



**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

AUDIT RELATED MEMORANDUM No. 97-CH-211-1802

October 10, 1996

MEMORANDUM FOR: Beverly Bishop, Director, Office of Housing,  
Illinois State Office  
Edward Hinsberger, Director of Multifamily Housing,  
Illinois State Office

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

SUBJECT: Terrace Lakes Apartments  
Multifamily Equity Skimming Review  
Aurora, Illinois

We completed an audit of the books and records of Terrace Lakes Apartments, a multifamily housing project. We conducted that audit at the request of the Office of Housing, Illinois State Office. The audit objectives were to determine whether Fox Valley Development Partnership, the Project owner used Project funds in accordance with the Regulatory Agreement and other HUD requirements.

Terrace Lakes Apartments was a 416 unit project whose mortgage was coinsured by HUD under Section 221(d)(4) of the National Housing Act. During the audit period, the Project was owned by Fox Valley Development Partnership, an Illinois Limited Partnership. The Managing General Partner was Dwight Avrum. American Home Realty, an identity-of-interest firm was the management agent for the Project. The Managing General Partner for American Home Realty was Dwight Avrum. The Project's books and records were maintained by American Home Realty and located at 723 Aurora Avenue, Aurora, Illinois.

The audit covered the period of January 1, 1992 through December 31, 1995. We extended the audit period as necessary. We performed the audit between July 1995 and May 1996.

On August 1, 1993 the Project's loan went into default under the provisions of the mortgage loan agreement because of nonpayment of monthly installments by the Partnership. As of May 31, 1996, the Project had a delinquent mortgage balance of \$2,179,792. The Project had received good ratings on its physical condition during HUD's physical inspection reviews.

We concluded that Fox Valley Development Partnership did not comply with the Regulatory Agreement or with other HUD requirements. Fox Valley Development Partnership inappropriately disbursed \$483,575 of Project funds for ineligible expenses and therefore, did not adequately protect and use resources economically and efficiently. The ineligible disbursements included: (1) \$197,712 in excessive profits to an identity of interest maintenance contractor; (2) \$129,475 for refinancing and mortgage workout related expenses; (3) \$94,292 for excessive management fees; (4) \$44,096 for insurance premiums; and (5) \$18,000 to an identity of interest project. The disbursements occurred when the Project was in a non-surplus cash position, the mortgage was in default, or both. As a result, Fox Valley Development overstated Project expenses, fewer funds were available for normal operations or debt service, and HUD's security interest in the Project was weakened.

We presented our draft findings to Fox Valley Development Partnership during the audit. We held an exit conference on May 9, 1996. Fox Valley provided written responses to our findings and recommendations. On September 1, 1996 Fox Valley Development Partnership, sold the property and repaid the HUD coinsured mortgage. HUD officially discharged Fox Valley Development's obligations to HUD on October 8, 1996. Consequently, we consider this matter resolved.

Should your staff have any questions, please have them contact me at (312) 353-7832.

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