



**U.S. Department of Housing and Urban
Development**

Office of Inspector General for Audit, Midwest
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**AUDIT MEMORANDUM
00-CH-211-1803**

November 30, 1999

MEMORANDUM FOR: Preston A. Pace, Jr., Director of Columbus Multifamily Hub,
Ohio State Office

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

SUBJECT: RLJ Management Company
Fee-Splitting Agreement
Gahanna, Ohio

We completed a review of the books and records of RLJ Management Company. We performed the audit to determine the reasonableness of the management fees paid to RLJ Management for five HUD-insured Projects. The five Projects were Plumly Townhomes, Nichols Townhomes, Athens Gardens Apartments, Newark Townhomes, and Point Village Apartments. The review was part of our Operation Safe Home initiative and was conducted based upon information received from our Pacific/Hawaii District Office regarding Insignia Financial Group's fee-splitting agreements.

We concluded that RLJ Management Company improperly used \$53,024 of the five Projects' funds to pay a fee for managing the Projects. The payments were made to Security Properties and then to Insignia Financial Group, who were Co-General Partners of the HUD-insured Projects. The payments were not reasonable and necessary expenses of the Projects. RLJ Management made the payments to the Co-General Partners as part of a fee-splitting agreement executed by the former Owner of RLJ Management. RLJ Management did not disclose the unauthorized payments to the Co-General Partners in the Projects' audited financial statements. As a result, RLJ Management Company did not follow HUD's requirements and Federal laws.

Using the procedures developed under Operation Safe Home, we referred our draft audit finding to the United States Attorney's Office for the Southern District of Ohio for civil matters. HUD

and the United States Attorney's Office executed a settlement agreement with RLJ Management Company on October 20, 1999. Under the terms of the settlement, RLJ Management agreed to pay the Federal Government \$64,274. The \$64,274 includes the inappropriate payments to the Co-General Partners, our audit cost, and interest fees. As part of the settlement, HUD agreed not to take administrative action against RLJ Management.

If you or your staff have any questions, please contact me at (312)353-7832.

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The Honorable Fred Thompson, Chairman, Committee on Governmental Affairs, 340 Dirksen Senate Office Building, United States Senate, Washington DC 20510

The Honorable Joseph Lieberman, Ranking Member, Committee on Governmental Affairs, 706 Hart Senate Office Building, United States Senate, Washington DC 20510

Honorable Dan Burton, Chairman, Committee on Government Reform, 2185 Rayburn Building, United States House of Representatives, Washington DC 20515

Henry A. Waxman, Ranking Member, Committee on Government Reform, 2204 Rayburn Building, United States House of Representatives, Washington DC 20515

Ms. Cindy Foglemen, Subcommittee on Oversight and Investigations, Room 212, O'Neil House Office Building, Washington DC 20515

Director, Housing and Community Development Issue Area, United States General Accounting Office, 441 G Street N.W., Room 2474, Washington DC 20548 (Attention: Judy England-Joseph)

Steve Redburn, Chief, Housing Branch, Office of Management and Budget, 725 17th Street, N.W., Room 9226, New Executive Office Building, Washington DC 20503

Chairman of the Board, RLJ Management Company