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**MEMORANDUM NO:**  
2003-CH-1802

September 29, 2003

**MEMORANDUM FOR:** Edward Hinsberger, Director of Chicago Multifamily Housing Hub,  
5AHM

**FROM:**   
Heath Wolfe, Regional Inspector General for Audit, 5AGA

**SUBJECT:** Federal Property Management Corporation  
Civil False Claims And Multifamily Equity Skimming  
Indianapolis, Indiana

### **INTRODUCTION**

We completed a review of the books and records of Federal Property Management Corporation. The objectives of the review were to determine whether Federal Property Management: (1) used Project funds in compliance with the Regulatory Agreements and HUD's requirements; and (2) maintained the Projects' units according to HUD's Housing Quality Standards. The review was performed based upon a request from the United States Attorney's Office for the Southern District of Indiana. We did not conduct the review in accordance with Generally Accepted Government Auditing Standards.

### **METHODOLOGY AND SCOPE**

The review covered the following six Projects located in the Indianapolis, Indiana area that received Section 8 housing subsidy from HUD between January 1, 1995 and December 31, 1997:

- Academy Apartments (FHA Project #073-44330);
- Blacherne Apartments (FHA Project #073-44358);
- Carpenters Apartments (FHA Project #073-35153);
- Parkview Place Apartments (FHA Project #073-44062);
- Savoy-Hoosier Apartments (FHA Project #073-44334); and
- Weyerbacher Terrace Apartments (FHA Project #073-44455).

We performed our on-site audit work at each of the six Projects and HUD's Indianapolis Field Office. The review covered the period between January 1, 1995 and December 31, 1997. The review period was extended as necessary.

We interviewed: HUD's staff; Federal's current and former employees, and its tenants; Social Security Administration's employees; Marion County's Office of Family and Children employees; United States Postal Service's employees; Indiana Bureau of Motor Vehicles' employees; Indianapolis Power and Light Company's employees; and HUD's contractors. We reviewed HUD's files for Federal and the six Projects including: general ledgers; monthly accounting reports; bank statements and canceled checks; invoices; physical inspection reports; housing assistance payment vouchers; insurance policies; tenant files; correspondence; and occupancy records. In addition, we reviewed utility records and Aid for Families with Dependent Children's reports.

### **BACKGROUND**

Federal Property Management Corporation managed the six Projects. Federal American Properties, Incorporated, an identity-of-interest firm to Federal, owned Parkview Place Apartments. Nonidentity-of-interest companies to Federal owned the remaining five Projects. Federal's Offices were located at 3038 Federal Highway, Fort Lauderdale, Florida.

Paul Tipps founded and previously owned Federal. Prior to our review, Mr. Tipps turned over management of Federal to Henry R. Focke, Jr., who became the Chief Executive Officer. Federal owned or managed other HUD-assisted properties in Pennsylvania, Ohio, Indiana, Texas, Oklahoma, and Florida. The six Indianapolis Projects were sold in 1998 and 1999, or foreclosed by HUD.

### **RESULTS OF REVIEW**

We found that Federal Property Management Corporation inappropriately claimed Section 8 Housing Assistance Payments from HUD for units at all six Projects that did not meet HUD's Housing Quality Standards and/or its tenant income re-certification requirements. Additionally, Federal violated the Regulatory Agreement by improperly disbursing Savoy-Hoosier Apartments Project funds for ineligible costs. As a result of Federal's mismanagement, the Projects defaulted on their HUD-insured mortgages.

We referred our draft audit findings to the United States Attorney's Office for the Southern District of Indiana for civil matters. HUD and the United States Attorney's Office executed a settlement agreement with Federal Property Management effective September 18, 2003. Under the terms of the settlement, Federal Property Management, without any admission of wrongdoing, agreed to pay the Federal Government \$400,000 on or before December 17, 2003. As part of the settlement, Federal agreed to a two-year voluntary exclusion from seeking new contracts with HUD and any other agency of the Executive Branch of the Federal Government.

**RECOMMENDATION**

We recommend that HUD’s Director of Chicago Multifamily Housing Hub, Chicago Regional Office, ensures that Federal Property Management Corporation:

- 1A. Pays the Federal Government \$400,000 as required by the settlement agreement.

**Schedule Of Ineligible Costs** <sup>1/</sup>

<u>Recommendation</u> <u>Number</u>	
1A	<u>\$400,000</u>
Total	<u>\$400,000</u>

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

In accordance with HUD Handbook 2000.06 REV-3, within 60 days please provide us, for each recommendation without a management decision, 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.

Should you or your staff have any questions, please contact Ronald Huritz, Assistant Regional Inspector General for Audit, at (312) 353-6236 extension 2675 or me at (312) 353-7832.