



U.S. Department of Housing and Urban Development

District Office of the Inspector General
Richard B. Russell Federal Building
75 Spring Street, SW, Room 700
Atlanta, GA 30303-3388
(404) 331-3369

June 21, 1996
Audit-Related Memorandum

96-AT-211-1820

MEMORANDUM FOR: Reba Cook, Director, Multifamily Housing Division, 4GHM

FROM: Kathryn Kuhl-Inclan
District Inspector General for Audit-Southeast/Caribbean, 4AGA

SUBJECT: Survey of Broadmeadow Apartments
Jackson, Mississippi

We completed a survey of Broadmeadow Apartments and its management agent (MA), Intervest Corporation. Our survey was conducted at the request of the United States Attorney to identify potential equity skimming candidates. Based on the results of our survey and the project owners' decisions to repay ineligible distributions, the U. S. Attorney has concluded that he will not pursue affirmative civil enforcement in this case. However, our results do warrant continued intervention by your staff to ensure that housing units are brought up to quality standards.

SUMMARY

Our survey showed that the owners had taken unauthorized distributions in 1994 while the property was experiencing significant maintenance deficiencies. By the close of our on-site survey in March 1996, the owners had repaid the \$69,475 in distributions made. The units, however, continued to show evidence of poor maintenance. Consequently, vacant units were not being promptly rented, and housing assistance payments were being withheld by the Mississippi Regional Housing Authority adding to the financial strain on the complex. If this MA cannot be compelled to repair and properly maintain this project, we are recommending that you take action to replace it. Attachment 1 contains two findings with recommendations. Attachment 2 is a list of the deficiencies noted during our March 12, 1996, inspection of 28 units.

During our review, we noted one additional administrative issue which you may want to address. Contrary to the Regulatory Agreement, the MA maintained project receipts in bank accounts in the name of the MA. The MA deposited rental receipts (account #580-6267900) and security deposits (account #580-6267918) in Deposit Guaranty National Bank accounts titled "Intervest Corporation for Broadmeadow Apartments." The MA transferred funds to account #1009361200 at Trustmark Bank entitled "Broadmeadow Apartments by Intervest Corporation" from which it

paid monthly bills. The MA also transferred some project funds to a Universal Accounts Payable (UAP) account (#500-2701209) maintained at Deposit Guaranty National Bank. The title of the account was "Intervest Corporation." The Regulatory Agreement requires that accounts be set up in the project's name rather than the MA's name. The MA thought that having the Broadmeadow name on the accounts was sufficient. Maintaining project receipts in accounts identified by names other than the project creates opportunities for misuse of funds. Such opportunities increase when funds are commingled, such as in a UAP account.

BACKGROUND

Broadmeadow Apartments is a 17-year old 221(d)(4) project of 60 Section 8 subsidized units. HUD's August 11, 1995 physical inspection showed \$178,056 in estimated repair costs. Due to its poor physical status, the project was also in poor financial condition with unrented units and housing assistance payments drastically down since December 1995. The project had been delinquent on its February and March 1996 mortgage payments but was brought current on March 13, 1996.

Intervest Corporation was the MA during our survey period from 1993 through March 27, 1996. The General Partners for the project were J. Steve Nail and Charles F. Craig. Brantley Pace was a limited partner. Mr. Nail was also president of the MA.

Our survey focused on detecting improper distributions through:

- review of HUD Mississippi State Office files;
- review of Broadmeadow Apartments records;
- discussions with one of the general partners, HUD Mississippi State Office staff, and Brad Pigott, U.S. Attorney for the Southern District of Mississippi; and,
- site inspections at Broadmeadow Apartments.

Our fieldwork was performed between February 20, 1996 and March 27, 1996.

* * * * *

Within 60 days, please furnish us a status report on each recommendation showing: (1) corrective action taken; (2) the proposed corrective action and the date to be completed; or (3) why action is not considered necessary. Also, please furnish us copies of any related correspondence or directives.

Should you have any questions, please call Nancy H. Cooper, Assistant District Inspector General for Audit, at 404-331-3369 or Auditor Maxie Walls at 205-290-7630.

Attachments

- 1 - Findings and Recommendations
- 2 - Unit Deficiencies Noted During Inspection

FINDING 1 - Management Agent Made Unauthorized Distributions

The MA made unauthorized distributions of \$69,475 during 1994. The MA contended that the distributions were allowable based on a cash surplus reported in the 1993 financial statements. At the time, however, the property had significant maintenance deficiencies. Thus, the owners were not entitled to the distribution. The MA misapplied project funds needed for those property repairs.

On April 13, 1994, the MA made the following distributions from the Broadmeadow Apartments Rental Agency Account at Trustmark Bank:

<u>Check#</u>	<u>Payee</u>	<u>Amount</u>
003431	Charles Craig	\$ 17,855
003432	Brantley Pace	33,765
003433	J. Steve Nail	<u>17,855</u>
Total		<u>\$ 69,475</u>

On August 30, 1993, prior to the distributions, HUD rated the overall property condition at below average with estimated repairs totaling \$80,601. In addition, the Mississippi Regional Housing Authority's November 10, 1993 inspection rated the project as below average. The Housing Authority commented that the apartments were in desperate need of maintenance and the complex was rapidly deteriorating due to the lack of routine maintenance. Subsequent to the 1994 distributions, HUD and the Housing Authority continued to rate the property either below average or unsatisfactory.

Paragraph 10 of the mortgagor's Regulatory Agreement with HUD requires that the mortgagor maintain the project in good repair and condition. Paragraph 8(e)(4) states that owners shall not take any distribution when there has not been "...compliance with all outstanding notices of requirements for proper maintenance of the project."

HUD requested repayment of the distributions in letters dated May 1, July 25, September 1, November 14, and December 15, 1995. HUD's position was that any distributions earned in 1993 and taken in 1994 were unauthorized, due to the property's existing poor physical condition. When we began site work, the MA had not repaid the distributions. However, on March 27, 1996, before we left the audit site, the MA repaid the distributions totaling \$69,475.

Recommendation:

- 1A. We recommend that you instruct the management agent that the funds recently returned to the project must be applied towards correcting existing maintenance deficiencies.

FINDING 2 - Vacant Units Were Not Promptly Made Rentable

The MA did not promptly return units to rentable condition. The delay appeared to be due to the lack of routine preventive maintenance and to staff management problems. As a result, the MA deprived the project of rental income and potential tenants of needed housing.

For 10 units shown as vacant on February 21, 1996, unit down time averaged 267 days. For units vacant anytime between January 1, 1995 and February 21, 1996, the down time resulted in lost revenue of \$63,644. Correspondence of the Mississippi Regional Housing Authority showed it had been withholding housing assistance payments on 40 units since December 1995 because the MA had not completed repairs. Based on the MA's records at October 2, 1995, there were applicants waiting to rent these vacant units.

Our physical inspection in March 1996 of 28 of the 60 units confirmed that significant ongoing physical problems remained unresolved and that the MA had not complied with Paragraph 10 of the Regulatory Agreement to maintain the property in good repair and condition. While the MA had addressed some deficiencies such as appliance replacement, electrical repairs, and drywall repairs, such actions were minimal compared to the overall deficiencies needing correction (see Attachment 2).

Unit inspections and review of tenant files revealed the following internal control weaknesses:

A poor system for processing work orders - Generally, 1995 work orders were not maintained in the applicable tenant file and were improperly completed. Work orders for 1994 were unnumbered. Site personnel did not review work orders to ensure that repairs were promptly performed and that tenants were appropriately charged. The site manager stated she had never been furnished a schedule of charges.

Inadequate unit inspections - Of 12 tenant files reviewed, 1 did not contain a move-in inspection, 3 did not contain a move-out inspection, and 2 did not contain monthly inspections. Where inspections were documented in the files, we concluded that they were either not actually performed or were inadequate. For example, monthly inspection reports appeared to be merely copied from a prior one. In 4 of the 12 files reviewed, documents showed the units had been painted during a series of inspections yet the inspection forms were marked the same each month. The inspections dated before, during, and after painting consistently showed the walls, baseboards, and ceilings as a "high urgency" and the unit's general appearance as poor. The audit of the 1995 financial statements also reported a finding on poorly documented move-in and move-out inspections.

No equipment and inventory controls - The MA's operations manual required that maintenance personnel keep an inventory of all equipment and supplies on file with the site manager. The inventory should include such items as office equipment and furnishings and maintenance equipment and supplies. We found that the site manager did not have an equipment inventory or supply lists. She had one list of refrigerators and serial numbers for nine of the units.

Recommendations:

We recommend that your staff instruct the MA to:

- 2A. Bring all units up to quality standards by December 31, 1996. If the MA cannot comply, your office should require the owners to find a new MA.
- 2B. Establish procedures to promptly determine what repairs are needed to renovate vacated units and make those repairs immediately to minimize rent losses.
- 2C. Develop a preventive maintenance program.
- 2D. Develop procedures to conduct unit inspections, design an effective work order system, and implement an equipment and supplies inventory system.

RESULTS OF UNIT INSPECTIONS

During our March 12, 1996, inspection, we noted the following items needing repair or replacement.

UNIT # DEFICIENCY

- A-106
1. fix sink faucet knob (cold)
 2. bathroom faucet drips
 3. small holes in living room tile
 4. no screen door
 5. repair/replace kitchen cabinets
 6. vent hood
- A-108
1. repair screen door
 2. needs closet door
 3. fix wall receptacle in bedroom
 4. repair/replace screen door
 5. repair/replace kitchen cabinets
- A-109
1. bathroom faucet drips
 2. needs door stops
- A-110
1. replace kitchen sink knob (hot)
 2. bathroom faucet drips
 3. repair vent hood
- A-112
1. vent hood
 2. replace kitchen cabinets
 3. replace smoke detector
 4. bathroom faucet drips
 5. needs door stops
- B-116
1. install bathroom ceiling light cover
 2. repair/repaint kitchen ceiling
 3. repair/replace kitchen cabinets
 4. needs door stops
- B-119
1. replace receptacle in living room
 2. damaged kitchen cabinets
 3. bedroom wall hole/emergency pull cord
 4. needs light cover in bathroom

RESULTS OF UNIT INSPECTIONS

UNIT # DEFICIENCY

- C-125
1. repair screen door
 2. repair/replace some kitchen cabinets
 3. paint door
 4. needs screens in back bedroom
- C-126
1. repair living room ceiling
 2. reattach baseboard in right bedroom
 3. replace tile in kitchen, bathroom etc.
 4. repair/replace kitchen cabinets
- C-128
1. replace screen in living room
 2. replace kitchen cabinets
 3. replace stove and refrigerator
 4. paint entire unit
 5. ceiling stain in closet
 6. paint rusted front door
 7. repair/replace closet door in hall
 8. repair wall in front bedroom
 9. door stops missing
 10. replace bulb in bathroom
 11. repair hole in bathroom wall
 12. replace screen door
- C-129
1. repair/replace screen door
 2. torn shade in living room
 3. repair/replace some kitchen cabinets
 4. torn shade in right bedroom
 5. replace smoke detector
 6. replace hot water knob in bathroom
- D-131
1. replace screen door
 2. replace hall closet door
 3. replace damaged floor tile
 4. replace shoe mold in hallway
 5. replace screens in bedrooms and living room
 6. replace kitchen cabinets
 7. repair bathroom vent
 8. repair door knob in back bedroom
 9. replace window panes in living room and bedroom
 10. replace screen in living room
 11. freezer left in unit

RESULTS OF UNIT INSPECTIONS

UNIT # DEFICIENCY

- D-132
1. reattach return air vent
 2. replace kitchen cabinets, none in unit
 3. replace kick plate on stove
 4. door stops missing
 5. repair tile near commode
 6. repair countertop
- D-135
1. replace screen door
 2. replace door frame
 3. replace screens in living room
 4. repair tub drain
 5. repair bathroom vent
 6. replace kitchen cabinets
 7. door stops missing
 8. roaches
 9. repair attic fan louvers
 10. repair holes in kitchen wall
 11. bathroom faucet leaks
 12. repair bath ceiling
- D-137
1. replace tile/subfloor problem
 2. paint entire unit
 3. replace receptacle in living room, front and back bedrooms
 4. replace water heater
 5. replace breaker box cover
 6. replace baseboard in back bedroom
 7. door stops missing
 8. repair holes in front bedroom and back bedroom walls
 9. repair/replace screens in living room and back bedroom
 10. repair damaged attic vent
 11. reattach return air vent
 12. replace window pane in back bedroom
- D-139
1. chipped tile in living room
 2. remove old freezer from unit
 3. replace screen door
 4. replace window pane in living room
 5. replace screens in living room
 6. repair bath ceiling (stucco hanging)
 7. replace bathroom vanity and sink
 8. reattach return air vent
 9. repair left bedroom closet door knob
 10. need back bedroom minor tile repair
 11. replace missing refrigerator

RESULTS OF UNIT INSPECTIONS

UNIT # DEFICIENCY

- E-141
1. replace hallway floor tile
 2. replace right center and left rear bedroom screens
 3. fix right rear bedroom ceiling
 4. bathroom faucet leaks
 5. kitchen faucet leaks
 6. door stops missing
 7. repair front bedroom switch
 8. replace bathroom vanity
 9. replace towel rack and tissue holder

- E-143
1. replace screen door
 2. repair duct system vent
 3. paint kitchen
 4. repair/replace kitchen cabinets
 5. fix bathroom floor
 6. replace lavatory cabinet
 7. replace bedroom screens
 8. roaches
 9. reattach return air vent
 10. repair/replace damaged countertop
 11. bathroom and kitchen faucets drip
 12. paint bathroom ceiling
 13. repair toilet paper dispenser and towel rack

- E-146
1. replace screen in front door
 2. fix hallway closet door lock
 3. replace front bedroom door
 4. replace lavatory faucets
 5. hole in left center bedroom wall
 6. replace screens in left center and left rear bedroom
 7. replace shoe mold in left rear bedroom
 8. subfloor problem in living room and dining room
 9. paint living room and middle bedroom
 10. repair hole in front bedroom
 11. roaches
 12. repair door knob to hallway closet
 13. replace bathroom vanity

RESULTS OF UNIT INSPECTIONS

UNIT # DEFICIENCY

- F-147
1. repair left front bedroom door frame
 2. replace screen door
 3. repair floor tile at front door
 4. repair hallway wall hole
 5. repair kitchen ceiling
 6. repair bathroom ceiling
 7. replace kick plate on freezer
 8. repair light in left rear bedroom
 9. replace living room drapes
 10. roaches
 11. repair closet light switch
 12. replace refrigerator
 13. door stops missing
 14. replace commode
- F-148
1. replace screen door
 2. repair floor tile
 3. replace return air duct cover
 4. roaches
 5. fix kitchen ceiling
 6. replace kitchen cabinets
 7. repair bathroom ceiling
 8. repair back bedroom ceiling
 9. repair hole in back bedroom wall
 10. replace refrigerator
 11. replace baseboard in living room
 12. reattach attic fan louver
 13. replace medicine cabinet
 14. replace smoke detector
- F-149
1. replace screens
 2. replace kitchen cabinets
 3. electrical short in dining room light switch
 4. subfloor problem in living room
 5. replace smoke detector
 6. repair attic louver
 7. repair kitchen ceiling
 8. replace receptacle in living room

RESULTS OF UNIT INSPECTIONS

UNIT # DEFICIENCY

- F-151
1. replace living room broken window pane
 2. replace living room receptacle
 3. replace thermostat
 4. r e p l a c e f r o n t
door screen
 5. replace kitchen cabinets
 6. replace lavatory cabinet
 7. replace commode
 8. replace tub drain
 9. repair bathroom faucet leak
- F-152
1. replace screen door
 2. repair front door lock
 3. lavatory and sink leaking
 4. replace kitchen cabinets
 5. repair bathroom ceiling
 6. repair bathroom wall/leak inside wall
 7. roaches
- F-153
1. repair right front bedroom door frame
 2. repair living room ceiling
 3. replace screen door
 4. repair kitchen cabinets
 5. repair kitchen ceiling
 6. replace tile in hallway
 7. repair attic fan louver
 8. bathroom faucet drips
 9. replace lavatory
 10. repair screen in back bedroom
- F-154
1. replace front door screen
 2. replace thermostat
 3. repair noisy bathroom vent
 4. replace bedroom screen
 5. repair tile in living room
 6. replace kitchen cabinets
 7. replace attic fan louvers
 8. roaches

RESULTS OF UNIT INSPECTIONS

UNIT # DEFICIENCY

- G-155
1. repair screen in living room
 2. replace living room drapes
 3. repair tile in back bedroom
 4. repair ceiling stain in bathroom
 5. tub faucet drips
 6. repair rusted seal in lavatory
 7. replace refrigerator
 8. replace kitchen cabinets
 9. replace baseboards
- G-159
1. repair broken tiles
 2. repair outlet in living room
 3. replace countertop
 4. repair kitchen ceiling
 5. remove mold in right front bedroom
 6. repair bathroom

DISTRIBUTION

Secretary's Representative, Southeast, 4AS
Director, Accounting Division, 4AFF
Field Comptroller, 4AF
State Coordinator, 4GS
Director, Multifamily Housing Division, 4GHM
Chief Financial Officer, F, Room 10164 (2)
Director, Office of Internal Control and Audit Resolution, FOI (Room 10176) (2)
Associate Director, US GAO, 820 1st St. NE Union Plaza, Bldg. 2, Suite 150,
Washington, DC 20002 (2)
Audit Liaison Officer, Office of Housing, HF (Room 5132) (3)
Assistant to the Deputy Secretary for Field Management, SDF (Room 7106)
President, Intervest Corporation