



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-212-1813

September 5, 1996

MEMORANDUM FOR: Beverly Bishop, Director, Office of Housing,
Illinois State Office
Edward Hinsberger, Director of Multifamily Housing,
Illinois State Office

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

SUBJECT: Ada Throop Apartments
Multifamily Equity Skimming Review
Chicago, Illinois

We completed an audit of the books and records of Ada Throop Apartments. We conducted the audit as a result of a survey of multifamily project conditions. Ada Throop Apartments is a multifamily project located in Chicago, Illinois. The Project has 60 units and is 100 percent Section 8 subsidized. During the period of our audit, the Project had a purchase money mortgage with HUD.

Ada Throop Apartments, LTD, an Illinois Limited Partnership, owned the Project during the audit period. The managing general partner and 99 percent owner was Walt Marshall. MWS Associates, an identity-of-interest firm, managed the Project through February, 1993. Security Management was the management agent between March and June 1993. Insignia Management Group, LP, and its wholly owned subsidiary has managed the Project since June, 1993. The Project's books and records were located at 6950 South Vincennes, Chicago, Illinois and at Insignia's main offices in Greenville, South Carolina.

The audit objectives were to: (1) assess the Owner and Agent's compliance with the Regulatory Agreement and other HUD requirements relating to the general physical condition of the Project; and (2) determine the causes of any physical deficiencies.

The audit covered the period of January 1, 1993 through December 31, 1995. We extended the audit period as necessary. We performed the audit between January and May 1996.

Audit Related Memorandum

We concluded that Ada Throop Apartments, LTD, and its Managing Agents:

- * Failed to maintain the Project in decent, safe, and sanitary condition. The Project owner, and its managing agents failed to: (1) implement preventive maintenance procedures; (2) conduct timely unit inspections; (3) ensure work orders were written and completed for inspection deficiencies; (4) establish controls over outstanding work orders; (5) ensure maintenance staff adequately completed work order repairs; (6) correct inspection deficiencies identified by HUD; and (5) ensure contract work was completed before paid.
- * Disbursed \$16,720 of ineligible costs and \$96,538 of unsupported costs from Project funds for miscellaneous expenses. The disbursements occurred when the Project was in a non-surplus cash position. Ineligible costs included: (1) \$13,700 paid to MWS Associates, an identity-of-interest firm, for services that were not rendered to the Project or not rendered by the payee; (2) \$1,800 for refinancing costs; (3) \$630 for excessive accounting fees; (4) \$339 for payments made in error and (5) \$251 for an owner advance and miscellaneous fees.

As a result, the Project was in deplorable condition, expenses were overstated, and fewer funds were available for normal operation and maintenance of the Project. Tenants lived in conditions that were not decent, safe, and sanitary and costs were charged to the Project for contract work that was not completed.

Ada Throop Associates, LTD has completed the refinancing of its mortgage with a conventional loan. HUD discharged the purchase money mortgage on August 15, 1996. Since the refinancing was completed, HUD's sole interest in the property will be through a Section 8 Housing Assistance Payments Contract. This contract expires on September 17, 1997.

As required by HUD's approval of the pre-payment of the mortgage, the owners have established a repair escrow account requiring HUD's approval for any withdrawals. They have also submitted a Management Improvement and Operating Plan to HUD that addresses their plans to correct the physical deficiencies in the building. However they have only deposited \$181,371 of the \$252,602 amount that HUD required into the escrow account.

We recommend that the Office of Housing, Illinois State Office: (1) assure that the Project Owner repairs the physical deficiencies at the Project so that the Project is in full compliance with HUD's Housing Quality Standards; (2) abates Section 8 Housing Assistance Payments if the Project Owner fails to bring the Project into full compliance with HUD's Housing Quality Standards within a reasonable time frame as designated by HUD.

The above recommendations will be controlled in the Department's Automated Audit Management System. Within 60 days, please provide us, for each recommendation made in this memorandum, a status report on: (1) the corrective action taken; (2) the proposed corrective action and the date to be completed; or (3) why action is considered unnecessary. Also please furnish us copies of any correspondence or directives issued because of the audit.

Should your staff have any questions, please have them contact me at (312) 353-7832.

The Dwelling Units of Ada Throop are Substandard

The dwelling units of Ada Throop Apartments are in poor physical condition. The project owner, Ada Throop Associates, LTD and its managing agents failed to: (1) implement preventive maintenance procedures; (2) conduct timely unit inspections; (3) ensure work orders were written and completed for inspection deficiencies; (4) establish controls over outstanding work orders; (5) ensure maintenance staff adequately completed work order repairs; (6) correct inspection deficiencies identified by HUD; and (7) ensure contract work was completed before paid. As a result, tenants lived in conditions that were not decent, safe and sanitary, and costs were charged to the project for contract work that was not completed.

HUD Requirements

Exhibit 6 of the Project's Housing Assistance Payments Contract, states HUD standards for decent, safe and sanitary housing will be followed in the Project. Owners are required to follow the Section 8 Housing Quality Standards found in 24 CFR, 886.307.

Three Management Agents Operated the Property

MWS Associates, an identity-of-interest firm, managed Ada Throop Apartments between September 1988 and February 1993. Security Management was the management agent between March 1993 and June 1993. In June 1993, Insignia Management Company purchased Security Management and management of the property transferred to Insignia. During our audit period, January 1993 to December 1995, the development had three different property managers. The lack of continuity in property managers prevented long-ranged planning to address project deficiencies.

Units Selected for Inspection

The Ada Throop Apartments were inspected by OIG during March and April, 1996. The purpose of the inspections were to determine if the units and common building areas met HUD's Housing Quality Standards; assess the general condition of the property; and ensure contractual repairs were properly completed.

The Ada Throop Development has 60 units. Twelve or 20 percent of the development's units were judgmentally selected for OIG inspection based on unit size. Two additional units were included in our inspection sample at the tenants' requests. The fourteen units were inspected to assess the overall condition of the property's dwelling units.

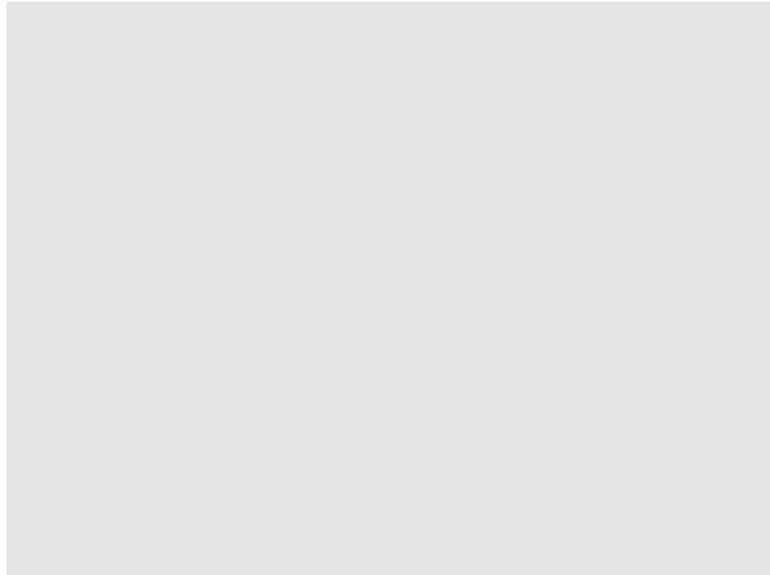
To ensure completion and assess the quality of interior contract work an additional seven units were selected for inspection. The units selected were based on interior contract work that was recently completed and readily identifiable. The seven units were not inspected to determine the overall condition of the property's dwelling units.

The Ada Throop Development is in a Substandard Condition

Ada Throop's dwelling units and common areas are in substandard condition. The 14 dwelling units inspected by OIG to assess overall project conditions did not meet HUD's Housing Quality Standards. Some of the Housing Quality Standard deficiencies included: (1) deteriorating window conditions in 14 of the units; (2) chipping and peeling paint which could be lead based in 13 of the units; (3) missing, loose, and/or damaged floor tile in 12 of the units; (4) deteriorating walls and ceilings which need painting in 11 of the units; (5) deteriorating floor underlayment in 10 of the units; and (6) missing bath wall tiles in 3 of the units.

The following picture is an example of the general deteriorating conditions found in the development's units:

The window sashes are rotted.
The sash frame trim is loose.
There is also evidence of
probable lead based paint.



The general physical condition of the building is poor. Gutters and downspouts are in disrepair. This condition has allowed water to deteriorate the brick surface. Many areas of the exterior brick walls need tuckpointing. Bricks are missing, there are brick and mortar cracks and loose mortar areas. Several wood members of the porches, steps, and railings are rotted and/or missing. Exterior window frames and sills are rotted. There is chipping and peeling paint on the exterior wood surfaces which is probably lead based. The development's concrete walkways are hazardously broken, presenting a tripping hazard.

The interior common hallways have outlets that are missing covers which expose the electrical wiring. The staircases are missing handrails. Interior exit signs are missing, not properly secured, or not lighted.

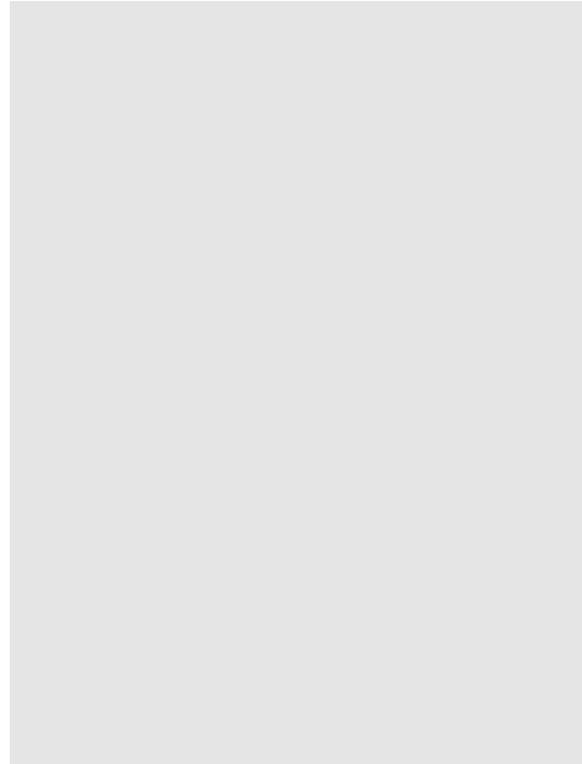
Preventive Maintenance
Procedures Were Not
Implemented

The project owner and its former and current management agents failed to implement preventive maintenance procedures. Insignia, the current management agent, has a written preventive maintenance policy which was not being followed. The only preventive maintenance performed at the development was the monthly rodding out of the drains and inspections of the boiler systems.

The Property Manager said the structural condition of the

building did not lend itself to preventive maintenance. Maintenance of the development is reactive and the staff operates on an emergency basis. The Property Manager said the building needs total rehabilitation. An example of the building's deteriorating condition resulting from deferred maintenance follows:

Masonry areas are in need of repair. Deterioration is mainly caused by the lack of preventive maintenance of the downspout.



As described in the management agent's policy and procedures manual, preventive maintenance is the key to successful apartment operations. As a proactive program, it provides staff with reduced service requests, reduced equipment failure, and satisfied residents.

Unit Inspections Were Not Conducted Timely

The project's former and current management agents failed to conduct annual Housing Quality Standards inspections for all of the development units. We reviewed the last two inspection reports completed for the 14 units we inspected to assess overall project conditions. The 14 units inspected by us were also inspected by the current management agent in February 1996. However, six of the 14 units were not inspected in 1995 by the previous management agent. Since the current property manager was not the manager at the time annual inspections were to be conducted she was

unable to provide an explanation as to why the inspections were not completed.

Annual inspections are an integral part of the project's operations. The inspections allows management to assess the overall unit conditions of the property and schedule appropriate repairs. They provide management with a basis for prioritizing and scheduling major capital improvements.

Unit Violations were not Cited by Property Management

We compared the violations cited by Ada Throop's property management during their February 1996 inspections to those identified by OIG in March and April 1996. Many violations cited by OIG were not reported by Ada Throop's management. The property manager said the staff does not cite major capital improvement items such as the deteriorating conditions of the windows and the need for interior painting because they are already aware of the conditions and funds are not available for repair. In addition, the Property Manager realized she failed to cite some technical violations during the inspections since she has not received any Housing Quality Standards training. Technical violations that were cited by OIG, but not cited by property management included: outlets in close proximity to water were not GFCI outlets; defective refrigerator door gaskets; and rotted floor tile underlayment.

Violations Cited by Property Management were not Corrected

Forty-seven violations cited by Ada Throop's property management in February 1996 were not corrected when OIG inspected the units in March and April 1996. Management said work orders are written for inspection deficiencies. We were unable to determine if work orders were written for the 47 unit violations. Work order numbers and the completion dates were not referenced to the inspections. A listing identifying work order status was not maintained. Additionally, completed work orders were not always consistently filed. The Management Agent did not implement adequate procedures to ensure inspection violations were corrected. Property Management did not have written procedures for conducting Housing Quality inspections and correcting deficiencies. Written procedures provide a consistent basis for conducting inspections and correcting deficiencies.

Staff may use the procedures as a guide.

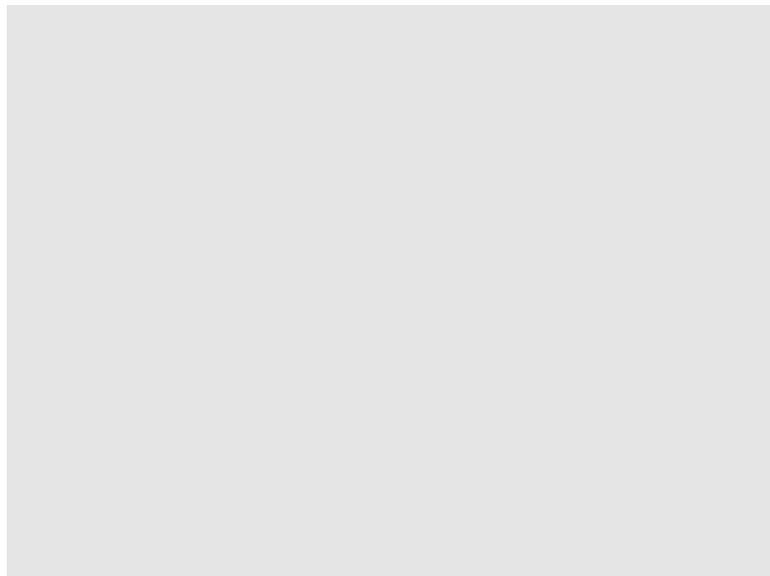
Control Over Outstanding Work Orders was not Maintained

As previously cited, the Management Agent did not maintain a work order listing. Ada Throop's property management did not have control over outstanding work items. The agent's written maintenance procedures do not address outstanding work orders. It is important to maintain control over work order status to ensure completion, satisfy residents, and evaluate the performance of maintenance staff. The Property Manager said she has implemented procedures to report the work order status at her other developments. She has not had the opportunity to implement the procedures at the Ada Throop Development.

Maintenance Repairs Were Not Completed

Our unit inspections revealed the maintenance staff did not adequately complete repairs. For example, after plumbing or roof leaks were repaired, the damaged walls and/or ceilings were not restored. Also, when floor tile was replaced, it was not correctly finished by the doorways which resulted in uneven flooring. We were unable to determine when the repairs were made. However, according to the residents who had plumbing leaks repaired, the wall and ceiling conditions have existed for at least two years.

Water damaged walls and ceilings in the living room were not repaired after the roof leak was repaired.



The current Property Manager said she periodically inspects maintenance staffs' work to ensure proper completion. However, documentation is not maintained supporting her reviews. Additionally, she said she routinely telephones residents to ensure resident satisfaction. These calls are not documented.

HUD Inspection
Deficiencies Were Not
Corrected

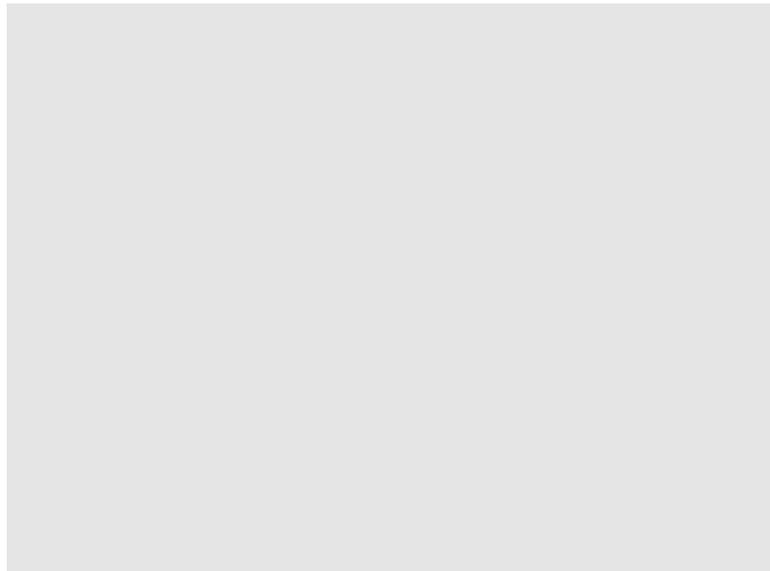
Inspection deficiencies cited by HUD's Illinois State Office during 1992 and 1994 physical inspections were not corrected by Ada Throop Associates, LTD. and its' managing agents. After each inspection, HUD informed the project owner and the management agents of the inspection results. Ada Throop's management developed a Management Improvement Operating Plan in response to HUD's September 1992 inspection. The Management Improvement Operating Plan was submitted to HUD by Security Management, Incorporated, on June 24, 1993. It reported the corrections made and future plans of action for correcting the citations. Management did not respond to HUD's September 1994 physical inspection. The table below summarizes examples of the major deficiencies identified by the inspectors that were not corrected.

Major Deficiencies		
<u>Inspection Date</u>	<u>Rating</u>	<u>Not Corrected as of 3/26/96</u>
9/29/92	Below Average	Concrete knee walls in basement are cracked and need to be replaced. Window sills are damaged and need replacement. Unit walls and ceilings need to be painted.
9/16/94	Unsatisfactory	Tuckpointing is needed Replacement of downspouts is needed. Windows need to be replaced.

Contractors were Paid for Incomplete Work

Ada Throop's management agents failed to ensure contract work was completed before payment. We reviewed all invoices for contract work from July 1993 through December 1995. Maintenance contract costs for the period of July 1993 through December 1995, totalled \$95,425. We selected 19 contracts for review, based on the contract work which was readily identifiable and recently completed to determine if the repairs were completed and the workmanship was acceptable. The cost of the contract work selected for inspection, totalled \$68,805. Of the 19 contracts selected for inspection, six either had work that was not completed or was unacceptable. The Project paid \$28,926 for contract work that was incomplete or exhibited poor workmanship.

During 1994, the Project paid \$17,350 to re-roof the Ada building and the northside of the Throop building. The roofs were not installed correctly and quality materials were not used. The OIG inspector said the Project's roofs will have a short life span. The roofs have a six year warranty. The Property Manager has contacted the contractor to enforce the warranty. The following picture documents the condition of the Ada roof:



In October 1994, Ada Throop's prior management contracted to paint the development's exterior window frames. During our inspections it was found that the window frames of the Throop building were never painted and half of the frames of the Ada building were not painted. Those that were painted were not adequately scraped, caulked and painted as required by the contract. The Project paid \$9,532 for work which was not completed or exhibited poor workmanship.

In August and September 1995, Ada Throop's current management contracted to paint two units. The cost of the contracts was \$1,514. During our inspection of the first unit we found that only the hallway, bathroom, and bedroom were painted. Also, the new paint was peeling and not adhering to the walls of the rooms painted. The OIG inspector determined that the second unit was not painted. This was verified with the resident who has lived in the unit for over thirteen years. The Project paid the contractor \$1,514 for the work not properly completed.

In December 1992, Ada Throop's management contracted to replace the electrical wiring in two fire damaged units. The cost of the contract was \$2,560. The OIG Inspector determined that eight outlets and switches for one unit were not replaced as required. The OIG inspector said the project paid approximately \$430 for the eight outlets and switches.

The Project paid \$3,765 to have a hot water heater installed. The contractor did not install a discharge line. HUD's OIG inspector said the Project paid approximately \$100 for the discharged line.

The Development is 100
Percent Section 8
Subsidized

Ada Throop Apartments is 100 percent Section 8 subsidized. The following table summarizes the Section 8 subsidy received between January 1, 1993 and December 31, 1995:

<u>Year</u>	<u>Subsidy Received</u>
1993	\$ 322,850
1994	338,819
1995	<u>413,779</u>
Total Subsidy Received	\$1,075,448

Based upon HUD and OIG's inspections it is apparent, HUD is paying large sums of money for units that are not decent, safe and sanitary. A HUD Physical Inspection Report dated October 6, 1994, estimates repair costs of \$407,790 to bring the complex into good condition. OIG estimates that it will cost the Project Owner over \$400,000 to correct the Housing Quality Standards deficiencies and bring the physical structures to good condition.

Recommendation

We recommend that the Director, Office of Housing, Illinois State Office:

- A. Assure that the Project Owner repairs the physical deficiencies at the Project so that the Project is in full compliance with HUD's Housing Quality Standards.
- B. Abate Section 8 Housing Assistance Payments if the Project Owner fails to bring the Project into full compliance with HUD's Housing Quality Standards within a reasonable time frame as designated by HUD.

Distribution

Secretary's Representative, Midwest
Director of Public Housing, Illinois State Office (2)
Assistant General Counsel, Midwest
Field Controller, Midwest (2)
Director, Accounting Division, Midwest
Public Affairs Officer, Midwest
Assistant to the Secretary for Field Management, SC (Room 7106)
Acquisition Librarian, Library, AS (Room 8141)
Chief Financial Officer, F (Room 10166) (2)
Deputy Chief Financial Officer for Operations, FO (Room 10166) (2)
Comptroller/Audit Liaison Officer, HF (Room 5132)(3)
Assistant Director in Charge, U.S. GAO, 820 1st St NE, Union Plaza Bldg. 2, Suit 150,
Washington, DC, 20002