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Office of Inspector General for Audit, Midwest  
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**AUDIT RELATED MEMORANDUM  
98-CH-211-1812**

September 29, 1998

**MEMORANDUM FOR:** Robert Brown, Director, Multifamily Hub, Michigan State  
Office

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

**SUBJECT:** Regency Townhomes  
Multifamily Equity Skimming  
Lansing, Michigan

We completed a review of the books and records of Regency Townhomes. We performed the audit because HUD's file reviews indicated the project owners made improper distributions and the project was in poor physical condition.

Regency Townhomes is a 56 unit multifamily project owned by Jolawr Associates with two general partners, Joseph R. Miller and Lawrence Blum. The project is located at 1035 Vincent Court, Lansing, Michigan and was insured in 1976 under Section 221 (d)(4) of the National Housing Act. Joseph Miller was the managing general partner. The project was managed by PM One Limited, located at 5215 Jolly Cedar Court, Lansing, Michigan.

Our review objectives were to determine whether the project was in good physical condition and if the use of project funds was reasonable and in compliance with the regulatory Agreement and applicable HUD requirements.

We determined that \$132,437 of project funds were improperly disbursed to or retained by the project owners. The owners also used another \$19,384 of project funds for ineligible and unsupported costs. Further, the project was not in a good physical condition. An OIG Appraiser/Construction specialist estimated that the project needed repairs of \$321,200 to bring it up to a satisfactory condition. As a result, HUD's interest in the project was not adequately protected.

We provided the owners and the HUD Grand Rapids Office with our draft findings and recommendations. Our recommendations required the owners to deposit the amounts inappropriately distributed, retained or spent into the project's reserve for replacement account, and then to coordinate with HUD to use the funds to make necessary repairs.

The owners did not respond to our findings and recommendations and did not take any corrective actions. Therefore, using the procedures developed under Operation Safe Home, we submitted the draft findings to the Assistant United States Attorney for civil matters in Grand Rapids. The Assistant United States Attorney negotiated a settlement with the owners. Under the terms of the settlement, the owners agreed to: pay off the HUD mortgage; and reimburse HUD \$14,251 for audit costs and \$15,000 for attorney fees. Additionally, the owners accepted a three-year voluntary debarment by agreeing not to acquire any ownership interest in a HUD property for a period of three years.

On August 14, 1998, the owners paid off the HUD mortgage of \$443,619 and reimbursed HUD \$14,251 for audit costs and \$15,000 for attorney fees.

If you or your staff have any questions, please contact me at (312) 353-7834.

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