs.

A number of qualifying Stockholders received FEMA or IFGP money's to replace personal property items shortly after the earthquake. These items included spoiled foods, furniture, lamps, TVs etc. Stockholders qualifying for SBA Loans for both personal and real property repairs individually received these loans. Fountain Park did not get involved in these transactions.

A claim was made to Farmers Insurance for repair to the property. After the approximately \$1,050,000.00 deductible only a few hundred thousand dollars was offered for the property repair. A low interest FEMA loan was applied for and approval given by FEMA. A new Board of Directors hired Greenspan, an insurance adjuster. The net payment by Farmers Insurance of \$2,701,088.00 was received during 1997, over three years after the earthquake. The FEMA loan was no longer available.

Prior to May 26, 1996, Fountain Park thought they would have to special assess the Stockholders for any shortfall in property repair cost as we did not have the \$3,000,000.00 earthquake damage required for qualification of the HUD HELP Funds. On March 12, 1997 we were officially approved for the HUD HELP Grant in the amount of \$1,700,000.00 which was later revised to \$1,789,342.00. This HELP Grant was made available to Fountain Park to insure we could fully repair the earthquake damage without assessing the Stockholders.

Fountain Park Cooperative, Inc.

A number of Stockholders taped and patched interior cracks and painted or papered their unit. The decision to encapsulate the asbestos in the popcorn ceilings of all the units had not been made at the time most of the Stockholders performed these repairs. The earthquake contractor repainted and retaped or wallboarded most of the earlier repairs. The removal of their wallpaper and the painting of their unit upset a number of the Stockholders.

The architect inspected all the Fountain Park units to ascertain the work needed for the entire property during 1997. One building of seventeen garden apartments was used as a test. Change orders were added to the original contract to encompass additional requirements. The townhouses were repaired last in early 1998. The upstairs bathroom floors had all turned into a granulated condition. A change order was issued to add the bathroom floor replacements. Before the earthquake contract was written all repairs by the individual Stockholders should have been completed and not included in the contract amount.

Due to HUD's need to return all unused HELP Funds to HUD Central in 1997, the earthquake contract was written with a thirty-day completion schedule for all buildings. With a thirty-day completion schedule wallpaper and painting was not saved in the majority of the units. A one size fits all method was used. A number of the subcontractor's employees spoke very little English and any special instructions were usually not adhered to.

Seven years have transpired since the earthquake when the resulting damage occurred. I counted thirty-two changes of ownership on the units listed on your schedule. We may not have current forwarding addresses for sold units. The current Stockholders should not be held accountable for the former Stockholders transactions. Sales of units here average seven to eight percent per year. Approximately a third to a half of the units have new owners living in them since the earthquake.

On Appendix A, Item 37 and Item 59 are not Fountain Park addresses. The paperwork given to you to audit was evidently from new Stockholders who gave you previous location repair work. Item 14 does not add across by \$202.00. Item 22 should be 6021 Fountain Park Lane, #2. I need the garden apartment unit number on Items 103, 106, and 108.

I questioned three of the Stockholders regarding your Findings. The Stockholder at Item 97 residing at 22033 Oxnard Street stated the \$1,200.00 FEMA money for emergency repairs was all personal property. \$50.00 was used to strap her water-heater and was told it was not to code by the earthquake contractor who replaced the strapping to code. The Stockholder at Item 45 residing at 6030 Nevada Avenue, Apartment 10, stated she did not have any wallboard replaced or cracks filled and painted prior to the earthquake contractor doing this work. She is still paying back her SBA loan for a replaced counter, etc. She was not eligible for FEMA money. The Stockholder at Item 57 residing at 6031 Fountain Park Lane, Apartment 14, stated the taping of the cracks had come loose during

Fountain Park Cooperative, Inc.

the aftershocks and was removed and repaired and repainted by the earthquake contractor. These three Stockholders will try and find any paperwork pertaining to the repair work but they are not certain they still have all the paperwork.

In summary, I do not think a California Court would hold Fountain Park or Western Builders Group, the earthquake repair contractor, liable for the Stockholders individual money transactions with FEMA, IFGP, or the SBA. Fountain Park was not involved with these transactions. The earthquake repair was based on repairs needed in 1997 and 1998. When the ceilings were encapsulated almost all walls had to be repainted. Very little wallpaper was saved in the units. The individual Stockholders would have to be billed for all these Findings. Fountain Park has no record of the individual Stockholders transactions. I do not know if the California Courts would uphold us charging the individual Stockholders after seven years. A special assessment to the current Stockholders would result in a third to a half of Stockholders who did not live here in 1994 paying for work that benefited previous owners.

Unless Fountain Park has a need to know we do not get involved in the personal transactions of the Stockholders.

I will need to address each Finding with each Stockholder before I can answer your audit Findings. A decision will need to be made with you of any Findings where the benefiting Stockholder no longer owns the Unit.

My telephone number is 818-713-1634 if you wish to discuss this with me.

Very truly yours,



Rose Gorman
President, Fountain Park Board of Directors

CC: Jerome Champion, HUD

DISTRIBUTION

Secretary's Representative, California State Office, 9AS
Senior Community Builder, Los Angeles Office, 9HS
Director, Multifamily HUB, 9AHM
Primary Field Audit Liaison Officer, 6AF (2)
General Deputy Assistant Secretary for Housing, H (Rm. 9100)
Associate General Deputy Assistant Secretary for Housing, H (Rm. 9106)
Deputy Secretary, SD (Rm. 10100)
Acting, Chief of Staff, S (Rm. 1000)
Office of Administration, AA (Rm. 10110)
Assistant Secretary for Congressional & Intergovernmental Relations, J (Rm. 10120)
Office of Public Affairs, W (Rm. 10132)
Deputy Assistant Secretary for Administrative Services, Office of the Executive Secretariat, AX
(Rm. 10139)
Deputy Assistant Secretary for Intergovernmental Relations, JI (Rm. 10234)
Deputy Chief of Staff, S (Rm. 10222)
Deputy Chief of Staff for Policy, S (Rm. 10226)
Deputy Chief of Staff for Programs, S (Rm. 10226)
Senior Advisor to the Secretary, S (Rm. 10222)
Special Assistant for Inter-Faith Community Outreach, S (Rm. 10222)
Executive Officer for Administrative Operations and Management, S (Rm. 10220)
General Counsel, C (Rm. 10214)
Assistant Secretary for Housing/Federal Housing Commissioner, H (Rm. 9100)
Assistant Secretary for Policy Development and Research, R (Rm. 8100)
Assistant Secretary for Community Planning and Development, D (Rm. 7100)
Assistant Deputy Secretary for Field Policy and Management, SDF (Rm. 7106) (2)
Office of Government National Mortgage Association, T (Rm. 6100)
Assistant Secretary for Fair Housing and Equal Opportunity, E (Rm. 5100)
Director, Office of Departmental Equal Employment Opportunity, U (Rm. 5130)
Chief Procurement Officer, N (Rm. 5280)
Assistant Secretary for Public and Indian Housing, P (Rm. 4100)
Director, Office of Departmental Operations and Coordination, I (Rm. 2124)
Office of the Chief Financial Officer, % (Rm. 2202)
Chief Information Officer, Q (Rm. P8206)
Director, Enforcement Center, V, Portals Building
Acting Director, Real Estate Assessment Center, X, 1280 Maryland Avenue, SW, Suite 800
Director, Office of Multifamily Assistance Restructuring, Y, 4000 Portals Building
Deputy Chief Financial Officer for Finance, FF (Rm. 2202)
Director, Office of Budget, FO (Rm. 3270)
Headquarters Audit Liaison Officer, Helen M. Stackhouse, HQC (Rm. 6232) (2)
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The Honorable Joseph Lieberman, Ranking Member, Committee on Government Affairs, 706 Hart Senate Office Bldg., United States Senate, Washington, DC 20510

The Honorable Dan Burton, Chairman, Committee on Government Reform, 2185 Rayburn Bldg., House of Representatives, Washington, DC 20515

The Honorable Henry A. Waxman, Ranking Member, Committee on Government Reform, 2204 Rayburn Bldg., House of Representatives, Washington, DC 20515

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