



*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*

*Phone (312) 353-7832 Fax (312)353-8866  
Internet <http://www.hud.gov/oig/oigindex.html>*

## Audit Related Memorandum 98-CH-211-1801

November 19, 1997

Memorandum For: Robert J. Turner, Director of Housing, Michigan State Office, FH

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

Subject: Highland Management Company  
Multifamily Equity Skimming  
Southfield, Michigan

We completed a review of the books and records of Highland Management related to Highland's operation of four of the 15 HUD insured projects it manages. The four projects were Canton Commons, LeForge Villa, Pickwick Park, and Garfield Court. We performed the review because the financial statements for the projects indicated the Management Agent may have paid unreasonable overhead costs to an identity-of-interest construction company. Additionally, three of the four projects were not in good physical condition.

All projects are owned by limited partnerships and are managed by Highland Management Company. Jack Friedman is the general partner of the Partnerships and Highland Management Company.

Highland Management also used an identity-of-interest construction company to perform maintenance on the four projects we reviewed. Garfield Court and Pickwick Park were both endorsed under Section 221(d)(4) of the National Housing Act on December 30, 1986 and August 22, 1974 respectively. Canton Commons and LeForge Villa were both endorsed Section 236 of the National Housing Act on July 3, 1973 and December 26, 1974 respectively. Garfield Court has 496 units, Pickwick Park has 500 units, Canton Commons has 452 units and LeForge Villa has 161 units.

The books and records for Highland Management are located at 28777 Northwestern Highway, Southfield, Michigan 48034.

Our review objectives were to determine whether the use of project funds was reasonable and in compliance with the Regulatory Agreement and applicable HUD requirements.

We concluded the Management Agent did not correctly calculate the overhead rate paid to an identity-of-interest construction company and did not maintain the buildings in acceptable condition. The construction company provided maintenance services to the four HUD-insured projects. The Management Agent's accountant calculated the overhead rates but did not have any documentation to support the calculations. The accountant included overhead costs for supervision and bookkeeping, vacation and holidays, and vehicle usage that appeared unreasonable. The overhead rate of 108 percent exceeded the standard industry rate of 30 percent. We used "Means Remodeling and Cost Data" published by R.S. Means company to determine the standard rate. As a result, the Management Agent used project funds totaling \$163,327 to pay overhead costs that were unsupported. The following table shows the unsupported costs by project:

<b>Project Name</b>	<b>Unsupported Overhead</b>
<b>Canton Commons</b>	\$ 49,750
<b>LeForge Villa</b>	35,223
<b>Pickwick Park</b>	69,070
<b>Garfield Court</b>	<u>9,284</u>
<b>Total</b>	<u>\$163,327</u>

The identity-of-interest Management Agent did not maintain three of the four projects in good repair and condition. A HUD contractor inspected the projects' exteriors and estimated Canton Commons, LeForge Villa and Pickwick Park each needed over \$1 million in repairs. The fourth project, Garfield Courts, was in satisfactory condition.

We provided our draft finding to the Management Agent and HUD's Michigan State Office during the review. We held an exit conference on December 6, 1996. The Management Agent provided written comments to our draft finding. As a result, HUD and the Management Agent entered into an agreement and the Management Agent took actions that resolved the issues. The Project Owners paid off the HUD insured mortgages on Garfield Court on January 23, 1997 and on Pickwick Park on September 5, 1997. Additionally, the Management Agent completed an escrow agreement for Canton Common and LeForge Villa where \$49,750 and \$35,223 respectively was put into an escrow account for project repairs. The escrow accounts contain restrictive provisions for disbursement that require HUD's written approval.

If you or your staff have any questions, please contact me at (312) 353-7832.

# Distribution

Secretary's Representative, Midwest District  
State Coordinator, Michigan State Office  
Assistant General Counsel for the Midwest  
Field Controller, Midwest  
Director Field Accounting Division, Midwest  
Director, Office of Housing, Michigan State Office (2)  
Director, Administrative Service Center  
Assistant to the Deputy Secretary for Field Management, SDF (Room 7106)  
Chief Financial Officer, F (Room 10164) (2)  
Deputy Chief Financial Officer for Finance FF (Room 10164) (2)  
Acquisitions Librarian, Library, AS (Room 8141)  
Director, Participation and compliance division, HSLP (Room 9164)  
Director, Housing Finance Analysis Division, REF (Room 8204)  
Comptroller/Audit Liaison Officer, HF (Room 5132) (5)  
General Counsel, C (Room 10214)  
Deputy Secretary  
Assistant Secretary for Congressional and Intergovernmental Relations  
Deputy Assistant Secretary for Public Affairs  
Chief of Staff  
Counselor to the Secretary  
Senior Advisor to the Secretary for Communication Policy  
Assistant Secretary for Housing  
Director, Housing and Community Development Issue Area, U.S. GAO, 441 G Street,  
NW, Room 2474, Washington, DC 20548 (2)  
The Honorable John Glenn, Ranking Member, Committee on Governmental Affairs,  
United States Senate, Washington, DC 20515-4305  
The Honorable Fred Thompson, Chairman, Committee on Governmental Affairs,  
United States Senate, Washington, DC 20515-4305  
Ms. Cindy Sprunger, Subcommittee on General Oversight and Investigations,  
Room 212, O'Neill House office Building, Washington, DC 20515  
Mr. Pete sessions, Government Reform and Oversight Committee, Congress of the  
U.S. House of Representatives, Washington, DC 20510-6250