



U. S. Department of Housing and Urban Development
Office of Inspector General for Audit, Midwest
77 West Jackson Boulevard, Room 2646
Chicago, Illinois 60604-3507

AUDIT RELATED MEMORANDUM
96-CH-214-1811

August 1, 1996

MEMORANDUM FOR: Shirley Bryant, Acting Director, Multifamily Housing Division,
Grand Rapids Area Office

FROM: Dale L. Chouteau, District Inspector General for Audit, Midwest

SUBJECT: Choice Properties
Amsterdam Gardens
Multifamily Equity Skimming
Troy, Michigan

We completed a review of the books and records of Choice Properties, Inc. related to the management and operation of Amsterdam Gardens. We performed the audit because the Project's financial statements indicated distributions were made to the Project's Owners when the Project was in poor physical condition from lack of proper routine maintenance.

Choice properties is operated by an identity of interest management agent. Choice Properties, Inc. manages and operates Amsterdam Gardens, a 270 unit multifamily dwelling located in Michigan. The project is under the jurisdiction of the HUD Grand Rapids Office.

Amsterdam Gardens is insured under Section 223 (f) of the National Housing Act. Kama I Shouhayib is the President of Choice Properties, Inc. He is also the General Partner for the project. The books and records for Amsterdam Gardens are at Choice Properties. The company's office is at 755 W. Big Beaver Road, Suite 1275, Troy, Michigan.

Our review objectives were to determine whether the use of project funds was reasonable and in compliance with the Regulatory Agreement and applicable HUD requirements.

We determined the identity-of-interest Management Agent, made distributions of \$92,000 to the project's owners when the project was not in satisfactory condition. Our inspections showed the poor physical condition resulted from lack of proper routine maintenance. The Agent did not use reserve for replacement funds that were available to make needed repairs and used unqualified workers to accomplish repairs that were made. The Agent ignored HUD's directives and requests to make proper repairs. As a result, HUD's interest in the project was not adequately protected.

We provided the owners and the HUD Grand Rapids Office with our draft findings and recommendations. Our recommendations required the owners to deposit the amounts inappropriately distributed into the project's reserve for replacement account and then to coordinate with HUD to use reserve for replacement funds to make proper repairs to the project.

The owners disagreed with our findings and recommendations and did not agree to take the actions we recommended or a suitable alternative. Therefore, using the procedures developed under Operation Safe Home, we submitted the draft findings and the auditee's comments to the Assistant U.S. Attorney for civil matters in Grand Rapids. The Assistant U.S. Attorney negotiated a settlement for Amsterdam Gardens with the principles involved. Under the terms of the settlement, in lieu of repaying the reserve for replacement account, the U.S. Attorney allowed the owners to make all necessary repairs to the project subject to HUD's approval of the quality of the repairs. He also required the owners to maintain a reserve for replacement balance in an amount that HUD determined should be on hand for the project if normal maintenance had been performed. The auditee also was required to pay audit costs.

On July 3, 1996, the Assistant U.S. Attorney completed the settlement for Amsterdam Gardens. Under the settlement the owners made all required repairs to the project and paid HUD \$8,199 for audit costs. HUD inspected the repairs and determined that they were satisfactorily completed. At the time of our review, an OIG Construction Specialist estimated the project had \$426,000 in deferred maintenance items.

If you or your staff have any questions, please contact me at (312) 353-7834.

Distribution

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