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# AUDIT REPORT



RIDGEVIEW MANOR APARTMENTS

HOPKINS, SOUTH CAROLINA

2002-AT-1006

SEPTEMBER 30, 2002

OFFICE OF AUDIT, REGION 4

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Issue Date September 30, 2002
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Audit Case Number 2002-AT-1006
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TO: Glenda Fesperman, Acting Director, Columbia Multifamily Program  
Center, 4EHM

FROM: Nancy H. Cooper   
Regional Inspector General for Audit, Region 4, 4AGA

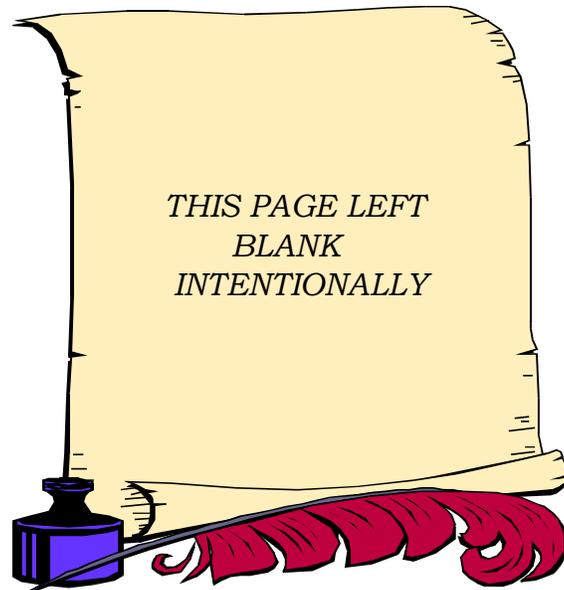
SUBJECT: Ridgeview Manor Apartments  
Hopkins, South Carolina

We have completed an audit of Ridgeview Manor Apartments as requested by your office. This report contains three audit findings that require follow-up action by your office to implement appropriate corrective action.

In accordance with Department of Housing and Urban Development (HUD) Handbook 2000.06 REV-3, within 60 days please provide us, for each recommendation without management decisions, 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. Additional status reports are required at 90 days and 120 days after report issuance for any recommendation without a management decision. Also, please furnish us copies of any correspondence or directives issued because of the audit.

We have provided a copy of the audit report to Ridgeview Manor owners.

If you have any questions, please contact me or contact Terry Cover, Assistant Regional Inspector General for Audit, at (404) 331-3369.



# Executive Summary

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This report presents the results of our audit of Ridgeview Manor, FHA project number 054-43072. Our objectives were to determine if funds provided under a Section 232 HUD insured mortgage were properly expended for authorized activities, and if cost certification statements for the mortgage were valid.

Ridgeview Manor's \$2.9 million project cost certification overstated project costs by \$223,138 due to the inclusion of non-existent, ineligible, and unsupported costs. Additionally, Ridgeview owners disbursed \$212,714 of construction funds and \$61,815 of operating funds for ineligible uses during the period from January 1999 through February 2001. An additional \$30,414 of construction expenditures and \$20,419 of operating expenditures were unsupported. Improper draws of construction (mortgage) funds totaling \$209,119 and unauthorized loans facilitated the ineligible expenditures. The improper draws were also based on non-existent and ineligible costs, and on accounts payables that Ridgeview did not pay in full.

Ridgeview's internal controls were not adequate to ensure proper accounting, timely submission of financial reports to HUD, and to safeguard assets against theft, loss, and misuse. Lastly, A&R Enterprises, a former management company, made unauthorized loans to Ridgeview, retained \$19,571 of rental income belonging to Ridgeview Manor as repayment on the loans, and inflated prices for goods it provided to Ridgeview by \$12,580.

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## Recommendations

We recommended that HUD:

- Require Ridgeview to cure all defaults of the Regulatory Agreement before proceeding to final loan closing. If HUD decides to grant final endorsement of the loan, HUD should recompute the Maximum Insurable Mortgage to exclude \$223,138 of non-existent, ineligible, and unsupported costs.
- Require that Ridgeview owners pay \$212,714 to the mortgagee for ineligible expenditures of mortgage funds.
- Require Ridgeview owners to pay \$61,815 to the operating account to replace funds expended for ineligible purposes.
- Require Ridgeview owners to provide adequate support for disbursements of \$30,414 or pay that amount to the mortgagee.

- Require Ridgeview owners to provide adequate support for \$15,000 paid to an owner's wife from the operating account or repay the operating account from non-project funds.
- Require the construction contractor to submit an audited cost certification statement.
- Require Ridgeview to submit a new security agreement covering all furniture and equipment purchased for use in the facility.
- Require Ridgeview Manor to hire a qualified management agent capable of implementing adequate internal controls, and ensuring that accounting records are maintained in accordance with HUD requirements and financial reports are timely submitted.
- Debar A&R Enterprises and its affiliates from participation in HUD programs.

We provided the draft report to HUD officials and Ridgeview owners on June 13, 2002, and discussed findings with HUD officials and Ridgeview owners at an exit conference on July 2, 2002.

The HUD Office of Multifamily Housing generally agreed with the findings and recommendations presented in the draft report. Ridgeview owners, through their accounting service, Automated Business Services, Columbia, South Carolina, provided written comments and additional information on July 31, 2002. Ridgeview Manor owners disagreed with many of the facts and conclusions presented in the draft. Their comments were incorporated in the Finding sections of this report. Based on the additional documentation they provided, we revised Finding 2 to show that adequate support was provided for five previously unsupported transactions. On September 9, 2002, we issued the final draft incorporating these changes and requested formal comments from the Ridgeview owners. Their written reply dated September 16 did not address the findings and recommendations and provided no substantive information. Both written replies are attached as Appendix C.

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Abbreviation

HUD      Department of Housing and Urban Development

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# Introduction

Ridgeview of the Midlands, LP, dba Ridgeview Manor, is a limited partnership organized under the laws of South Carolina. Its primary mission is to provide a safe, clean, and pleasant atmosphere in nursing and assisted living facilities to those seeking care. In 1998, Ridgeview of the Midlands applied for and was approved to receive a \$2.8 million HUD insured Section 232 mortgage to construct a new 30 bed nursing home, and rehabilitate a previously existing facility into a 26 bed assisted living facility. Ridgeview of the Midlands has no other business activities involving HUD.

Ridgeview of the Midlands is owned as follows:

- (1) limited partner MacJoe LLC owns a 49.5 percent interest. MacJoe is owned by F. McCord Ogburn, President of Ridgeview of the Midlands, and Joseph F. Saleeby, Vice President of Ridgeview of the Midlands, (each having a 50 percent interest in MacJoe),
- (2) limited partners Jerry Yarborough, Secretary of Ridgeview of the Midlands, and James Kirby, Treasurer of Ridgeview of the Midlands, each own a 24.75 percent interest.
- (3) general partner Ridgeview Inc., a corporation organized under the laws of South Carolina, owns a 1 percent interest. Ogburn, Saleeby, Kirby, and Yarborough are each 25 percent shareholders in the general partner.

HUD's Columbia Office of Multifamily Housing in Columbia, South Carolina, is responsible for overseeing Ridgeview of the Midlands compliance with HUD requirements.

Ridgeview of the Midlands maintains books and records for the facility at various locations including a previous accountant's office in Columbia, South Carolina; the current bookkeeping service facility in Columbia, South Carolina, and the Ridgeview Manor facility, located at 1645 Ridge Road, Hopkins, South Carolina.

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## Audit Objectives

The objective of our audit was to determine if funds provided under a Section 232 HUD insured mortgage were properly expended for authorized activities. Further, it was our objective to determine if the cost certification for the mortgage was valid. Due to the conditions noted during the audit, we expanded the audit scope to include tests of operating expenditures.

## Audit Scope and Methodology

To accomplish our objectives, we interviewed Columbia, SC, Office of Multifamily Housing staff and Ridgeview owners, employees, and business associates, and we reviewed pertinent project files at the HUD office and

Ridgeview office. Our audit included evaluations and tests of:

- management controls pertinent to our audit,
- project accounting records and supporting documentation,
- mortgage draw requests submitted by Ridgeview,
- the project cost certification and supporting documentation, and
- compliance with program requirements.

To ensure that the cost certification was valid, we reviewed each line item and traced the certified cost back to supporting documentation. To evaluate the propriety and accuracy of operating expenditures and accounting records we selected two non-representative samples of expenditure transactions. The results of these transaction tests cannot be considered representative of all transactions. We selected 25 transactions from the operating account check register for the period November 2000 through February 2001, and 26 transactions from the general ledger for the period January 1999 through October 2000. We selected transactions involving high and even dollar amounts, payments to cash, and payments to persons/entities that did not appear to be 'normal' vendors. We also examined four months of bank records to confirm payments because the owners were unable to provide any supporting documentation. We also reviewed each transaction relating to a line of credit established by Ridgeview.

Our audit primarily covered the period of November 1998 through August 2000. However, we extended the period as deemed necessary to achieve our objectives. We performed the audit from August 2001 through June 2002. We performed the audit in accordance with generally accepted government auditing standards.

# Ridgeview Owners Overstated Project Costs and Incurred Ineligible and Unsupported Project Costs

Ridgeview Manor's certified project cost statement (a) overstated project costs by \$223,138 due to inclusion of non-existent, ineligible, and unsupported costs, and (b) omitted other costs paid and payable of \$65,073. Ridgeview owners also disbursed \$212,714 of construction funds and \$61,815 of operating funds for ineligible uses. An additional \$30,414 of construction expenditures and \$15,000 of operating expenditures were unsupported. These improper disbursements were facilitated by improper mortgage draws of \$209,119 and unauthorized loans and lines-of-credit totaling at least \$217,591. These conditions occurred, in part, because the facility generated insufficient revenues to cover operating expenses, and the owners used mortgage funds and unauthorized loans to make-up shortfalls rather than contribute additional capital. As a result, Ridgeview Manor owners overstated the project certified cost and risked the financial viability of the project. The overstatement of project costs and improper use of mortgage funds undermined the purpose of the section 232 program and could have caused HUD to over insure the mortgage.

## Criteria

The project owner must certify that costs submitted on draw request forms have been paid or will be paid within five days of receiving loan funds. The cost certification statement (column A) should include costs actually paid in cash as of the date of the form. Column B of the certification form should include all costs to be paid within 45 days (payables) of the date of the form.<sup>1</sup> The forms also require that the owner certify that all prior work, labor, and materials to be paid for with the requested funds are satisfactory and in accordance with contract drawings.<sup>2</sup>

HUD regulations state that owner advances made for reasonable and necessary operating expenses may be repaid from surplus cash at the end of the annual or semi-annual period. However, repayment of owner advances when the project is in a non-surplus cash position may subject the owner to criminal and civil monetary penalties.<sup>3</sup>

<sup>1</sup> HUD Form 92403 (8/94)

<sup>2</sup> HUD Handbook 4470.2 Rev 1 Chapter 4-1 (4/94)

<sup>3</sup> HUD Handbook 4370.2 Rev 1 Chapter 2-11

Mortgage funds were improperly drawn

Ridgeview Manor owners improperly drew \$209,118.90 of construction loan funds by overstating costs cited in draw requests.

- Price quotations - Ridgeview submitted price quotations totaling \$153,512.27 with draw requests. The price quotes appeared to be invoices, but were not billed to, nor paid by, Ridgeview. The vendors informed us that the 'invoices' were price quotations rather than bills. Certified construction costs also included these price quotations.
- Costs not incurred - Ridgeview Manor drew \$37,500 for pre-marketing expenses shown as paid or payable to two management companies. However, these costs were not incurred and no corresponding disbursements were made. One management company stated they did not bill Ridgeview for the \$20,800 listed in the draw request. Ridgeview Manor owners stated that the other management company, A&R Enterprises, forgave the \$16,700 debt (for pre-marketing expense) and Ridgeview transferred the funds to its operating account.
- Costs Not Paid - Draw requests included \$18,106.63 for payables that were not paid to the vendors. Ridgeview Manor owners drew \$15,383.74 in one request and did not pay the vendor. Further, the owners drew \$2,722.89 for equipment and did not pay another vendor. The cost certification also improperly included the \$2,722.89 drawn but not paid to the vendor.

Through improper draw requests, project owners were able to circumvent the need for additional capital contributions to cover shortages in operating funds and to incur ineligible expenses.

Ridgeview's owners stated that they submitted documentation with draw requests that was acceptable to HUD, and if the documentation was incomplete, they should have been notified at that time. As explained to the

owners at the exit conference, HUD does not audit transactions documented in draw requests. Our audit found that Ridgeview overstated costs submitted with its draw requests, because it had no evidence that it paid \$209,119 of purported costs.

Unauthorized loans were obtained

Ridgeview Manor improperly established at least three loans/lines of credit without HUD approval. The unauthorized loans allowed the owners to avoid making capital contributions to cover operating shortages and ineligible costs.

We identified two loans totaling \$22,500 from the general contractor, and a revolving line of credit for \$60,000 from First Community Bank. Ridgeview received advances on the line of credit totaling \$135,091. Ridgeview deposited at least \$50,000 from the line of credit in the construction account. Ridgeview also received \$60,000 from A&R Enterprises, a former management company, which was identified as operating loans by an A&R official. A&R had no documentation to show the funds were loans, but provided documentation confirming wire transfers from A&R's bank account to Ridgeview's account for \$25,000 on November 8, 1999, and \$35,000 on August 28, 2000. Further, A&R identified a \$25,000 payment from Ridgeview on December 15, 1999, as repayment of the corresponding "loan."

We also noted other deposits to the construction account totaling \$30,238.48, but were unable to identify their source.

HUD Regulations prohibit an insured project from incurring liabilities (other than the mortgage) that are not in the form of HUD approved promissory notes. By accepting a loan from their general contractor, Ridgeview created an identity of interest with the contractor. HUD requires that the contractor submit an audited cost certification when an identity of interest exists.

Ridgeview's owners stated orally at the exit conference and in their written reply to the draft report that they did not receive loans from A&R Enterprises nor their contractor. Their written reply stated that amounts cited as loans by an A&R official were management fees not paid to A&R.

This explanation does not logically explain \$60,000 wired to Ridgeview's bank account from A&R's bank account. Correspondence dated May 21, 2001, from Ridgeview's current accounting service to HUD also acknowledged debt owed to A&R Enterprises. An invoice, correspondence, and repayment by Ridgeview provide conclusive evidence that Ridgeview received loans from the contractor. Thus we conclude that Ridgeview did receive undocumented loans from both A&R and the contractor.

Cost certification contained non-existent, ineligible and unsupported costs

Ridgeview Manor's project cost certification statement was overstated by \$223,137.67 due to the inclusion of non-existent, ineligible, and unsupported costs. Costs paid were overstated by \$221,594.81 and costs payable were overstated by \$1,542.86. We also identified \$6,768.77 of paid costs and \$58,303.76 of payables that were omitted from the cost certification statement. Overstatement of the project cost could have resulted in HUD overstating the Maximum Insurable Mortgage, putting excess HUD funds at-risk. Furthermore, the incorrect cost certification would allow Ridgeview owners to deposit insufficient funds in escrow at the loan closing to cover outstanding payables.

Ridgeview's cost certification identified \$2,432,015.97 of paid costs and \$432,898.37 of payable costs as of August 31, 2000. Overstatements of eligible paid costs totaled \$221,594.81<sup>4</sup>, including the following items.

- Non-existent Costs – Certified costs included \$188,710.53 of non-existent costs. Price quotations on equipment for \$153,512.27 were improperly included in the cost certification. Pre-marketing expense of \$18,650 that was not incurred was improperly included. An \$18,650 check was written to a former management company, but had been endorsed by Ridgeview and deposited in the Ridgeview operating account. As such, it did not represent an expense to Ridgeview. Additionally, Ridgeview included the \$104,631 escrow accounts (working capital, minor movables and operating deficit) in certified costs, but had only paid

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<sup>4</sup> Cost overstatements identified in this section exceed the total overstatement of \$221,594.81 by \$10,326.48. This difference exists because documents supporting the cost certification totaled \$10,326.48 more than the \$200,185.18 claimed on line 15b of the certification.

\$88,082.74<sup>5</sup> for eligible expenses. The remaining \$16,548.26 was improperly included in the certification.

- Duplicated Costs – The cost certification line item for ‘minor movables’ included \$9,687.95 for goods procured using escrow funds. Ridgeview Manor duplicated these costs by also including them in the “other approved financing expense” line of the certification statement.
- Ineligible Costs – Ineligible costs totaling \$33,529.78 were included in the cost certification. Ineligible costs included an \$8,250 consultant fee that had been refunded to Ridgeview Manor, \$15,393.39 in architect design fees that had been previously disallowed by HUD, \$8,000 for a software lease that should have been paid from operating funds and \$1,886.39 for a computer that was missing during our review of assets.
- Costs Difference – The cost certification contained differences between supporting documentation and certified cost that understated the total by \$6.97.

The cost certification overstated construction costs payable by \$1,542.86.

- Unsupported costs - The cost certification included \$23,271.04 of unsupported payables. Ridgeview certified these costs as payable to a vendor, but was unable to provide any supporting documentation.
- The cost certification understated costs payable by \$21,728.18 because damages due from the general contractor were incorrectly computed.

Ridgeview’s owners’ response after the exit conference stated: “The Cost Certification was performed by a HUD approved CPA. The Cost Certification was approved when submitted. The partners feel it is unreasonable to ask for clarification and documentation after this extended period

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<sup>5</sup> Withdrawals from escrow were \$2,722.89 more than costs paid because one vendor was not paid. This payable was supported for \$2,871.96, but was omitted from the payables section of the cost certification by Ridgeview. See section on omitted costs payable.

Finding 1

of time.” We deem Ridgeview’s owners’ statements to be unresponsive to the deficiencies identified by our audit.

Cost certification omitted some costs

The cost certification omitted \$6,768.77 of paid costs and \$58,303.76 of payables.

Invoices for linens and a copying machine supported the \$6,768.77 of paid costs. The \$58,303.76 of payables included equipment we confirmed was present at the facility. An unpaid invoice from the general contractor supported \$55,431.80 of equipment, and we identified \$2,871.96 payable to another vendor while confirming transactions. These payables were also omitted from Ridgeview’s general ledger. Since these costs were omitted from the cost certification and/or had not been paid, HUD will need to determine whether they may be included in certified cost and the calculation of the maximum insurable mortgage.

Ineligible and unsupported disbursements during project construction

Ridgeview Manor owners disbursed an additional \$286,412.03 of construction and operating funds for ineligible and unsupported purposes. These disbursements were not included in the project cost certification and, thus, are in addition to ineligible costs identified in the cost certification. The following table summarizes the ineligible and unsupported disbursements.

Table 1

Ineligible and Unsupported Disbursements		
Description - Ineligible:	Construction	Operating
Improper transfers from construction/ mortgage funds to the operating account.	\$ 88,375.00	
Use of construction funds for operating expenses.	4,902.11	
Payments to Banks for unknown costs.	31,767.00	
Payments on Unauthorized Line of Credit.	16,139.63	\$61,814.69
Payment on Unauthorized Loan from Contractor.	13,000.00	
Payment to A&R Enterprises for undocumented loan.	25,000.00	
<b>Ineligible Subtotal:</b>	<b>\$179,183.74</b>	<b>\$61,814.69</b>
Description – Unsupported:		
Payments to Owner & Spouse for services.		15,000.00
Payments from construction account, payable to Ridgeview, not traceable to operating accounts.	3,161.37	
Untraceable payments, could not determine payee.	27,252.23	
<b>Unsupported Subtotal</b>	<b>\$30,413.60</b>	<b>\$15,000.00</b>
<b>Total Ineligible and Unsupported</b>	<b>\$209,597.34</b>	<b>\$76,814.69</b>

- Ridgeview Manor owners improperly transferred \$88,375 from the construction account to the operating and payroll accounts.
- Ridgeview Manor owners drew checks totaling \$4,902.11 on the construction account for payment of miscellaneous operating expenses.
- Ineligible and Unsupported Disbursements – Ridgeview Manor owners paid \$31,767 to First Union and First Community Banks. Ridgeview owners did not include these disbursements in the cost certification statement and were unable to produce supporting documentation. Therefore, we deemed these disbursements as an ineligible use of construction funds.
- Ridgeview Manor owners made payments on the unauthorized loans and line of credit while in a non-surplus cash position. Ridgeview Manor paid \$16,139.63 from construction funds on the unauthorized line of credit and \$13,000 on loans from its construction contractor. Ridgeview owners also paid \$61,814.69 from operating funds for repayments on the line of credit.
- Payment for \$25,000 was made via check No. 130, dated December 15, 1999, to A&R Enterprises. The check noted the payment as “Computer Software,” (an ineligible use of construction funds), but was not recorded in Ridgeview’s books and was not included in Ridgeview’s cost certification. A&R stated this was a loan repayment but had no supporting documentation for a loan. However, the payment correlated with a \$25,000 wire transfer from A&R to Ridgeview on November 8, 1999, that A&R cited as a loan to Ridgeview. Ridgeview owners stated no loans were received from A&R, but documentary evidence shows that they did receive \$60,000 in wire transfers. We deemed this an ineligible use of construction funds.

- Ridgeview Manor owners paid \$15,000 to a partner's wife. The partner stated the payments were for his wife's services as the acting director of nursing and were not intended as management fees. However, the partner had previously submitted a written explanation to HUD stating the payments were for general manager services provided by the partner and wife. Correspondence from Ridgeview's attorney to HUD stated the payments were for assisting the owner in management of the facility. Although the wife was paid as a contractor, no contract or bills for her services were provided. HUD had not approved the partner or wife to provide management services.
- Unauthorized Transfers of Funds from Construction Account – Ridgeview owners transferred \$30,413.60 from the construction account to unidentified payee accounts. Ridgeview's bank statements showed four transfer transactions totaling \$27,252.23. Ridgeview could not provide support for the purpose and destination of the transfers.

- Miscellaneous Debit 12/18/98 \$ 712.59
- Miscellaneous Debit 08/02/00 \$15,000.00
- Miscellaneous Debit 05/08/01 \$ 3,539.64
- Miscellaneous Debit 05/09/01 \$ 8,000.00

Checks for the remaining \$3,161.37 were made payable to Ridgeview Manor. However, we could not identify the checks as being deposited into Ridgeview's operating accounts and their purpose was not documented.

At the exit conference, Ridgeview's owners acknowledged that it was a mistake to transfer funds from the construction account to the operating account. They stated that their former management agent, A&R Enterprises, instructed them to make the transfers.

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Ridgeview Comments

Comments on the initial draft report, at the exit conference by the Ridgeview owners and in a written response from their accounting service, were incorporated into the Findings. A final draft report was then issued with a request for the owners' formal written comments. Their written reply did not address the findings and provided no additional information.

  
OIG Evaluation of  
Ridgeview Comments

We incorporated our evaluation of Ridgeview's comments on the initial draft report into the finding above. Since their written reply to the final draft provided no information and did not address the finding, we have no further evaluation comments.

  
Recommendations

We recommend that you:

- 1A. Require Ridgeview to cure all violations of the Regulatory Agreement before proceeding to final loan closing. If HUD decides to grant final endorsement of the loan, HUD should recompute the Maximum Insurable Mortgage to exclude \$223,137.67 of non-existent, ineligible, and unsupported costs, and determine whether to allow any of the \$65,072.53 omitted from the project cost certification.
- 1B. Require Ridgeview owners to pay \$212,713.52 to the mortgagee for ineligible disbursements of construction funds, (\$33,529.78 in the cost certification and \$179,183.74 other ineligible.) Repayment must be from non-project funds.
- 1C. Require the owners of Ridgeview to pay \$61,814.69 into the operating account to replace ineligible disbursements. Repayment must be from non-project funds.

- 1D. Require Ridgeview owners to provide adequate support for \$30,413.60 disbursed from the construction account, or pay the mortgagee from non-project funds.
- 1E. Require Ridgeview owners to provide adequate support for \$15,000 paid to an owner's wife from the operating account, or repay the account from non-project funds.
- 1F. Require the general contractor to submit an audited cost certification statement.

## Ridgeview Internal Controls Were Inadequate

Ridgeview Manor's accounting and management controls were inadequate to ensure that a) accounting reports were accurate and timely submitted to HUD, b) books and records were complete, accurate, and transactions were properly supported, and c) assets were properly safeguarded against theft, loss, and misuse. The controls were inadequate because Ridgeview Manor's owners did not follow guidance prescribed in HUD Handbooks and its Regulatory Agreement. As a result, Ridgeview did not timely submit monthly accounting reports to HUD, accounting records were incomplete, inaccurate and unreliable, and project assets were at risk for loss, theft, or misuse.

### Criteria

HUD regulations required project owners and management agents to maintain (1) accounting records in accordance with Generally Accepted Accounting Principles and (2) an approved invoice, bill, or other supporting documentation for operating disbursements. HUD regulations further provide that invoices should be marked "paid" and the check number and date should be posted to invoices. Regulations also required that numbered rent receipts be used and reconciled to actual collections.<sup>6</sup> Generally Accepted Accounting Procedures encourage separation of duties, defined in the Office of Management and Budget Circular 123 as separation of the duties of authorizing, processing, recording, and reviewing transactions between multiple individuals.

HUD regulations also provided that if the owner/agent failed to follow proper record-keeping and reporting requirements, or an owner/agent did not provide the required reports to HUD, the owner/agent may be considered in violation of the applicable HUD agreement or contract.

Ridgeview owners did not timely submit accounting reports

Ridgeview Manor and its management company A&R Enterprises did not timely submit accounting reports as requested by HUD. HUD was not provided with monthly accounting reports for October 2000 through April 2001 until May 2001. Ridgeview Manor owners attributed this deficiency in part to a lack of documentation resulting from a poor relationship with their prior management company

<sup>6</sup> HUD Handbook 4370.2

(A&R Enterprises). However, Ridgeview owners fired A&R Enterprises in October 2000 and took over management responsibilities, including preparation of monthly accounting reports, at that time.

Audited financial statements were due to HUD 60 days after the December 31 close of Ridgeview's fiscal year. As of October 16, 2001, audited financial statements had not been submitted to HUD. During our audit, Ridgeview owners provided us with Fiscal 2000 financial statements marked "Tentative" with a tentative auditor disclaimer on the fairness of the financial reports. Annual and monthly accounting reports were a critical tool for evaluation of project performance. Without timely reports, HUD could not assess the project's financial status and identify any corrective actions needed.

Ridgeview Manor's books and records were not complete and accurate

We noted numerous accounting deficiencies during the time periods when A&R Enterprises was the management agent and, subsequently, when Ridgeview owners managed the project.

Ridgeview did not record construction expenditures and receipts of mortgage funds in its general ledger. Thus, the general ledger was materially incomplete and accounting controls over project construction and funding were non-existent.

We reviewed 25 operating transactions totaling \$47,951.41 between November 2000 and February 2001 when Ridgeview owners managed the project. Nine transactions totaling \$34,753.73 were not adequately supported and/or were not properly recorded. After the exit conference on July 2, 2002, Ridgeview provided satisfactory documentation for five transactions, as noted in the table below.

Transaction Date	Transaction Source	Transaction Amount	Observations
11/21/00	Check # 50036	\$ 300.00	Supporting documentation for the first five transactions was provided after the July 2, 2002, exit conference.
12/09/00	Check # 50067	417.90	
10/10/01	Check # 50115	6,465.87	
01/11/01	Check # 50141	300.00	
01/25/01	Check # 50156	300.00	
01/11/01	Check # 50142	488.28	Interest payment on a line of credit was an ineligible expense because project was in a non-surplus cash position. Transaction was improperly recorded to wages/payroll payable account.
01/12/01	Check # 50146	25,000.00	Invoice from MTX , a physical therapy firm, provided after exit conference. Payment incorrectly recorded to wages/payroll payable account.
12/14/00	Check # 50089	175.24	Expenses misclassified – various items such as copier paper and bakeware incorrectly classified as housekeeping expense.
01/25/01	Check # 50153	1,306.44	Transaction was a patient refund, improperly classified in suspense account.
Totals		<u>\$34,753.73</u>	Supported after 07/02/02 = <u>\$7783.77</u> Total Ineligible = <u>\$488.28</u> Misclassified = <u>\$26,481.68</u>

We reviewed 26 transactions totaling \$207,161.56 recorded by A&R Enterprises between January 1999 and October 2000. Sixteen transactions totaling \$95,419.44 were not adequately supported.

Finding 2

Transaction Date	Payee	Unsupported Amount	Observations
05/99	Petty Cash	\$ 353.11	Unsupported – no receipts identifying purpose of expense.
07/99	Petty Cash	364.65	Unsupported – no receipts identifying purpose of expense.
03/99	No Payee	50.00	Unsupported – no invoice and Payee not identified
03/99	No Payee	290.00	Unsupported – no invoice and Payee not identified.
03/99	No Payee	202.76	Unsupported – no invoice and Payee not identified.
02/00	Petty Cash	986.47	Unsupported – no receipts identifying purpose of expense.
06/00	Petty Cash	867.51	Unsupported – no receipts identifying purpose of expense.
06/00	Petty Cash	431.62	Unsupported – no receipts identifying purpose of expense.
07/00	Petty Cash	467.62	Unsupported – no receipts identifying purpose of expense.
08/00	Petty Cash	513.11	Unsupported – no receipts identifying purpose of expense.
08/00	Petty Cash	392.09	Unsupported – no receipts identifying purpose of expense.
10/00	Petty Cash	500.00	Unsupported – no receipts identifying purpose of expense.
03/00	Deposit	25,000.00	No supporting documentation for \$25,000 included in deposit of \$59,089.09. Audit found this was a transfer from construction funds. <sup>7</sup>
04/00	Deposit	15,000.00	No supporting documentation for \$15,000 included in deposit of \$48,663.61. Audit found this was a transfer from construction funds. <sup>7</sup>
08/00	Deposit	35,000.50	No supporting documentation – no loan document.
10/00	A&R Enterprises	15,000.00	Unsupported – no documentation for payment.
<b>Total</b>		<b><u>\$95,419.44</u></b>	Unsupported Deposits = <u>\$75,000.50</u> Unsupported Disbursements = <u>\$20,418.94</u> <sup>8</sup>

<sup>7</sup> The two unsupported deposits (\$25,000 and \$15,000) are included in \$88,375 of improper transfers cited in Finding 1

<sup>8</sup> Of the \$20,418.94 shown, the \$15,000 check to A&R Enterprises was returned by the bank and not paid. Therefore, Recommendation 2B addresses the balance of \$5,418.94.

We also noted various other transactions that were improperly recorded, including various loan transactions that were unrecorded or were improperly recorded as revenue or other income. For example:

- In December 2000, \$28,300 obtained from the line of credit was recorded as patient revenue.
- Ridgeview's general contractor provided a \$9,500 loan that was not recorded in Ridgeview's books.
- Review of bank records and the general ledger identified receipts totaling \$3,273 for August 1999 that were recorded in the general ledger, but were not deposited into the bank.
- In September 1999, \$14,904 was paid from the checking account, but no entries for disbursements were made to the general ledger.
- In October 1999, receipts totaling \$708.84 were posted to the general ledger, but did not appear in the bank statements.
- In November 1999, \$7,252.70 of expenses was recorded in the general ledger, but the expenses were not actually paid.

See Finding 3 for other examples of improper record keeping.

Petty cash was not properly safeguarded

The separation of duties over petty cash was not sufficient to protect funds from theft, loss, or misuse. The asset custodian and approving officials had access to the funds and made petty cash disbursements. The current bookkeeping service had acknowledged that the petty cash fund was not properly safeguarded and was planning to develop and implement control procedures.

Cash receipts and paid invoices were not properly maintained

Ridgeview Manor did not maintain cash receipts or paid invoices in accordance with HUD regulations. Ridgeview Manor staff stated they did not use numbered receipts, and the bookkeeping service did not mark invoices and corresponding vouchers as paid and did not post the check number on paid invoices. As a result, cash receipts were

not adequately safeguarded and there was no assurance that a voucher/invoice could not be submitted for a duplicate or second payment.

Security agreement omitted some assets

We also noted that the security agreement submitted by Ridgeview Manor did not identify all assets purchased for the project. The security agreement included only \$112,181 of \$234,850 of assets included in the certified cost. Comparison of the assets included in the cost certification and the assets included in the security agreement showed that furniture for the renovated assisted living facility was not included in the security agreement. HUD regulations required that equipment and furniture included in replacement cost, even if paid for by the mortgagor, be included in the mortgage security and covered by a security agreement or other instrument creating a security interest for the mortgagee.

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### Ridgeview Comments

Comments on the initial draft report, at the exit conference by the Ridgeview owners and in a written response from their accounting service, were incorporated into the Findings. A final draft report was then issued with a request for the owners' formal written comments. Their written reply did not address the findings and provided no additional information.

---

### OIG Evaluation of Ridgeview Comments

We incorporated our evaluation of Ridgeview's comments on the initial draft report into the finding above. Since their written reply to the final draft provided no information and did not address the finding, we have no further evaluation comments.

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### Recommendations

We recommend that you:

- 2A. Require Ridgeview Manor to hire a qualified management agent capable of ensuring adequate internal controls are implemented, accounting records are maintained in accordance with HUD requirements, and financial reports are timely submitted.

- 2B. Require Ridgeview owners to provide proper supporting documents or repay the operating account \$5,418.94 for unsupported disbursements. Repayment must be from non-project funds.
  
- 2C. Require Ridgeview to submit a new security agreement covering all furniture and equipment purchased for use in the facility.

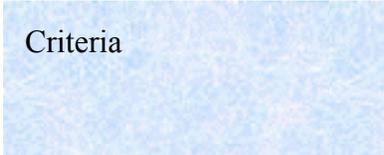


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## Prior Management Company Violated HUD Requirements

A&R Enterprises, the management company for Ridgeview Manor from August 1999 through October 2000, violated its Management Agreement and HUD regulations. A&R Enterprises (a) improperly retained project rental income, (b) improperly charged Ridgeview Manor inflated prices for goods it provided for the facility, and (c) did not maintain accurate accounting records and provide required accounting reports to HUD. As a result, A&R Enterprises improperly benefited at Ridgeview's expense, and Ridgeview Manor incurred revenue losses of \$19,570.67 and excessive development costs of \$12,579.94. Additionally, A&R Enterprises could not provide HUD with accurate financial information on the project.

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### Criteria

A&R Enterprises entered into a HUD Management Agreement that required it to comply with HUD regulations and the project Regulatory Agreement. The Regulatory Agreement provided that all rents/receipts were to be deposited in the name of the project in a financial institution whose deposits are Federally insured. The Management Agreement required that the A&R Enterprises assure that all expenses of the project are reasonable and necessary; exert reasonable effort to maximize project income and take advantage of discounts, rebates, and similar money-saving techniques; obtain contracts, materials, supplies, and services on terms most advantageous to the project; and credit the project with all discounts or commissions received. HUD regulations also required that all operating account disbursements be supported by an approved invoice/bill or other supporting documentation, and that books be maintained in accordance with Generally Accepted Accounting Principles.

HUD regulations also provided that if the owner/agent failed to maintain project books and records in a reasonable condition for proper audit under HUD requirements or an owner/agent did not provide the required reports to HUD, the owner/agent may be considered in violation of the applicable HUD agreement/contract. HUD directives provide that persons may be debarred from participation in any HUD program or activity for a material violation of a statutory or regulatory provision or program requirement

applicable to a public agreement or transaction, including conditional or final commitment to insure.

Management agent made unauthorized loans and retained project income

A&R Enterprises made unauthorized loans to Ridgeview (see Finding 1) and retained a \$19,570.67 Medicaid reimbursement check that should have been deposited into the operating account of Ridgeview Manor. A&R Enterprises deposited this check in its bank account on October 23, 2000, as partial repayment of an unapproved loan in made to Ridgeview Manor. A&R Enterprises and Ridgeview's owners did not obtain HUD approval for the loans as required by HUD regulations. Ridgeview owners stated they talked with the attorney of A&R Enterprises, but did not take legal action to recover the funds because they had insufficient funds to file suit. Correspondence indicates that one of Ridgeview's owners may have authorized A&R to use the check to partially repay loans. The Ridgeview ledger balance for Loan Payable to A&R Enterprises was \$15,429.35, which is equal to the \$35,000 wire transfer to Ridgeview, less the \$19,570.67 Medicaid check.

Management agent inflated prices for goods provided to Ridgeview

A&R Enterprises sold goods to Ridgeview Manor at inflated prices in violation of their Management Agreement. As a result, Ridgeview Manor incurred excessive development costs totaling \$12,579.94.

Goods Purchased	Amount Charged to Ridgeview	Cost From Original Vendor	Excess Costs
4 Pentium II 466 computers	\$ 6,284.28	\$ 4,834.04	\$ 1,450.24
8 Port 100BT network hub	358.02	101.44	256.58
Metal stack cart	3,587.50	2,587.50	1,000.00
Ice machine	3,100.00	2,650.00	450.00
Carpet extractor	3,187.90	2,187.90	1,000.00
216x82 channel canvas	2,905.20	1,452.60	1,452.60
126x82 channel canvas	979.60	489.80	489.80
Freight	369.04	184.52	184.52
Sales tax	212.69	106.35	106.34
Copier	6,000.00	4,743.50	1,256.50
Binder	1,254.60	627.30	627.30
Divider set	1,227.60	613.80	613.80
Spine id	94.50	47.25	47.25
Picture pocket	106.20	53.10	53.10
Chart storage rack	1,260.00	630.00	630.00
Shipping	366.10	183.05	183.05
Tax	197.15	118.29	78.86
Software <sup>9</sup>	8,000.00	5,300.00	2,700.00
<b>Totals</b>	<b>\$39,490.38</b>	<b>\$26,910.44</b>	<b>\$12,579.94</b>

Former management agent did not maintain accurate books and records

A&R Enterprises did not maintain accurate books and records in accordance with HUD regulations and did not provide all required accounting reports to HUD. We found numerous transactions were improperly posted. For example, in August 1999, A&R Enterprises posted deposits of \$3,273.00 to the general ledger. However, these transactions were not deposited in the bank accounts. Similarly, in September 1999, the bank statement showed charges of \$14,904; however, there were no corresponding expense or disbursement entries in the general ledger. As a result, cash balances in the general ledger were overstated and the general ledger cannot be relied upon for accurate financial data.

<sup>9</sup> The \$8,000 software cost, and the \$2,700 excess cost included therein, is reported as an ineligible use of construction funds in Finding 1. Therefore, Recommendation 3A omits the \$2,700 excess cost as a further reduction in the maximum insurable mortgage (\$12,579.94 less \$2,700. = \$9,879.94.)

Further, A&R Enterprises and Ridgeview did not provide required monthly accounting reports to HUD. By not timely submitting these reports, both A&R Enterprises and Ridgeview Manor violated of their agreements with HUD. Untimely and/or inaccurate financial information may result in poor management decisions by project owner's, managers, and HUD.

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Ridgeview Comments

Comments on the initial draft report, at the exit conference by the Ridgeview owners and in a written response from their accounting service, were incorporated into the Findings. A final draft report was then issued with a request for the owners' formal written comments. Their written reply did not address the findings and provided no additional information.

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OIG Evaluation of Ridgeview Comments

We incorporated our evaluation of Ridgeview's comments on the initial draft report into the finding above. Since their written reply to the final draft provided no information and did not address the finding, we have no further evaluation comments.

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Recommendations

We recommend the Office of Housing:

- 3A. Reduce the certifiable project cost by \$9,879.94 for excessive costs and adjust the maximum insurable mortgage accordingly.<sup>9</sup>
- 3B. Instruct Ridgeview's owners to seek recovery from A&R Enterprises of the \$12,579.94 in excessive charges.
- 3C. Debar A&R Enterprises and its affiliates from participation in HUD programs.

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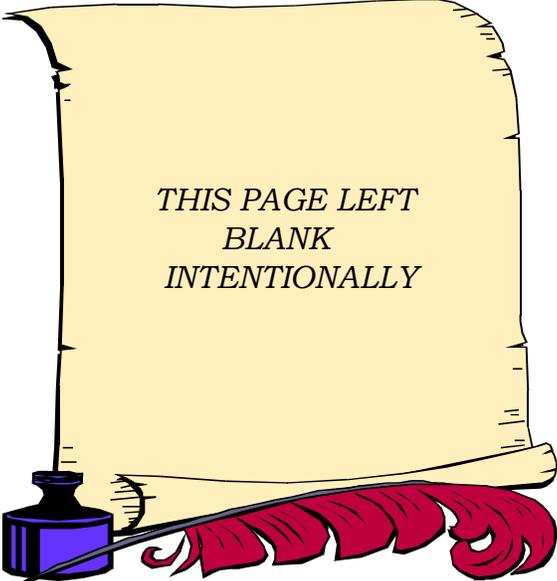
# Management Controls

In planning and performing our audit, we considered management control systems of Ridgeview Manor to determine our auditing procedures. Our review of management control systems was not performed to provide assurance on the management controls. Management controls include the plan of organization, methods, and procedures adopted by management to ensure that goals are met. Management controls include the processes for planning organizing, directing, and controlling program operations.

We assessed the management controls that we determined to be relevant to our audit objectives. We assessed controls pertaining to accuracy of accounting, financial reporting to HUD, safeguarding assets and whether expenditures complied with HUD requirements.

A significant weakness exists if management control does not give reasonable assurance that the entity's goals and objectives are met; that resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data are obtained, maintained, and fairly disclosed in reports.

Significant weaknesses existed in the controls we assessed. The control weaknesses were primary causal factors for Findings 1 and 2.



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## Follow-Up On Prior Audits

This was the Office of Inspector General's first audit of Ridgeview Manor, FHA project number 054-43072. We reviewed the audited project cost certification and accompanying financial statements for the period of May 1, 2000, through August 31, 2000. The Independent Public Accountant's report provided an unqualified opinion on the financial statements. Our audit found numerous and material misstatements in Ridgeview's cost certification and financial records for that period. We concluded that the Independent Public Accountant's report could not be relied upon.

A subsequent audit by another Independent Public Accountant, covering the period September 1, 2000, through December 31, 2000, was provided to us as a "tentative" draft as of October 2001. This report disclaimed an audit opinion due to lack of supporting documentation, identified material weaknesses in internal controls over financial reporting and Federal awards, and noted noncompliance material to the financial statements.

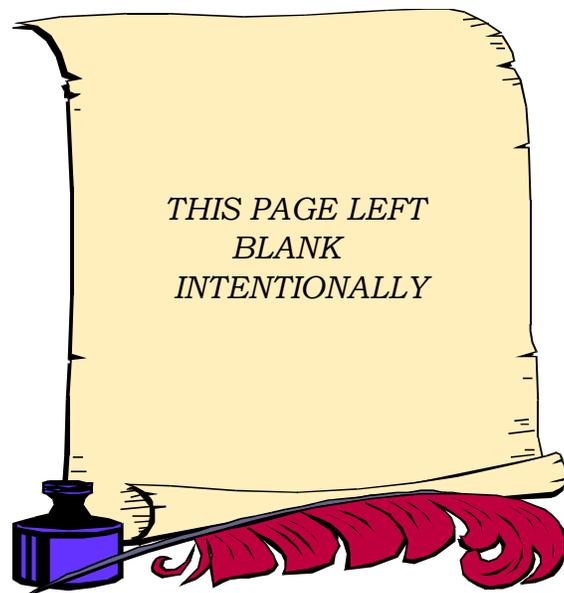


# Schedule of Questioned Costs

Recommendation Number	Ineligible <sup>1/</sup>	Unsupported <sup>2/</sup>
1B	\$ 212,713.52	
1C	61,814.69	
1D		\$ 30,413.60
1E		15,000.00
2B		5,418.94
Total Questioned Costs:	<u>\$ 274,528.21</u>	<u>\$ 50,832.54</u>

<sup>1/</sup> Ineligible costs are costs that are costs charged to a HUD program or activity that the auditor believes are not allowable by law, contract, Federal, State, or local policies or regulations.

<sup>2/</sup> Unsupported costs are costs charged to a HUD program or activity without proper documentation and eligibility cannot be determined at the time of audit. The costs are not supported by adequate documentation or there is a need for legal or administrative determination on the eligibility of the costs. Unsupported costs require a future decision by HUD program officials.



# Schedule of Certified Costs and Payables, Draw Amounts, and Supported Costs/Payables

Line Number	Description	Column A Certified Paid Costs	Total Draws	Supported Paid Costs per Audit
1a	Amount Due Under Lump Sum Construction Contract	\$ 1,610,560.70	\$ 1,832,545.14	\$ 1,610,580.67
2a	Architect's Fee - Design	87,105.39	71,712.00	71,712.00
2b	Architect's Fee - Supervision	31,197.00	32,216.00	31,578.00
3	Interest During Construction	165,299.29	130,325.00	165,299.29
4	Taxes During Construction	11,472.11	11,092.13	11,472.11
5	Property Insurance	13,409.73	14,000.00	13,409.73
6	MIP	28,185.50	28,185.50	28,185.50
7	FHA Exam Fee	8,850.00	8,456.00	8,456.00
8	FHA Inspection Fee	14,093.00	14,093.00	14,093.00
9	Title and Recording Fees	8,148.75	8,198.75	8,148.75
11a	Initial Financing Fee	52,870.00	56,370.00	52,870.00
11b	Permanent Placement Fee	13,185.00	13,185.00	13,185.00
11d	Other Approved Financing Expenses (escrow accounts)	104,631.00	90,805.63	88,082.74
12a	Legal	21,791.75	18,541.75	21,791.75
12c	Mortgagor's Cost Cert. Audit Fee	0	7,500.00	0
13	Engineering, Asbestos, GeoTech, Well	7,930.00	7,930.00	7,930.00
13	Surveyor Charges	6,869.02	6,869.02	6,869.02
15a	Consultant's Fee	17,894.60	9,644.40	9,644.60
15b	Major Movable Equipment	200,185.18	178,789.00	47,113.00
15d	Pre-Marketing	18,650.00	37,500.00	0
15d	Minor Movables	9,687.95	0	0
	Totals	<u>\$ 2,432,015.97</u>	<u>\$ 2,577,958.32</u>	<u>\$ 2,210,421.16</u>

\$ 2,432,015.97	Certified Paid Costs
( 2,210,421.16)	Supported Paid Costs
<u>\$ 221,594.81</u>	Overstated Paid Costs

The above table does not include \$6,768.77 of paid costs for linens and a copier that we identified, but Ridgeview omitted from the cost certification.

Appendix B

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Line Number	Description	Column B Certified Payables	Supported Payables per Audit
1a	Amount Due Under Lump Sum Construction Contract	\$ 376,294.87	\$ 398,023.05
2b	Architect's Fee - Supervision	1,022.00	640.61
9	Title and Recording Fees	352.00	352.00
11d	Other Approved Financing Expenses (escrow accounts)	0	0
12a	Legal	11,465.15	8,500.00
12c	Mortgagor's Cost Cert. Audit Fee	7,500.00	7,500.00
13	Surveyor Charges	1,600.00	1,600.00
15b	Major Movable Equipment	34,664.35	14,739.85
	TOTAL	<u>\$ 432,898.37</u>	<u>\$ 431,355.51</u>

432,898.37 Certified Payables  
(\$431,355.51) Supported Payables  
\$ 1,542.86 Overstated Payables in Certified Cost

This table does not include \$58,303.76 of payables that Ridgeview omitted from the cost certification. (\$2,871.96 was omitted from line 11d, and \$55,431.80 was omitted from line 15b.)

# Auditee Comments

**RIDGEVIEW OF THE MIDLANDS LP**  
D/B/A RIDGEVIEW MANOR  
1645 RIDGE ROAD  
HOPKINS S.C. 29061

September 16, 2001

Ms. Nancy H. Cooper  
District Inspector General  
For Audit Southeast/Caribbean  
U. S. Department of Housing and  
Urban Development  
Office of Audit, Box 42  
75 Spring Street, SW, Room 330  
Atlanta, Georgia 30303-3388

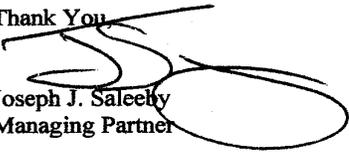
Dear Ms. Cooper:

On September 10, 2002, we received your letter dated September 9, 2002, and the Draft Audit Report attached thereto. Please consider this letter the formal response of Ridgeview of the Midlands, L. P. to your letter and Draft Audit Report.

As has been the case in every activity we have experienced with HUD, we have spent a great deal of time and money trying to provide, to the best of our ability, everything requested by your organization. While understanding the reason for the questions that have been asked, everything we have provided in answer to the questions, appears to have been totally ignored. Additionally, it appears we are presumed guilty until we are able to provide you with information which we have informed you on more than one occasion, is either non-existent or impossible for us to recover from our HUD required and approved management company. It is important to point out that we requested this audit in an effort to have your help in recovering this information. To the best of my knowledge, HUD had done nothing to help in this matter as we are in litigation trying to obtain the missing information.

It appears we are not in a position to satisfy your unreasonable requests for answers to questions proposed by this very poorly orchestrated and researched audit. Therefore, further requests for answers from your office will not be considered and no more of our time and money will be spent in this wasted effort.

Thank You,

  
Joseph J. Saleeby  
Managing Partner

CC: Senator Fritz Hollings, U. S. Senate  
Mr. Wayne Wells, HUD

JJS/rmj



**AUTOMATED BUSINESS SERVICES**  
POST OFFICE BOX 21664 • COLUMBIA SC 29221

July 31, 2002

Mr. Terry A. Cover, Assistant Director Inspector General  
U. S. Department Of Housing and Urban Development  
75 Spring Street SW Suite 330  
Richard B. Russell Federal Building  
Atlanta, Georgia 30303

Dear Mr. Cover:

This letter is in response to the June 13, 2002 letter, from Ms. Nancy H. Cooper, Regional Inspector General for Audit Southeast/Caribbean, to Mr. F. McCord Ogburn, President of Ridgeview of the Midlands, LP and the draft audit report attached thereto. Automated Business Services is the current provider of payroll and accounting services, including accounts receivable and payable, for Ridgeview of the Midlands, LP and in this capacity have been requested, by the partners, to provide one coordinated preliminary response to the draft audit report referenced above.

During the exit conference conducted in Columbia on July 2, 2002, you requested that you be provided, within thirty days, any concrete evidence that may be contrary to the findings specified in the draft audit report. The purpose of this letter is to provide concrete evidence contrary to the findings therein, where applicable, as well as provide the preliminary response of the partners.

Beginning with Finding 1- Ridgeview Owners Overstated Project Costs and Incurred Ineligible and Unsupported Project Costs, on page 7 of the draft audit report as now constructed, comments/findings are as follow:

Note: Automated Business Services was not the provider of accounting services until October 20, 2000. Information relative to Finding 1 provided by partners Mac Ogburn and Joe Saleeby.

Mortgage Funds Were Improperly Drawn

At the time the draw requests were submitted, the documentation accompanying each was approved by HUD and Prudential. If there were problems with the documentation, or if the documentation was incomplete, the partners should have been notified at that time. As you are aware, because of the hostile termination of the management agreement with the management company, the supporting documentation was either lost or destroyed by the management company. In any event, the partners' best efforts, and HUD's best efforts, have been unsuccessful in achieving any level of cooperation from the management company.

The pre-marketing expenses, and associated payments, were for time actually spent by employees of the management companies and Ridgeview Manor in performing the pre-marketing preparation and functions. The deposit to the Ridgeview operating account was to compensate the facility for the time spent by their employees in performing the pre-marketing functions. As for "one management company stated they did not bill Ridgeview for the \$20,800", you have in hand, or I can provide copies of invoices totaling this amount. These documents do state clearly "invoice" and were paid accordingly.

Page Two

Unauthorized Loans Were Obtained

The \$75,000 was not a loan. This was the amount of management fees not paid due to the management companies failing to adhere to the management agreement.

The \$22,500 was not a loan. This amount was an advance payment for liquidated damages from the contractor for failure to perform by the sprinkler system contractor. This was to offset part of the contractor total bill.

The line of credit at First Community Bank was just that, a line of credit like is used by most businesses to help compensate for the ups and downs of cash flow. The partners did not realize that a line of credit for which they were personally responsible had to be approved by HUD. Since this was a line of credit for which the partners were personally responsible, it should not have been on the books of the facility. This situation has been corrected.

Cost Certification Contained Non-Existent, Ineligible and Unsupported Costs

At the time the draw requests were submitted, the requests, and the documentation accompanying each, was approved by HUD and Prudential. If there were problems with the documentation, or if the documentation was incomplete, the partners should have been notified at that time.

The Cost Certification was performed by a HUD approved CPA. The Cost Certification was approved when submitted. The partners feel it is unreasonable to ask for clarification and documentation after this extended period of time.

Cost Certification Omitted Some Costs

At the end of construction, the draw requests balanced with the cost certification.

Ineligible and Unsupported Disbursements During Project Construction

- The \$15,000 paid to Catherine V. Middleton Saleeby was payment to her for performing the responsibilities and duties of the acting Director of Nursing. This work was performed on a contract basis and was in addition to her duties as a nurse for the Veterans Administration Hospital in Columbia. Mrs. Saleeby played a major role in preparing the facility for various agency inspections as well as overseeing day to day operations. Additionally, she was instrumental in preparing the assisted living facility for operation and licensing by the State of South Carolina. This was in addition to her responsibilities in the skilled nursing facility. Her position was that of a "manager", specifically Director of Nursing, and checks to her were noted as "Management", not to be confused with fees paid to a management company.

Next, Finding 2 – Ridgeview Internal Controls Were Inadequate (Page 12):

Ridgeview Owners Did Not Submit Timely Accounting Reports

During the time A & R Enterprises managed the facility, the partners made numerous requests for monthly financial reports, as specified in the management contract with A & R. Inasmuch as A & R was hired solely on the basis of their being a "HUD approved management company", the partners felt A & R should be aware of the HUD financial reporting requirements and adhere to same. A & R's inability to produce the financial reports was one of the major reasons the business relationship with A & R was terminated by the partners in October 2000.

Page Three

After the termination of the business relationship with A & R, Automated Business Services (ABS) was chosen to handle the payroll and accounting functions for the facility. ABS had previously been involved with the conversion of numerous businesses to their payroll and accounting services. In all prior cases, the previous record keeper fully cooperated in passing on all pertinent data. This was not the case with A & R. It took numerous phone conversations and letters to obtain the most basic payroll information. The accounting information provided consisted solely of a detailed general ledger (that was extremely difficult to read due to the faint print) and a few bank statements. No supporting documentation for any paid expenses was provided.

Due to the complete lack of year to date information, and absolutely no assistance from A & R, it was very difficult to begin preparing accurate financial reports. When the contract with A & R was terminated, A & R left the facility in such fiscal and operational disarray that the primary focus for ABS and the partners had to be on keeping the facility operational and solvent. Operating in this mode made it difficult to prepare financial reports that were already made difficult due to the complete lack of cooperation from A & R.

Should you so desire, I can provide reams of documentation pertaining to the problems left by A & R, their unresponsiveness to our many requests for financial information, as well as on going operational problems created by this HUD recommended management company. HUD also attempted, without success, to obtain records and information from A & R. Additionally, the CPA firm of Crisp Hughes and Evans was not successful in obtaining information from A & R.

In any case, we (the partners and ABS) did solve the problems, we did provide financial reports (although not on HUD's schedule), we did keep the vendors at bay and we did keep the facility operational. While the financial reporting may not have been on the schedule requested by HUD, we felt the first priority was to keep the facility operational.

Ridgeview Manor's Books and Records Were Not Complete and Accurate

The nine checks that are listed as unsupported, ineligible and misclassified are further explained and documented as follow:

Check 50036	\$300.00	Copy and check, with appropriate supporting documentation, Attached as Exhibit A.
Check 50067	\$417.90	Copy of check stub and invoice attached as Exhibit B.
Check 50115	\$6,465.87	Copy of check and court order attached as Exhibit C.
Check 50141	\$300.00	This check was for a past due payable amount incurred during the management of A & R.. While detail of the invoices was not available, the supporting documentation used as the basis for payment is attached as Exhibit D.
Check 50142	\$488.28	This payment was paid before the partners were aware they could not use the standard business practice of using a line of credit to even out cash flow. This situation has been corrected.
Check 50146	\$25,000.00	Documentation attached as Exhibit E shows this check was written to First Community Bank to obtain an official bank check to send to MTX to settle a past due debt.

Page Four

Check 50156	\$300.00	Copy of check and invoice attached as Exhibit F.
Check 50089	\$175.24	This check, as well as the one below, were cut shortly after ABS started processing the payables for Ridgeview Manor. Coding errors were due to a lack of knowledge of the facility. While the expense may have been miscoded, the expenses were legitimate and properly documented as shown in attached Exhibits G and H.
Check 50153	\$1,306.44	See note above.

The transactions that occurred under A & R, and the problems with this HUD approved management company, are well documented elsewhere in this letter.

The coding error with the \$28,300 from the line of credit was caught and corrected in 02/02.

Petty Cash Was Not Properly Safeguarded

A Petty Cash procedure has been implemented at the facility.

Cash Receipts and Paid Invoices Were Not Properly Maintained

Proper maintenance of cash receipts under the management of A & R can be attributed to their previously described poor management. The same can be said for the paid invoices.

At present, cash receipts are being properly maintained. A copy of a check, or a check stub, is attached to all invoices currently paid. During the initial stages of ABS providing accounts payable services, check copies/stubs at ABS may not have had the paid invoice attached due to the newness of the some records being maintained at the facility and some at ABS. This situation has been resolved.

Security Agreement Omitted Some Assets

Omitted items may have been obtained using operating funds. Preparation of an updated Security Agreement would be appropriate.

And finally, Finding 3- Prior Management Company Violated HUD Requirements (Page 17):

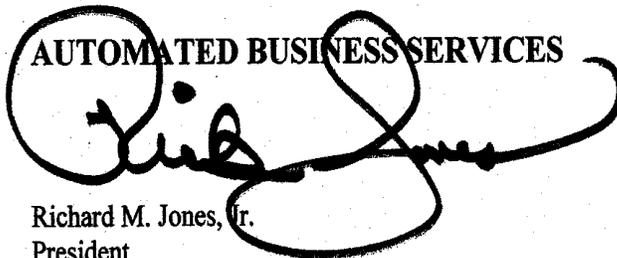
As previously noted, A & R Enterprises was hired based on the company being a HUD approved management company. The partners "assumed" that such an approved company would be sufficiently knowledgeable in the requirements of HUD that they could, and would, operate the facility in compliance with all HUD requirements. The management agreement with A & R required them to conform to HUD rules and regulations, provide HUD and the partners with timely reports and operate the facility according to the HUD regulatory agreement. After numerous examples of A & R's management inadequacies, and continuing failure to provide the owners with oft requested financial information and basic financial reports, the agreement with A & R was cancelled on October 20, 2000.

The partners recognize that the acts of omission and commission by A & R occurred under their "watch". However, the partners operated under the "assumed", but mistaken belief, that a HUD approved "management" company would be fully qualified, and ready, willing and able to conform to the operating standards set by HUD.

Page Five

In closing, it should be noted that the facility has been operated with partner participation and supervision since October 20, 2000, and has made great progress in solving and preventing the problems specified in the draft audit report. A review of current operating procedures and records would show that the problems of the past fixed, and that the facility is now a viable, self-sustaining entity.

Respectfully,

**AUTOMATED BUSINESS SERVICES**  


Richard M. Jones, Jr.  
President

RMJRR/tlc

Attachments-Exhibits A through H

OIG NOTE:

Attachments were omitted due to their volume.

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# Distribution Outside of HUD

President, Ridgeview of the Midlands, LP

Sharon Pinkerton, Senior Advisor  
Subcommittee on Criminal Justice, Drug Policy & Human Resources

Stanley Czerwinski, Director  
Housing and Telecommunications Issues

Steve Redburn, Chief Housing Branch  
Office of Management and Budget

The Honorable Joseph Lieberman  
Chairman, Committee on Government Affairs

The Honorable Fred Thompson  
Ranking Member, Committee on Governmental Affairs

The Honorable Dan Burton  
Chairman, Committee on Government Reform

The Honorable Henry A. Waxman  
Ranking Member, Committee on Government Reform

Andy Cochran  
House Committee on Financial Services

Clinton C. Jones, Senior Counsel  
Committee on Financial Services