



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

Phone (312) 353-7832 Fax (312) 353-8866
Internet <http://www.hud.gov/oig/oigindex.html>

AUDIT MEMORANDUM
2001-CH-1802

August 2, 2001

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

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

SUBJECT: Apex Management Company
Multifamily Equity Skimming
Dayton, Ohio

We completed an audit of the books and records of Apex Management Company. We performed the audit to determine whether Apex Management used Crescent Square and Grand Apartments funds in compliance with the Regulatory Agreements and other agreements, and applicable HUD policies and procedures. The review was part of our Operation Safe Home initiative.

We found that Apex Management Company, the former management agent of Crescent Square and Grand Apartments Projects, improperly disbursed \$224,439 of the Projects' funds for ineligible or unsupported costs and ineligible distributions over four years, in violation of the Regulatory Agreements. Specifically, Apex Management paid \$138,698 for ineligible costs and distributions and \$85,741 for unsupported costs. We also found that Apex: submitted false 1993 and 1994 certified financial reports to HUD for the Projects; did not maintain the Projects in a decent, safe, and sanitary manner; and failed to maintain sufficient funds to cover the Projects' security deposits owed to tenants. As a result, the Projects defaulted on their HUD-insured mortgages and deferred maintenance allowing the Projects to deteriorate.

Using the procedures developed under Operation Safe Home, we referred our draft audit findings 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 Apex Management Company's former officials effective June 21, 2001. Under the terms of the settlement, Apex

Management's former President and Manager, without any admission of wrong doing, agreed to pay HUD \$50,000 in six installment payments. The first installment payment of \$25,000 was received on July 13, 2001. Additional installments of \$5,000 each are due on the first of each month between August 2001 and December 2001. As part of the settlement, Apex's former President and Manager agreed not to participate in any HUD funded program for eight years and agreed not to participate as a contractor in any Federal Government contract or in any Federally sponsored program for three years. We will continue to monitor Apex's installment payments under the Settlement Agreement.

If you or your staff has any questions, please contact me at (312) 353-7832 or Heath Wolfe, Assistant District Inspector General for Audit, at (312) 353-6236 extension 2677.

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Senior Advisor, Subcommittee on Criminal Justice, Drug Policy & Human Resources, B 373
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The Honorable Fred Thompson, Ranking Member, Committee on Governmental Affairs, 340
Dirksen Senate Office Building, United States Senate, Washington DC 20510
The Honorable Joseph Lieberman, Chairman, 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 Fogleman, Subcommittee on Oversight and Investigations, Room 212, O'Neil
House Office Building, Washington DC 20515
Associated Director of Housing and Telecommunications Issues, United States General
Accounting Office, 441 G Street N.W., Room 2T23, Washington DC 20548
(Attention: Stanley Czerwinski)
Steve Redburn, Chief of Housing Branch, Office of Management and Budget, 725 17th
Street, N.W., Room 9226, New Executive Office Building, Washington DC 20503
Andy Cochran, House Committee on Financial Services, 2129 House Office Building,
Washington DC 20515