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MEMORANDUM NO.
2004-CH-1801

December 5, 2003

MEMORANDUM FOR: Preston A. Pace, Jr., Director of Columbus Multifamily Hub,
5EHM


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

SUBJECT: Carter Manor Apartments
Multifamily Equity Skimming
Cleveland, Ohio

INTRODUCTION

We completed a review of the books and records of Carter Manor Apartments. We performed the review to determine whether the Project's funds were used in compliance with the Regulatory Agreement and applicable HUD policies and procedures. The review was performed based upon a request from HUD's Cleveland Office of Multifamily Housing Program Center. We did not conduct the review in accordance with Generally Accepted Government Auditing Standards.

METHODOLOGY AND SCOPE

We performed our on-site audit work at J.B. Tipton, Inc.'s office and HUD's Cleveland Field Office. The review covered the period between January 1, 1997 and December 31, 1998. The review period was extended as necessary. Our on-site review work was conducted between January 1999 and April 1999.

We interviewed: HUD's staff; the Project's General Partner, current employees, and Independent Public Accountant; J.B. Tipton's Office Manager; and the Acting Director of the State of Ohio's Accountancy Board. We reviewed the Project's files including: general ledgers; monthly accounting reports; bank statements and canceled checks; invoices; and audited financial statements.

BACKGROUND

J.B. Tipton, Inc., an identity-of-interest company, managed the Project. Carter Manor Apartments Limited Partnership owned the Project. Harvey Oppmann is the Project's General Partner. The President of J.B. Tipton is Patricia Oppmann.

RESULTS OF REVIEW

We found that J.B. Tipton, Inc. and Carter Manor Apartments Limited Partnership violated the Regulatory Agreement by improperly disbursing Project funds for ineligible and unsupported costs. The inappropriate disbursements occurred when the Project was in a non-surplus cash position and/or after the Project defaulted on its HUD-insured mortgage. As a result, fewer funds were available for the Project's normal operations and debt service that resulted in a claim from HUD's FHA insurance fund.

We referred our draft audit findings to the United States Attorney's Office for the Northern District of Ohio for civil matters. HUD and the United States Attorney's Office executed a settlement agreement with the General Partner for Carter Manor Apartments Limited Partnership and the President of J.B. Tipton effective November 24, 2003. Under the terms of the settlement, the General Partner and J.B. Tipton, without any admission of wrongdoing, agreed to pay HUD \$275,000 on or before December 5, 2003. As part of the settlement, the General Partner and J.B. Tipton agreed not to participate in the Project for a period of five years starting July 1, 2004. The settlement agreement permitted the General Partner to retain a limited partnership share of no more than one percent in the Project.

RECOMMENDATION

We recommend that HUD's Director of Multifamily Housing Hub, Columbus Field Office, assure Carter Manor Apartments' General Partner and J.B. Tipton, Inc.:

- 1A. Pays HUD \$275,000 as required by the settlement agreement.

Schedule Of Ineligible Costs ^{1/}

<u>Recommendation</u>	
<u>Number</u>	
1A	<u>\$275,000</u>
Total	<u>\$275,000</u>

^{1/} 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.

If you or your staff has any questions, please contact Ronald Farrell, Assistant Regional Inspector General for Audit, at (614) 469-5737 extension 8279 or me at (312) 353-7832.