



U.S. Department of Housing and Urban Development
Wanamaker Building, Suite 1005
100 Penn Square East
Philadelphia, PA 19107-3380

District Inspector General for Audit

January 29, 1996

Audit Related Memorandum
No. 96-PH-212-1010

MEMORANDUM FOR: Charlie Famuliner, Director Multifamily
Division, Virginia State Office, 3FHM

FROM: Edward F. Momorella, District Inspector General
for Audit, Mid-Atlantic, 3AGA

SUBJECT: Bristol House
Multifamily Mortgagor Operations
Bristol, Virginia

Pursuant to your request we audited Bristol House (BH) to determine whether the owner operated BH according to the Regulatory Agreement and HUD requirements. Because BH was sold by HUD prior to audit completion, we did not issue an audit report. However, as reported to you, two significant findings were developed.

1. An unauthorized owner and Virginia Retirement Management Company of Ohio (agent) received BH funds and paid ineligible costs contrary to HUD requirements. BH funds converted to owner and agent use totaled \$268,700. Improper transactions included unauthorized withdrawals, unauthorized management fees, payment to a CPA firm and owner costs. The owner of record sold his interest in BH without HUD approval which caused BH to be managed by the unauthorized agent. The agent and owner disregarded HUD requirements and improperly maintained control of BH financial activities until it was sold.

2. The recognized owner of BH improperly administered various financial aspects of BH's operations contrary to HUD requirements. The owner: (1) sold his interest in BH with no benefit accruing to BH, (2) incurred substantial ineligible costs (\$212,169) which he was the main beneficiary, and (3) permitted revenue of \$24,666 to be lost to BH while benefiting a relative and the project administrator. As a result of these actions, the owner significantly contributed to the financial distress of BH.

The foreclosure sale of BH resulted in the entire debt due HUD being satisfied. Therefore, the finding issues were not pursued by your office. However, we believe the actions perpetrated by the recognized owner, the unauthorized owner and officials of Virginia Retirement Management Company of Ohio, require your office to take appropriate actions against these individuals to prevent their future participation in HUD Programs. Accordingly, we recommend you aggressively pursue debarment against these persons in accordance with Part 24 CFR - Subpart C - Debarment.

Within 60 days, please give us for the above recommendation, a status report on: (1) the action taken; (2) the proposed action and the date to be completed; or (3) why action is considered unnecessary.

If you have any questions please contact Irving I. Guss, Assistant District Inspector General for Audit at (215) 656-3401.

Attachment - Distribution

cc: OSWALD
CIANCI

3AGA:GUSS:AMP:01/29/96

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REPORT NAME: Bristol House
 Multifamily Mortgagor Operations
 Bristol, VA
 REPORT NO: 96-PH-212-1010
 ISSUE DATE: January 29, 1996

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