



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
98-CH-211-1806

January 21, 1998

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: Sheridan Plaza Apartments
Multifamily Equity Skimming
Chicago, Illinois

We completed an audit of the books and records of Sheridan Plaza Apartments. We conducted the audit because the Project's financial statements indicated that the Project's funds may have been inappropriately used. Sheridan Plaza Apartments is a multifamily project located in Chicago, Illinois. The mortgage was insured under Section 221(d)(4) of the National Housing Act. The Project defaulted on the mortgage on March 1, 1990 and the mortgage was assigned to HUD on February 13, 1991. The Project has 140 units, of which 109 were Section 8 subsidized.

Sheridan Plaza Apartments is owned by Sheridan Plaza Associates Partnership, an Illinois Limited Partnership, and is managed by an identity-of-interest management firm, Promex Midwest Corporation. Dennis R. Egidi is the President of Promex Midwest Corporation and he is also Managing General Partner of Sheridan Plaza Associates Partnership. The Project's books and records are located at 800 South Milwaukee Avenue, Libertyville, Illinois.

The audit objectives were to determine whether the Project owner and management agent used Project funds in compliance with the Regulatory and other agreements, and applicable HUD policies and procedures. The audit covered the period of January 1, 1991 through May 31, 1997. We extended the audit period as necessary. We performed the audit between February 1997 and July 1997.

We concluded that Sheridan Plaza Associates Partnership and its management agent:

- Improperly charged the Project \$67,934 for the salary of a General Partner of Sheridan Plaza Associates. The General Partner's salary should have been paid from either management fees collected or from the identity-of-interest construction company that the General Partner was President of. The ineligible disbursements occurred when the Project was in a non-surplus cash position. Consequently, fewer funds were available for normal operations of debt service and HUD's security interest in the Project was weakened.
- Improperly used \$5,000 of Project operating funds to pay ineligible legal fees. The legal fees did not relate to Project operations and instead were applicable to the Project owner's attempts to refinance the HUD-insured mortgage. As a result, Project expenses were overstated and less funds were available for normal operations and debt service.

We provided our draft findings to the Project owner and management during the audit. We held an exit conference on July 23, 1997. The Project owner and management agent provided written comments to our draft findings and recommendations. After additional meetings, the Project owner agreed to remit \$72,934 for the audit findings and \$19,136 for the costs of the audit. On December 15, 1997, the Managing General Partner of the Project signed a Promissory Note and Agreement to pay HUD \$92,070 together with an interest rate of 5.4 percent. The agreed payment plan requires the Project Owner to pay \$7,898.77 in 12 monthly installments.

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

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