



U.S. Department of Housing and Urban Development
Great Plains Office of District Inspector General
for Audit, 7AGA
Gateway Tower II - 5th Floor
400 State Avenue
Kansas City, Kansas 66101-2406

AUDIT MEMORANDUM
2001-KC-1802

June 28, 2001

MEMORANDUM FOR: Tom W. Visage, Director, Fort Worth Satellite Office, 6V

Signed
FROM: Roger E. Niesen, District Inspector General for Audit, 7AGA

SUBJECT: Review of Prairie Park Apartments, Waterloo, Iowa
Project No. 074-44037

We have completed a review of the operations of Prairie Park Apartments for the period immediately prior to HUD takeover of the property. We performed this review at the request of your office. Our specific objective was to determine whether the assets of the project were sold for a fair price and whether the proceeds from the sales were used to pay for project expenses. We did not review any other operations of the property.

We determined the owners and management agent of Prairie Park Apartments violated the project's Regulatory Agreement by selling property assets without prior written approval from HUD. However, the assets were either sold for their approximate market value or were insignificant in value, and the proceeds from the sale were used for legitimate property expenses. Therefore, this memorandum does not contain any recommendations. Your office should take any actions you deem necessary.

Should you or your staff have any questions, please contact me at (913) 551-5871.

Background

We received an audit request from the Director of the Fort Worth Enforcement Center on July 14, 2000 regarding actions of the owners and management agent of Prairie Park Apartments, located in Waterloo, Iowa. According to the request, Prairie Park was referred to the Enforcement Center on February 8, 1999 as a result of a low Real Estate Assessment Center inspection score. The Enforcement Center and the Multifamily Housing Office in Kansas City sent the owners a notice of Regulatory default and began proceedings to accelerate the mortgage. On January 24, 2000, American Management, Inc., HUD's contract management agent, took over management of the property.

American Management, Inc. found a number of deposit slips from the week previous to their takeover in the project office. Certain chattels that had been used at the project had been sold, and checks for the items deposited into Prairie Park Apartment's operating account. The request we received from the Enforcement Center questioned whether the buyers paid a fair price for the items, and whether the funds that were deposited were properly used for project expenses before American Management, Inc. assumed control of the bank accounts.

Objectives, Scope and Methodology

In accordance with the audit request, our overall objective was to determine whether the assets of the project were sold for a fair price and whether the proceeds from the sales were used to pay for project expenses. We did not review any other operations of the property.

During the course of the review, we conducted interviews with the appropriate Office of Multifamily Housing staff, Prairie Park owners and the management agent. We reviewed books and records maintained by the management agent at their main office. We also reviewed HUD guidelines deemed appropriate to accomplish our objectives.

Audit Results

We determined the owners and management agent of Prairie Park Apartments violated the project's Regulatory Agreement by selling property assets without prior written approval from HUD. However, the assets were either sold for their approximate market value or were insignificant in value, and the proceeds from the sale were used for legitimate property expenses.

The items sold prior to HUD takeover of the project were assets of Prairie Park Apartments. Therefore, the owners and management agent violated section 6, paragraph (b) of the project's Regulatory Agreement, which states, "Owners shall not without the prior written approval of the Commissioner: Assign, transfer, dispose of, or encumber any personal property of the project..." The assets should not have been disposed of without prior written consent from HUD.

We determined the two major assets, the Chevy truck and the 820 John Deere tractor, were sold for amounts approximating fair market value. The proceeds from these two items totaled \$5,500 out of \$7,114 in total proceeds. The other 15 items that accounted for \$1,614 in proceeds were not significant in value. Based on the age of the items, as described by the management agent, the amounts received appeared to be reasonable.

The proceeds from the sale of the assets were deposited into a Prairie Park Apartment's operating account. Prairie Park's owners and management agent used the funds to pay off legitimate debts of the project. The management agent used the funds to pay 39 percent of the balance owed to each creditor for services performed prior to November 1, 1999. These payments were made between January 2000 and March 2000.

While the owner and management agent violated the regulatory agreement by selling the assets prior to HUD takeover, we did not find any significant negative results from this action. In addition, we did not find any evidence that approval for this type of activity would normally have been denied by HUD. Therefore, we are not making any formal recommendations for action by the Departmental Enforcement Center.

Distribution

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