



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

August 13, 1996

**Audit Related Memorandum**  
**No. 96-PH-212-1821**

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

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

SUBJECT: Hodges Manor Apartments  
Limited Review of Operations  
Portsmouth, Virginia

We performed the subject review. The purpose of our review was to determine whether the owner operated the project in accordance with the terms and conditions set forth in the Regulatory Agreement and applicable HUD directives.

We reviewed project records and reports, analyzed the financial statements, performed on-site testing of cash disbursements, cash receipts and surplus cash. We interviewed Asset Management Branch staff in the Virginia State Office and project staff. We conducted an on-site inspection of the project's vacant units.

Our review disclosed the following:

- Based on the OIG's calculation of surplus cash for Fiscal Year 1995, the owner made \$85,697 in excess distributions. These distributions included \$7,800 to Dorchester Square Apartments. Calculation's by the owner's CPA revealed a surplus cash deficiency of \$93,497 for Fiscal Year 1995. Paragraph 6b of the Regulatory Agreement prohibits distributions, unless there is surplus cash.

Expenditure documents and/or a project policy necessary to support the following payments made from project funds were not available or non-existent.

- Payments classified as labor made to the former resident manager of Dorchester Square (1994) \$960.
- A payment of \$3,000 to a CPA.
- Payments totaling \$120 were made to the project bookkeeper for trips made to Dorchester Square Apartments. It appears these trips were agent related rather than project business.
- Monthly truck allowance for maintenance employees, \$35 per month are paid to the two maintenance employees. There are no written policies or vouchers to support these payments.
- Monthly gas allowances are paid to employees ranging from \$30 to \$100. There are no written policies or vouchers to support the payments.
- Payments totalling \$630 were made to an independent contractor for trash removal.
- A local hardware store received \$12,889, the invoice only identified the amount owed on account. The items purchased is not known.
- Unsupported miscellaneous disbursements to various vendors totalled \$1,424.

The owner is currently meeting the project's debt service requirements. However, the absence of internal controls over the disbursement of project expenditures is alarming. Such conditions are an early warning for potential default in the future. Please advise us on what action your office plans to take regarding these matters.

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

Attachment - Distribution

CC: OSWALD  
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Correspondence Code	3AGA			
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Attachment

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Attn: Mr. Cliff Fowler (2)



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