



U.S. Department of Housing and Urban Development
Office of Inspector General for Audit, Midwest
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AUDIT MEMORANDUM
00-CH-211-1810

August 31, 2000

MEMORANDUM FOR: Robert M. Brown, Director of Detroit Multifamily Hub,
Michigan State Office

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

SUBJECT: Eenhoorn L.L.C.
Multifamily Equity Skimming
Grand Rapids, Michigan

We completed a review of the books and records of Eenhoorn L.L.C., a management agent. We performed the review to determine whether Eenhoorn used project funds according to the Regulatory Agreement and other agreements, and applicable HUD policies and procedures. The review was part of our Operation Safe Home initiative.

We found that Eenhoorn L.L.C. misused \$59,140 of River Oaks Apartments' funds for ineligible and unsupported payments. The payments included: (1) \$30,079 for owner distributions to River Oaks Apartments Limited Partnership; (2) \$12,024 for consulting and legal services; (3) \$750 for legal services without supporting documentation; (4) \$9,234 for accounting services, a computer system, and excessive management fees; and (5) \$7,803 for payroll fees. The ineligible and unsupported payments were not for the operation and repair of the Project. They were made when the Project was in a non-surplus cash position, required over \$160,000 in needed repairs, and/or had not maintained sufficient funds in its reserve for replacement account. The Project's Regulatory Agreement and HUD's requirements restrict Project disbursements to payments necessary for operating and repairing the Project and restrict distributions to owners to the amount of surplus cash. As a result, fewer funds were available for the Project's normal operations and maintenance and HUD's interest in the Project was not sufficiently protected.

During the audit, HUD executed a settlement agreement with Eenhoorn L.L.C. effective August 14, 2000. Under the terms of the settlement, Eenhoorn agreed to: deposit \$60,000 into the Project's reserve for replacement account to replace funds depleted by "certain inappropriate expenditures and owner distributions" and to assist in making needed repairs;

repair the items cited by HUD during its July 28, 2000 inspection of the Project by March 30, 2001; pay HUD \$41,000 for our audit costs and for inspecting the Project to determine whether the needed repairs were made; and pay the cost of the repairs from its own funds if the Project's reserve for replacement account falls below \$75,000. HUD agreed not to take administrative action against Eenhoorn if it complies with the terms of the Agreement. As of August 16, 2000, Eenhoorn sent a check to HUD for \$60,000 to be deposited into the Project's reserve for replacement account and paid HUD \$41,000 for our audit costs and for inspecting the Project. Based on the settlement agreement with HUD, we consider this matter closed.

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
Vice President of Operations, Eenhoorn L.L.C.