audit report
OFFICE OF INSPECTOR GENERAL

Issue Date August 15, 1996	
Audit Case Number 96-PH-214-1021	

TO: Ina Singer, Director, Multifamily Housing Division, Maryland State Office, 3BHM

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

SUBJECT: Emerald Properties Management Co., Inc.
Multifamily Mortgagor Operations
Bethesda, Maryland

We audited the multifamily operations of Emerald Properties Management Co., Inc., (Agent) and its two principals (Owners) for six projects. The purpose of our audit was to determine whether the Agent/Owners complied with the terms and conditions of the Regulatory Agreements and other applicable HUD directives.

We determined that the Agent/Owners maintained all six HUD-insured projects in good physical condition. However, deficiencies were noted in management's operations as they relate to cash withdrawals and the expenditure of project funds.

Within 60 days, please give us, for each recommendation made in the report, a status report on: (1) the corrective action taken; (2) the proposed corrective action and the date to be completed; or (3) why action is considered unnecessary. Also please furnish us with copies of any correspondence or directives issued because of the audit.

Should your staff have any questions, please have them contact J. Phillip Griffin, Assistant District Inspector General for Audit, at (215) 656-3401.

Executive Summary

The Agent/Owners did not comply with the terms of the Regulatory Agreements and other applicable HUD directives. Operating funds were used for ineligible withdrawals and other ineligible costs.

Ineligible withdrawals were made from project funds

The Agent/Owners made ineligible withdrawals of $1,139,408 from the projects when surplus cash was not available and one project had defaulted on its mortgage payments. The improper withdrawals were used to pay Owners' distributions and incentive management fees and to repay advances.

Ineligible costs were paid from project funds

Also, the Agent/Owners paid ineligible costs totaling $15,002 from project operating funds.

The conditions occurred because the Agent/Owners misunderstood HUD requirements pertaining to distributions and felt the ineligible costs were acceptable project expenses.

Recommendations

We made recommendations to recover the ineligible costs cited in the report.

Auditee Comments

We discussed the draft findings with the Agent/Owners and their representatives at an exit conference. The attorney representing the Agent/Owners submitted comments on the draft findings generally disagreeing with our findings. The responses to the draft findings were considered and incorporated, where appropriate, in preparing the final report. Copies of the comments by the representative for the Agent/Owners are included as Appendices A and B.

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Abbreviations

HUD	U.S. Department of Housing and Urban Development
OIG	Office of Inspector General
IA	Independent Auditors

Introduction

Emerald Properties Management Co., Inc. is the management agent (Agent) for the following HUD-insured multifamily projects reviewed during the audit:

Project Name	Owner	Location	Project Number	Original Mortgage Note	No. of Units
Harper's Mill Townhouses	Harper's Mill Limited Partnership	Millersville, MD	052-35253	$4,001,800	144
Heritage Hill Townhouses	Heritage Hill Limited Partnership	Glen Burnie, MD	052-35199	$2,857,700	120
Washington Square Townhouses	Washington Square Limited Partnership	Glen Burnie, MD	052-35375	$7,287,000	181
Lamplighter Ridge Apartments	Lamplighter Ridge Limited Partnership	Glen Burnie, MD	052-35302	$6,096,500	168
Mariner's Cove Townhouses	Mariner's Cove Limited Partnership	Baltimore, MD	052-35453	$5,312,300	101
Olde Forge Townhouses	Olde Forge Limited Partnership	Baltimore, MD	052-35427	$6,063,500	143

Each project listed above is insured under Section 221(d) 4 of the National Housing Act. All mortgages are current except for Mariner's Cove. On August 2, 1991, the mortgagee declared the project's outstanding mortgage note of $5,598,744 in default, and assignment was made to HUD on December 24, 1991. On July 8, 1992, HUD settled with the mortgagee for an amount of $5,495,234.

The Agent's official representatives are Allan J. Berman, President, and Leonard A. Shapiro, Vice President. Both of the individuals also have an ownership interest in each of the six projects. Therefore, there is an identity-of-interest between the Agent and the Owners.

Accounting records for the projects are maintained at the Agent/Owners' office at 7200 Wisconsin Avenue, Suite 907, Bethesda, Maryland, 20814.

Audit Objectives

We reviewed the operations of the Agent/Owners to determine whether the Agent/Owners' were complying with the terms and conditions of the Regulatory Agreement and other applicable HUD requirements. Specifically, we determined whether the Agent/Owners:

- made proper cash distributions;
- made proper repayments of owners' advances; and
- had costs which represent valid project expenses.

Audit Scope and Methodology

We reviewed and analyzed pertinent project records maintained by HUD and the Agent/Owners. Those records included accounting journals, audited financial statements, bank statements, cancelled checks, supporting documentation for expenditures, and other management and financial records for the six HUD-insured projects managed by the Agent/Owners. We evaluated internal controls to the extent they related to the audit objectives. In addition, we interviewed the Agent/Owners, their representatives, HUD program staff, and the Independent Auditors and performed a physical inspection at Mariner's Cove.

Audit work was performed in 1995 and 1996 and covered the period January 1, 1991 through December 31, 1994. Where appropriate, the review was extended to include other periods.

We conducted the audit in accordance with generally accepted government auditing standards.

The Agent/Owners Made Improper Withdrawals

Contrary to the projects' Regulatory Agreement, the Agent/Owners withdrew funds totaling $1,139,408 in excess of surplus cash. Part of the amount, $105,865, was withdrawn from one project while it was in default. Although the Agent/Owners have repaid $236,950 to the projects, a total of $902,458 is due to the projects. As a result, the improper withdrawals contributed to the default of one project and reduced the amount of operating cash available for the other projects. The Agent/Owners' representative said the funds were distributed because they misunderstood HUD regulations and adjusting entries performed by the IA reduced surplus cash after the distributions were made.

The ineligible withdrawals are detailed as follows:

Ineligible Distributions of Project Funds ($843,975)

Improper distributions from project funds

The financial statements for Mariner's Cove disclosed no surplus cash for the period 1988 through 1993. Financial statements for four other projects disclosed surplus cash was generally available, however, distributions in certain periods exceeded surplus cash.

SCHEDULE OF INELIGIBLE DISTRIBUTIONS

YEAR	MARINER'S COVE	HERITAGE HILL	HARPER'S MILL	LAMPLIGHTER RIDGE	OLDE FORGE	TOTAL
1991	$153,334	$365,000	$81,250	$0	$0	$599,584
1992	$0	$27,543	$38,087	$0	$42,291	$107,921
1993	$0	$37,397	$21,556	$3,905	$0	$62,858
1994	$0	$30,908	$10,588	$3,468	$0	$44,964
SUBTOTAL	$153,334	$460,848	$151,481	$7,373	$42,291	$815,327
1992*	$0	$0	$21,184	$0	$0	$21,184
1993*	$0	$0	$7,464	$0	$0	$7,464
SUBTOTAL	$153,334	$460,848	$180,129	$7,373	$42,291	$843,975
(LESS) REPAYMENT	$0	($151,151)	($43,508)	$0	($42,291)	($236,950)
AMOUNT DUE TO PROJECT	**$153,334**	**$309,697**	**$136,621**	**$7,373**	**$0**	**$607,025**

*** - INCENTIVE MANAGEMENT FEES**

Mariner's Cove Townhouses

The Agent/Owners withdrew distributions totaling $153,334 from the project when no surplus cash was available. These payments were made during 1991.

Heritage Hill Townhouses

The Agent/Owners withdrew $460,848 from Heritage Hill's operating account. These withdrawals exceeded surplus cash and occurred between December, 1990, and July, 1994. The Agent/Owners subsequently repaid the project $151,151; however, $309,697 has not been repaid.

Harper's Mill Townhouses

The Agent/Owners withdrew $151,481 from the operating account of Harper's Mill. These withdrawals exceeded surplus cash and occurred between February, 1991, and April, 1994. Additionally, the Agent/Owners received $28,648 in excess incentive management fees. These excess fees were paid when surplus cash was not available during

1992 and 1993. The Agent/Owners subsequently repaid the project $43,508 for the unauthorized distributions. However, $136,621 is owed to the project by the Agent/Owners.

Lamplighter Ridge Apartments

The Agent/Owners withdrew $7,373 from Lamplighter Ridge. The withdrawals exceeded surplus cash. The Agent/Owners withdrew the funds during the period from January, 1993, through January, 1994. As a result, $7,373 is owed to the project.

Olde Forge Townhouses

The Agent/Owners withdrew $42,291 from Olde Forge. These withdrawals, which occurred in July, 1992, exceeded surplus cash. The Agent/Owners subsequently repaid the project for the unauthorized distributions.

Ineligible Repayment of Advances ($295,433)

Improper repayments of advances

Repayments of advances are not considered as distributions, however, the repayments may only be made from surplus cash. The Agent/Owners repaid advances which were in excess of surplus cash.

Mariner's Cove Townhouses

The Agent/Owners withdrew $115,556 to repay advances when the project did not have surplus cash. Repayments totaling $105,865 occurred after the project was in default.

Washington Square Townhouses

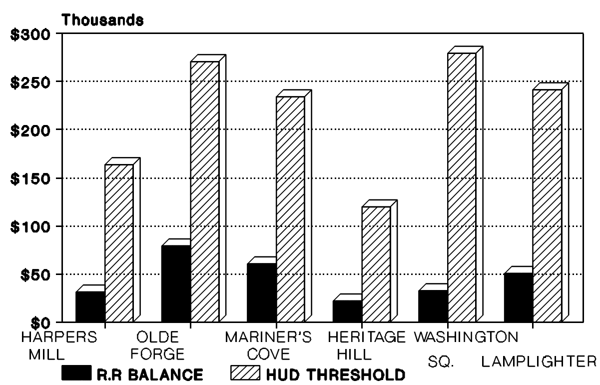
The Agent/Owners repaid an advance when insufficient surplus cash was available. The project generated $86,516 in surplus cash in 1990, but, in the following year, the Agent/Owners repaid an advance of $266,393. As a result, the repayment exceeded surplus cash by $179,877. Further, according to the Agent/Owners' representative, the funds were withdrawn from the project to repay the advance. However, we found no documentation to support the advance to the project.

Projects may be placed at risk

When distributions exceed surplus cash, the financial stability of the projects may be endangered. Because operating cash has been reduced, the projects may not be able to meet current obligations when due and the projects may be forced to suspend payments for normal operating expenses. As an example, if funds had not been withdrawn from Mariner's Cove, more money would have been available for necessary project expenses (including mortgage payments), the project may have continued to make its mortgage payments, and an insurance claim may have been avoided.

Reserve account below recommended amount

Furthermore, our review of the Reserve Fund for Replacements account balance for the six projects disclosed that five of the accounts are funded in accordance with the Maryland State Office policy of requiring 24 months of funds in the account. However, our review disclosed that Reserve Fund for Replacements account balances for all of the projects were below the recommended minimum thresholds as detailed in HUD Handbook 4350.1 REV-1. This is illustrated as follows:



Our analysis of the Reserve Fund for Replacements accounts also indicates the following:

Project Name	**No. of Units**	**Age of Project**	**Reserve Fund for Replacement (RFR) Balance 1/**	**Average RFR Amount Per Unit**
Harper's Mill	144	15	$31,241	$217
Olde Forge	143	10	$79,176	$554
Mariner's Cove	101	7	$60,432	$598
Heritage Hill	120	17	$22,051	$184
Washington Square	181	13	$32,558	$180
Lamplighter	168	14	$50,896	$303

1/ Reserve Fund for Replacement balance as of 12/31/94.

Reserve accounts are low

In our opinion, the current Reserve Fund for Replacement balance for each of these properties is inadequate to safeguard against possible future major expenditures. Roof replacements, heating and air conditioning units, or other major repair/replacement items could exhaust these minimal amounts many times over.

The Agent/Owners' representative said the unauthorized distributions were paid because there was a misunderstanding of HUD regulations concerning distributions. Furthermore, the representative stated adjusting entries performed by the IA, after the distributions were made, reduced the amount of surplus cash available.

In summary, the Agent/Owners improperly withdrew $1,139,408 from the projects. As a result, one project defaulted on its mortgage agreement and the financial stability of the other five projects may have been threatened.

Criteria

According to the Regulatory Agreements, recorded documents signed by a General Partner, the Owners shall not make distributions of assets or income of any kind except from surplus cash.

Paragraph 2-11. A. of HUD Handbook 4370.2 REV-1, Financial Operations and Accounting Procedures for Insured Multifamily Projects, states advances made for reasonable and necessary operating expenses may be paid from surplus cash at the end of the annual or semi-annual period. Such repayment is not considered an Owner distribution, it is considered a repayment of advances.

HUD Handbook 4350.1 REV-1, Multifamily Asset Management and Project Servicing, paragraph 4-11, states HUD strongly recommends that Owners target a minimum amount to be held in the Reserve Fund for Replacement account. The purpose of having a minimum amount is to have funds available for an emergency or unforeseen contingency.

Auditee Comments

The Agent/Owners generally disagreed with the finding. Complete auditee comments have been included as Appendices A and B of this report.

The Agent/Owners' attorney indicated that "...approximately $54,000 was inadvertently distributed from Mariners Cove...." Further, the Agent/Owners' attorney stated the remainder of the $268,890 discussed in the audit finding was not distributions of project funds, "... but appear to be payments made of partnership assets not controlled by the Regulatory Agreement...." Therefore, only $54,000 should be repaid to the project.

With respect to Heritage Hill, Harper's Mill, and Lamplighter Ridge, the Agent/Owners' attorney stated that the projects are in exceptionally strong financial condition and each is in exceptional physical condition. Further, the attorney stated "Therefore, while it is true that, in certain instances, distributions were made in excess of what turned out to be available surplus cash, the return of these distributions would simply create additional surplus cash, and the funds could be redistributed. Thus, the exercise would be meaningless...."

Regarding Washington Square, the Agent/Owners' attorney stated that there was never a repayment of an advance. The check was written to reimburse a master pay account.

With respect to the matter of the Reserve Fund for Replacements, the Agent/Owners' attorney stated:

"...This is a matter which we view to be separate from the question of the alleged over distributions as, even had such questioned distributions never been made, the reserves would today not be greater than they in fact are."

"Nevertheless, we agreed that the adequacy of reserve funding was a matter proper for discussion between project ownership and management, on the one hand, and HUD program personnel on the other...."

OIG Evaluation of Auditee Comments

Regarding Mariner's Cove, distributions and repayments of cash advances can not be made when the project is not in a surplus cash position. The ineligible withdrawal of $268,890 (distribution of $153,334 and repayment of advances of $115,556) is contrary to the project's Regulatory Agreement and the funds should be returned to HUD since an insurance claim has been paid on the project.

With respect to Heritage Hill, Harper's Mill, and Lamplighter Ridge, the projects are not in exceptionally strong financial condition. While the projects are in good physical condition, the projects do not have adequate amounts in the Reserve Fund for Replacements for an emergency or unforeseen contingency. Furthermore, the Agent/Owners applied for and received a wavier which suspended Reserve Fund for Replacements payments for Lamplighter Ridge on March 31, 1992. This occurred because the Agent/Owners did not have sufficient revenues to meet the project's operating expenses and fund the account.

Furthermore, the Agent/Owners must comply with the Regulatory Agreement. Distributions should be limited to the available amount of surplus cash and should be made only at the proper intervals.

Regarding Washington Square, the Agent/Owners did not provide any documentation to support the position that the payments in question were to reimburse a master pay account. According to the Agent/Owners' representative, the disbursements in question were to repay an advance.

The Agent/Owners' projects do not have adequate funds in the Reserve Fund for Replacements accounts to handle potential emergencies or unforeseen contingencies. Repayments of ineligible distributions should be made to these accounts since there is a legitimate need. Any remaining funds should be deposited in the projects' operating accounts.

Recommendations

We recommend that you require the Agent/Owners to:

1A. Reimburse HUD $268,890 representing the ineligible withdrawals from Mariner's Cove.

1B. Reimburse Heritage Hill, Harper's Mill, and Lamplighter Ridge, $453,691 ($309,697, $136,621, and $7,373, respectively) representing amounts owed by the Agent/Owners. When returned to the projects, the funds should first be allocated to the Reserve Fund for Replacements accounts in order to bring them up to the minimum threshold requirement. Any additional funds should go to the operating accounts.

1C. Repay the ineligible withdrawal of $179,877 disbursed from Washington Square's operating account to the project.

Ineligible Costs Were Paid From Project Operating Funds

Contrary to the Regulatory Agreement, the Agent/Owners made payments totaling $15,002 that were not necessary project expenses. As a result, project funds were not used economically or efficiently. This occurred because the Agent/Owners thought the items were eligible project expenses.

Ineligible expenses charged to the projects

The Agent/Owners paid $15,002 from the projects' operating funds for ineligible costs. Specifically, the Agent/Owners and the property managers disbursed project funds for employees' bonuses, lunches, parties, and Baltimore Orioles baseball tickets. Project funds were also disbursed on tenants' donations, welcome baskets, entertainment and gift certificates. Disbursements for these items are not a necessary use of the projects' funds. Copies of schedules detailing the ineligible costs were provided to your office and the auditee.

The Agent/Owners believed that some of the payments were necessary marketing expenses.

Criteria

The Regulatory Agreement requires the Owners to pay only costs that are reasonable and necessary to the operation and maintenance of the project.

Auditee Comments

The Agent/Owners object to the classification of $15,002 in disbursements as "ineligible" costs. They feel the items were generally tenant incentives which were ordinary and necessary business expenditures. These incentives were designed to attract residents and keep them satisfied with their residential environment.

OIG Evaluation of Auditee Comments

The disbursements for employees' bonuses, lunches, parties, Baltimore Orioles baseball tickets, and other similar items are not necessary costs for the operation of the project.

Recommendations

We recommend that you require the Agent/Owners to:

2A. Reimburse the respective projects $15,002 for the ineligible costs incurred.

Internal Controls

In planning and performing our audit, we considered internal control systems of the management of Emerald Properties Management Co., Inc., to determine our auditing procedures and not to provide assurance on internal control. Internal control is the process by which an entity obtains reasonable assurance as to achievement of specified objectives. Internal control consists of interrelated components, including integrity, ethical values, competence, and the control environment which includes establishing objectives, risk assessment, information systems, control procedures, communication, managing change, and monitoring.

Control Categories

We determined that the following internal control categories were relevant to our audit objectives:

- Cash Receipts and Disbursements
- Project Maintenance and Condition
- Liabilities
- Owner Distributions
- Accounts Receivables
- Purchases and Expenses

Scope of Work

We evaluated all of the relevant control categories identified above by determining the risk exposure and assessing control design and implementation.

Significant Weaknesses

A significant weakness exists if internal control does not give reasonable assurance that the entity's goals and objectives are met; that resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data are obtained, maintained, and fairly disclosed in reports. Based on our review, we believe the following items are significant weaknesses:

(1) Owner Distributions (Finding 1)
(2) Cash Disbursements (Finding 1)
(3) Purchases and Expenses (Finding 2)

Follow Up On Prior Audits

This is the first OIG audit of the Agent/Owners' operations. The most recent Independent Auditor reports, for the fiscal year ended December 31, 1995, disclosed findings that are relevant to our audit objectives and remain uncorrected. The remaining findings are not applicable to our audit.

Project Name	IA Findings Which Relate To Distributions (Finding 1)	IA Findings Not Applicable To OIG Audit
Harper's Mill Townhouses	**1**	**0**
Heritage Hill Townhouses	**1**	**1**
Washington Square Townhouses	**0**	**0**
Lamplighter Ridge Apartments	**0**	**0**
Mariner's Cove Townhouses	**0**	**2**
Olde Forge Townhouses	**0**	**0**
Total	**2**	**3**

Note: There were no IA findings which relate to ineligible cost (Finding 2).

Auditee Comments (Before Exit Conference)

Auditee Comments (After Exit Conference)

OIG Evaluation of Auditee Comments

The following comments are in response to the Auditee's Comments regarding the audit. Auditee Comments relating to the findings are incorporated, where appropriate, in the applicable finding.

The Agent/Owners questioned the conduct of the audit by OIG. In particular, the Agent/Owners claimed:

> "You should be aware that, at no time, was any such entrance conference held. Thus, the 'purpose, scope, and objectives' of the Audit were never transmitted in a coherent fashion to the auditee (and in our opinion perhaps never properly formulated or understood by the individual conducting the Audit), no timetables for audit completion were ever established, required records and information were never identified, and access to records and information was sought only on an incomplete, ad hoc basis. There did not seem to be an 'audit team' involved in this audit, as the Auditor alone conducted the audit and indeed, at no time during the conduct of the Audit, did he even speak with or meet either Mr. Berman or Mr. Shapiro."

The OIG Auditor contacted Ms. Ginger Linden, Controller for the Agent, by phone on February 9, 1995. Arrangements were made for the OIG Auditor to perform a physical inspection of Mariner's Cove on February 13, 1995. Additionally, an entrance conference was scheduled for February 21, 1995, at 9:00 am.

An entrance conference was held as scheduled with the Controller. The Controller was informed OIG would conduct a survey, and possibly an audit, of the Agent/Owners' operations to determine whether the Agent/Owners were complying with Regulatory Agreement and other applicable HUD requirements. The OIG Auditor informed the Controller that the survey, and the audit, if warranted, would cover the period January 1, 1991, through December 31, 1994. Further, the Controller was informed the audit period may be extended as considered necessary. The Controller stated that the day to day operations of the Agent were managed by her and all requests for information should be addressed to her.

Furthermore, the OIG Auditor informed the Controller that the following documents may be examined during the survey/audit:

> Contracts; copies of reports, operating policies, and procedures; organizational charts; financial statements; accounting books and records, including receipt and disbursements of funds, bank statements and cancelled checks; documentation such as invoices, bills, and contract payments to support expenditures; personnel files; payroll; and time and attendance records.

The Controller stated that no space was available at the Agent's office, however, work space would be provided at the IA's office. Arrangements were made to provide the OIG Auditor with 1994 cancelled checks, bank deposits, bank statements, vendor files, monthly disbursements journals, and the IA reports for the periods 1990 through 1993 for all six properties. Additionally, the OIG Auditor obtained the following documentation from the Controller before the entrance conference was concluded:

> Listing of the HUD-insured properties managed by the Agent; project and Agent employee listing; 1994 audited financial statements for the six properties managed by the Agent; management certifications with amendments; chart of accounts; and the disbursement journal for Mariner's Cove.

Regarding the Agent/Owners' comments that the audit was never announced, the OIG Auditor informed the Controller, during the entrance conference, that a survey was being performed. At that time, it was explained to the Controller that part of the survey process was to determine if further audit work was warranted.

On March 16, 1995, the Auditor discussed the preliminary results of the survey with the Controller in order to obtain information on the areas that were tested. At that point, the Controller was presented with the 1994 disbursements that were not supported or did not appear to be reasonable and necessary project expenses. Furthermore, unauthorized distributions that were paid to the Owners was also discussed. The purpose of that meeting was to determine the reasons for the transactions and to inform the Controller that the Agent/Owners were not in compliance with the Regulatory Agreement.

In the following weeks, the Controller was informed that the survey was expanded to an audit and requests were made for information for the years 1991, 1992, and 1993. This information was requested to determine if the conditions found in 1994 also occurred in the previous years.

The Agent/Owners' comments contained the following regarding the staffing and supervision of the audit:

> "...Emerald is thus uncertain as to the degree of review which any of the field work received and again wishes to point out that only one individual conducted this field work, so that the normal communications between auditors during the audit phase was not possible."

Adequate supervision was provided throughout the survey and audit as required. It is not unusual for one Auditor to perform audit field work. The Auditor and the Supervisor communicated frequently throughout the survey and audit via meetings, telephone calls, and electronic mail.

The Agent/Owners commented that the draft findings contained significant inaccuracies and the audit was not complete. The following is an excerpt from the Agent/Owners' comments:

> "...The draft findings contain significant inaccuracies, distorting the reality of Emerald's stewardship of the affected properties, and ignoring the true economic effects of the questioned occurrences. Further, the draft findings list $409,259 of 'unsupported' expenditures, and, if issued without change in final form, would instruct the Baltimore HUD Office to determine if adequate documentation exists to support these expenditures. As will be seen from this response, these expenditures are 'unsupported' in the eyes of the auditor only, who never asked for nor reviewed the appropriate supporting data. Thus, the Audit is incomplete, and appears to push the responsibility for its completion to Baltimore Office housing officials, and to raise unnecessary questions in the minds of field office personnel regarding Emerald's management operations...."

The first request for supporting documentation concerning the projects' disbursements cited in the draft findings occurred on April 12, 1995. A second request was made on April 20, 1995. The Controller stated that supporting documentation could not be found because files may have been destroyed or damaged. Further, the Controller stated a history of the files was being created.

The process of attempting to obtain adequate documentation for project disbursements required two months of detailed review. Cancelled checks, deposit slips, IA working papers, and other documentation were reviewed to determine if the disbursements were appropriate project expenditures. The OIG Auditor interviewed the IA and the Controller on numerous occasions in order to help clarify the disbursements in question.

The OIG Auditor meet with the Controller, IA representative, and the Agent/Owners' Attorney on June 28, 1995, to discuss the current status of the audit and provide schedules detailing ineligible and unsupported cost. Furthermore, it was explained to the Controller at the meeting that the OIG Auditor, if called, would return to review additional documentation before the final report was issued. The Controller never called to inform the OIG Auditor that additional supporting documentation was available.

At the exit conference, the Agent/Owners were provided with another opportunity to present supporting documentation. The Controller stated documentation needed to provide support for the unsupported disbursements totaling $409,259 cited in the draft finding would be provided. It was agreed the information would be available for review on October 23, 1995. On November 1, 1995, necessary supporting documentation was provided to OIG. As a result, all disbursements were either accepted as reasonable and necessary operating expenses or were classified as ineligible disbursements.

Schedule of Ineligible Costs

Recommendation Number	Ineligible 1/
1A	$268,890
1B	453,691
1C	179,877
2A	15,002
Totals	$917,460

1/ Ineligible amounts are not allowed by law, contract, HUD or local agency policies or regulations.

Distribution

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