Issue Date
September 15, 2009
Audit Report Number
2009-LA-1019

TO: Thomas W. Azumbrado, Director, San Francisco Multifamily Housing Hub, 9AHMLAP
William M. Elsbury, Region IX Regional Counsel, 9AC
Henry S. Czauski, Acting Director, Departmental Enforcement Center, CV

FROM: Joan S. Hobbs, Regional Inspector General for Audit, Los Angeles, 9DGA

SUBJECT: The Owner of Park Lee Apartments, Phoenix, Arizona, Violated Its Regulatory Agreement with HUD

HIGHLIGHTS

What We Audited and Why

We audited Park Lee Apartments, an FHA-insured multifamily project in Phoenix, Arizona, in response to HUD officials' concerns about the project's deteriorating condition and inability to make its mortgage payments. The HUD-insured $23.5 million mortgage has been assigned to HUD and HUD stands to lose millions on the sale of the note. Our objective was to determine whether the project complied with the U.S. Department of Housing and Urban Development's (HUD) regulatory agreement and other federal requirements.

What We Found

Park Lee Apartments did not use its project funds in compliance with HUD and other federal requirements. Specifically, the owner and/or management agents violated the regulatory agreement with HUD by paying $512,562 in questioned costs from the project's operating account when the project was in a non-surplus-cash position. The questioned costs included the payment of development expenses from operating funds ($439,439), ineligible and unsupported disbursements ($45,623), and a wire transfer of project revenue to the owner ($27,500). In addition, the owner maintained the project

in poor physical condition and submitted annual audits of the financial statements that did not meet HUD requirements.

What We Recommend

We recommend that the Director of the San Francisco multifamily hub require the project's owner to repay or support questioned costs of $512,562. We also recommend that HUD's Regional Counsel pursue double damage remedies. In addition, we recommend that the Director of HUD's Departmental Enforcement Center pursue civil money penalties and administrative sanctions, as appropriate.

For each recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Please furnish us copies of any correspondence or directives issued because of the audit.

Auditee's Response

We provided our discussion draft report to the owner of Park Lee Apartments on August 10, 2009, and held an exit conference with the owner on August 25, 2009. The owner of the project provided comments on August 24, 2009. The owner generally disagreed with our report.

The complete text of the auditee's response, along with our evaluation of that response, can be found in appendix B of this report.

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BACKGROUND AND OBJECTIVE

Park Lee Apartments is a 523-unit multifamily project located in Phoenix, Arizona, and was insured under Section 221(d)(4) of the National Housing Act, 12 U.S.C. (*United States Code*) 1715. U.S. Department of Housing and Urban Development (HUD) statutory and regulatory provisions authorized the Federal Housing Commissioner to regulate the borrower through a regulatory agreement.

Park Lee Apartments was constructed in 1958 and was purchased by Community Services of Arizona, a nonprofit company, in January 2005. Community Services of Arizona then made more than $6 million in renovations to the project. The project was developed with a $23.5 million HUD-insured mortgage in addition to tax credits and other resources. Community Services of Arizona – Park Lee, LLC, is the owner and managing member of the project.

The project has not been in a surplus-cash position since it began operations in February 2005. Review of the project's 2006 and 2007 financial statements showed net losses before depreciation.[1] In addition, the surplus (deficiency) cash amounts for 2006 and 2007 were ($1,525,272) and ($505,786), respectively. A little more than three years from the start of operations, the project defaulted on its mortgage (May 2008), and the mortgage was assigned to HUD in October 2008. Because of the poor financial condition of the project, Community Services of Arizona made advances to the project for construction and operating costs. The 2007 financial statements show that they advanced $2.1 million to the project as of December 31, 2007.

During our audit period (January 1, 2006, through December 31, 2008), three management agents managed the project. Bernard/Allison Management Services managed the project from the beginning of our audit period to April 2006. Community Services of Arizona managed the project without HUD approval from May 2006 to April 2008 and from October 2008 to the end of our audit period. Dunlap & Magee Property Management managed the project from May to October 2008.

Our objective was to determine whether Park Lee Apartments complied with its regulatory agreement with HUD and other federal requirements.

[1] The 2008 financial statements had not been completed at the time of the audit.

RESULTS OF AUDIT

Finding 1: The Owner and/or Management Agents Paid $512,562 in Questioned Costs

The owner and/or management agents violated the regulatory agreement with HUD by paying $512,562 in questioned costs from the project's operating account when the project was in a non-surplus-cash position. The questioned costs included the payment of development expenses from operating funds ($439,439), ineligible and unsupported disbursements ($45,623), and a wire transfer of project revenue to the owner ($27,500). These improper payments occurred because the owner and/or management agents disregarded the project's regulatory agreement with HUD, which requires that any distribution of project income only be from surplus cash. As a result, project operating funds available for debt service were reduced, contributing to the default on its $23.5 million HUD-insured mortgage. In addition, the owner maintained the project in poor physical condition and submitted annual audits of the financial statements that did not meet HUD requirements.

Operating Funds Were Used for Development Expenses

The owner and/or management agents improperly used the project's operating account to pay for development expenses of $439,439. During the development of the project, the owner initially deposited $325,000 into a reserve account for relocation expenses; however, the owner stated that it had underestimated the costs for relocation.[2] Consequently, the owner expended $404,439 in project operating funds to pay for additional relocation expenses. According to HUD guidance (see criterion number 5 in appendix C), project funds should only be used to pay for reasonable expenses necessary for the operations and maintenance of the project. The owner also paid $35,000 for development consulting fees for the project. The owner stated that sufficient funds were not available in the project's development account for the final payment of development consulting fees so they were paid from the project's operating account.

Ineligible and Unsupported Disbursements Were Made

The owner and/or management agent used project funds of $45,623 for ineligible and unsupported disbursements. The ineligible disbursements ($30,560) included expenses such as payroll for nonproject employees, asset management fees paid to the investor member of the project, and annual compliance reviews. These expenses were owner

[2] The investment of HOME Investment Partnerships Program funds in the project required relocation expenses for displaced residents.

and/or management agent expenses that should not have been charged to the project (see criterion number 6 in appendix C). The unsupported disbursements ($15,063) included payments to the owner for reimbursement of expenses paid for by the owner. See the table below for the list of ineligible and unsupported expenses.

Date	Description	Ineligible Amount	Unsupported Amount
Mar. 20, 2006	Compliance review	$1,300	
Apr. 18, 2006	Awards banquet	639	
June 7, 2006	Compliance review	1,500	
Feb. 23, 2007	Asset management fees	2,561	
Mar. 23, 2007	Asset management fees	2,640	
June 15, 2007	Reimbursement for training paid for same employee two times (same course) and meals	270	
July 20, 2007	Wages for nonproject employee	2,105	
Aug. 9, 2007	Asset management fees	2,640	
Sept. 7, 2007	Reimbursement of expenses paid by owner		$15,063
Sept. 20, 2007	Compliance review	1,400	
Nov. 7, 2007	Asset management fees	2,640	
Feb. 12, 2008	Membership dues for other owner projects	1,075	
May 7, 2008	Retainer fees for legal service (not for project operations)	5,000	
May 7, 2008	Pre-REAC* inspection review	5,884	
Dec. 24, 2008	Wages for nonproject employee	906	
	Total	**$30,560**	**$15,063**

* REAC = Real Estate Assessment Center

Project Revenue Was Wired to the Owner

The management agent improperly wired funds from project revenue to the owner. The project received $27,500 from a vendor in July 2005 as an incentive for entering into a four-year and two-month contract for laundry services in February 2005. The funds were wired from the project's operating account to the owner's account in August 2005. As of May 2009, the funds had not been returned to the project. The regulatory agreement (see criterion number 2 in appendix C) requires that owners not pay out any funds except from surplus cash.

Other Problems Existed

We noted that other problems existed at the project. Due to the difficult financial position of the project, the owner was unable to maintain the property at a level that sustained maximum occupancy and marketability. We also determined that the annual audits of the financial statements did not meet HUD requirements. We are not recommending that the owner correct the issues because the mortgage has been assigned to HUD.

The Project's Physical Condition Was Not Well Maintained

We conducted a physical inspection of the project on March 11, 2009, and noted many instances of deferred maintenance in both occupied and vacant units as well as in the project's common areas. The deficiencies observed included damaged walls and floors, lack of power/electricity, and apparent mold. Also two of the vacant units were not accessible because one was nailed shut due to a recent break-in and the other was damaged by a recent fire at the project. In addition, the owner stated that of the 322 vacant units at the project, only two were ready to rent because the project did not have enough operating funds available for repairs.

The deficiencies noted in the common areas included a carport that was damaged by a fire that had occurred more than one year earlier (and had not been repaired) and multiple laundry rooms that were either boarded up because of damage or contained damaged walls and had inoperable equipment. In addition, we noted deficiencies in the building's exterior such as damaged walls, peeling stair coverings, and missing/damaged lights.

The following pictures provide examples of some of the deficiencies observed.

The building stairs had covering that was peeling.

This carport was damaged by a fire that had occurred more than one year earlier.

Multiple laundry facilities had holes in the walls.

Multiple laundry facilities had holes in the walls.

The Annual Audits of the Financial Statements Did Not Meet HUD Requirements

The certified public accounting (CPA) firm that performed the audit was not engaged to review or report on internal controls or compliance with applicable laws and regulations that may have a material effect on each HUD-assisted program. HUD Handbook 4370.2, REV-1, requires the submission of various financial reports including a report on internal controls and compliance with applicable laws and regulations (see criterion number 5 in appendix C). However, the project's electronic submission falsely claimed the reviews had been done and reported no problems. HUD was unaware the reviews had not been completed. Neither the project's owner nor the CPA firm engaged for the audit were aware of HUD requirements for the auditors to use the Consolidated Audit Guide for Audits of HUD Programs, which, if followed, would have ensured a complete audit.

Conclusion

The owner and/or its management agents violated the regulatory agreement with HUD and incurred $512,562 in questioned costs when they used operating funds to pay for development expenses, used project funds for ineligible and unsupported expenses, and wired project revenue to the owner. The questioned costs, in addition to the poor market condition, contributed to the owner's default on its $23.5 million HUD-insured mortgage. In addition, the owner was unable to maintain the property in a condition that sustained maximum occupancy and submitted annual audits of the financial statements that did not meet HUD requirements.

Because the mortgage has been assigned to HUD we are not recommending that the owner address the underlying causes and internal control deficiencies. Instead we are

recommending reimbursement to HUD for unallowable costs. We are also recommending that HUD pursue double damage remedies, civil money penalties, and/or administrative sanctions, as appropriate, for the regulatory violations.

Recommendations

We recommend that the Director of the San Francisco multifamily hub require the owner of Park Lee Apartments to

1A. Reimburse HUD's Federal Housing Administration (FHA) insurance fund $439,439 for development expenses paid with operating funds.

1B. Reimburse HUD's FHA insurance fund $30,560 for ineligible disbursements.

1C. Require the owners to either furnish supporting documentation or reimburse HUD's FHA insurance fund $15,063 for unsupported expenses.

1D. Reimburse HUD's FHA insurance fund $27,500 for project revenue transferred to the owner.

We also recommend that HUD's Regional Counsel in coordination with the Director of HUD's San Francisco Multifamily Housing Hub and HUD's Office of Inspector General

1E. Pursue double damage remedies against the responsible parties for the ineligible/inappropriate disbursements and any unsupported disbursements that were used in violation of the project's regulatory agreement.

We also recommend that the Director of HUD's Departmental Enforcement Center

1F. Pursue civil money penalties and administrative sanctions, as appropriate, against the owner, operator, and/or their principals/owners for their part in the regulatory violations cited in this report.

SCOPE AND METHODOLOGY

The audit covered the period January 1, 2006, through December 31, 2008. However, we also reviewed several transactions that occurred in 2005 and 2009 based on general ledger entries indicating that questionable expenditures had occurred in those years. Our audit was performed at Park Lee Apartments in Phoenix, Arizona, and at the owner's office in Chandler, Arizona. We performed our audit work from February to May 2009.

To perform our audit, we

- Reviewed applicable laws, regulations, and guidance issued by HUD;
- Reviewed pertinent financial records maintained by the owner and the two management agents;
- Interviewed the owner's staff;
- Reviewed HUD files and interviewed appropriate HUD officials in the Phoenix Office of Multifamily Housing; and
- Physically inspected the property.

We selected a nonstatistical sample of disbursements to determine whether they were supported by invoices or other documentation and were eligible. We did not project our results to the universe of transactions in our audit scope.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

INTERNAL CONTROLS

Internal control is an integral component of an organization's management that provides reasonable assurance that the following objectives are achieved:

- Program operations,
- Relevance and reliability of information,
- Compliance with applicable laws and regulations, and
- Safeguarding of assets and resources.

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. They include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

We determined that the following internal controls were relevant to our audit objective:

- Ensuring that project funds are used in compliance with applicable laws and regulations.
- Maintaining complete and accurate records.
- Administering the project's operations in compliance with applicable laws and regulations.
- Safeguarding assets

A significant weakness exists if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet organization's objectives.

Significant Weaknesses

Based on our review, we believe that the following item is a significant weakness:

- The project lacked effective control to ensure that project funds were used in compliance with applicable laws and regulations (finding 1).

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS

Recommendation number	Ineligible 1/	Unsupported 2/
1A	$439,439	
1B	$30,560	
1C		$15,063
1D	$27,500	
Totals	**$497,499**	**$15,063**

1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or federal, state, or local policies or regulations.

2/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation **Auditee Comments**

Community Services of Arizona

650 N. Arizona Avenue
Chandler, Arizona 85225

August 24, 2009

Ms. Joan Hobbs
Regional Inspector General for Audit
U.S. Department of Housing and Urban Development
Office of the Inspector General
Region IX
611 West Sixth Street, Suite 1160
Los Angeles, California, 90017

RE: Comments on Draft Report – Park Lee Apartments

Dear Ms. Hobbs:

On behalf of Park Lee Highland, LLC, Community Services of Arizona, Inc. ("CSA") is submitting this response to the draft report dated August 10, 2009 (the "Report") prepared by the U.S. Department of Housing and Urban Development Office ("HUD") of the Inspector General ("OIG").

Comment 1

CSA respectfully requests that any future OIG correspondence regarding Park Lee Apartments (the "Project") be addressed to the owner of the Project, Park Lee Highland, LLC (hereinafter, the "LLC"). The current members of the LLC are CSA-Park Lee, LLC ("CSA-Park Lee) and Nationwide Affordable Housing Member Fund XXI - Apollo Tax Credit Fund XLII, L.L.C ("Nationwide"). CSA-Park Lee is the manager of the LLC (as that term is defined in the Arizona Limited Liability Company Act). CSA is the manager of CSA-Park Lee.

The distinction goes beyond identifying the actual owner of the Project. It also identifies that the Project, in addition to the bond financing, is funded by Nationwide's investment in the low income housing tax credits awarded to the Project by the Arizona Department of Housing ("ADOH") and loans and grants from government and quasi-government agencies. The LLC operating agreement and loan/grant documents imposes certain responsibilities and duties on the members and operations of the LLC. The LLC's manager, CSA-Park Lee, is charged with the responsibility of implementing such operational responsibilities. Nationwide's investment in the LLC provides a source of funds for the Project. The investment as well as all documentation (including without limitation the operating agreement) was known, reviewed and acknowledged by all parties as of the closing of the HUD-insured bond financing.

With the foregoing in mind, the LLC responses to the Report are set forth below. These responses are provided to the best of our knowledge and belief.

Telephone 480.963.6276
Facsimile 480.963.0113
TDD# 1.800.367.8939
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United Way
Valley of the Sun United Way

Arizona Contractors License No's
082949, 148904, 148905, 123959, 136627

Finding 1: The Owner and/or Management Agents Paid $601,768 in Questioned Costs

General Comments:

The Report noted 28 specific items pertaining to the Project. There are a number of critical points, however, not included in the Report that must be considered for a complete evaluation of the course of events concerning the Project and the LLC.

Comment 2

First, it should be noted that CSA, as the sole member of CSA-Park Lee, a member and the manager of the LLC, advanced $1,937,426 to the LLC between 2006 and 2009. This is in addition to approximately $1,363,000 paid by CSA on behalf of the Project from 2005 to 2009, for pre-development expenses prior to the admission of Nationwide as a member of the LLC and, thereafter, for operating expenses. A portion of the pre-development expenses have been repaid to CSA, with the balance represented on the LLC's records by notes receivable. While many of these funds were required to be made by CSA by limited liability company guarantees pursuant to the LLC operating agreement, CSA made these advances even after the fundamental financial problems at the Project became clear. Moreover, these dollars (along with a significant, unreimbursed use of CSA's organizational capacity) were injected into the Project long after any rational business decision to do otherwise would have been merited. Thus, while no *quid pro quo* relationship between the funds questioned by OIG and the dollars advanced by CSA is suggested, CSA's commitment and willingness to put its own limited resources into the Project – to the point that CSA's own financial viability is in question – is very clear. Any implication to the contrary simply is not supported by CSA's actions.

Second, ongoing financial issues at the Project, should have been apparent to all concerned parties. Aside from regular audits submitted to HUD demonstrating regular, significant losses, correspondence back to 2005 made the Project's financial problems clear. As far back as January, 2005, Sam Cioffi (then President and CEO of CSA) sent a letter to Manual Gonzalez at the Phoenix Department of Housing requesting that the City of Phoenix provide an additional investment of $350,000. These funds were needed to help cover the under-estimated cost of defeasance of the existing mortgage on the Project. (The cost of defeasance of the existing mortgage fluctuated on a daily basis based on the interest rate of government securities required to be purchased to replace the security for the outstanding loan as of the date of closing of the purchase of the property. There was a significant increase in the interest rates between the time of the original bond application and closing, thus increasing the cost of defeasance. It was not merely a matter of paying off the then-outstanding loan balance, but rather a defeasance of the existing loan was required by the lender.)

On April 24, 2006, Brian Swanton (then President and CEO of CSA) sent a letter to Kim Dorney-Rodriguez, at the Phoenix Housing Department requesting an additional $1,000,000 in City of Phoenix HOME funds. This is in addition to the $2,500,000 in CHDO HOME funds already invested by the City in the Project. Mr. Swanton notes that these dollars are to "…apply toward cost overruns, excess relocation expenses, and

reducing CSA's equity contribution and deferred developer fee." He added that the loss of a $3,000,000 philanthropic donation had caused CSA to defer nearly all allowable developer fees and to make a cash injection of $1,500,000 into the Project for the LLC to be able to continue the Project as planned.

On April 1, 2008, Brian Swanton sent correspondence to Jennifer Reilly at the Phoenix HUD Office requesting a formal forbearance on the mortgage for a period of four to six months. He also requested a meeting to discuss the submission of a Partial Payment of Claim (PPC) request for the LLC. Mr. Swanton's letter reiterates a number of significant issues regarding the Project's operational and financial problems and introduces the possibility of a sale of the Project. No forbearance was granted, or to our knowledge, even discussed with the LLC. As hereinafter noted in the discussion of specific items, the LLC retained legal counsel to represent the LLC in discussing the PPC with HUD since the LLC had been unsuccessful in accomplishing anything beyond the provision of information to HUD in its request for the PPC.

Mr. Swanton sent a memorandum to Marianne Marinucci, Asset Manager at ADOH on April 18, 2008, explaining the Project's lack of cash flow and inability to begin the scheduled payment on a State Housing Fund Loan. The memorandum noted that the Project was struggling financially; the Project was being marketed for sale; and that a PPC was being explored with HUD.

Subsequently, on June 11, 2008, Mr. Swanton submitted a PPC review package on behalf of the LLC to Ms. Sally Thomas, Director of Multifamily Program Center, Phoenix HUD Office. In the submission, Mr. Swanton reiterated the points made in his April 1 letter with additional detail. He stated, in part, that "…occupancy is approximately 65% but we believe the market is beginning to respond as we are already proceeding with our new more competitive rent levels and expanded market scope. Management believes stabilizing at 92% occupancy is achievable over time…" With the perception of a better market, lower rents, new staffing inputs and better maintenance, he appears to believe that the property will operate at a high level. Nonetheless, the new "…income/expense pro forma however only supports a fixed-pay mortgage in the amount of $15,325,000 and requires a PPC second mortgage of $7,869,00 to restructure the existing loan."

Ms. Thomas responded to Mr. Swanton's June letter on July 11. In that letter she requests that nine items be addressed. The items included, among other things, documentation regarding net capital contributions; current rent rolls; LIHTC program participation certification; evidence the mortgagee has agreed to accept a PPC; and discussion of other options pursued. Mr. Swanton submitted a timely response with a set of materials on July 24 addressing the items identified by Ms. Thomas. He further described efforts to stabilize the project (e.g. lowering rents, asking the City of Phoenix for further investment, selling the property).

There were no doubt many, many other discussions and phone calls between representatives of the LLC and HUD, the City and ADOH, about the Project that are not

documented. There are two points to be taken away from all these communications, however. First, the LLC made significant effort to both address the problems at and with the Project and seek assistance from key parties (including HUD, the City and ADOH) well before there was a mortgage default. This is consistent with CSA's willingness to advance cash to the Project over a four-year period. Second, the local HUD office was clearly aware of the problems at the Project as detailed in the annual audits and in discussions with appropriate representatives. Regardless of OIG's assertion that the Project's annual audited financial statements failed to meet required auditing standards (as hereinafter discussed), there was ample evidence presented by the LLC that some level of assistance was needed at a time when solutions may have been viable.

Specific Comments:

Comment 3

1. **Payee:** Park Lee (Development Account)
   Description: Wired to the development account to pay for relocation expenses
   Amount: $400,000
   Date: 6/23/2005
   Response: It appears $400,000 was wired from the LLC operating account managed by Bernard/Allison (Property Management firm) to the LLC's development account on 6/23/2005. At the time of disbursement, all operating expenses were current. The funds transferred to the LLC development account were used to pay expenses properly charged to the LLC development account. Further, as all operating payables appeared to be current at that time, the dollars transferred from one LLC account to another should be considered surplus cash. That the LLC may not have specifically documented this fact prior to the transfer of these funds does not negate this point.

Comment 4

2. **Payee:** Park Lee (Development Account)
   Description: Wired to the development account to pay for relocation expenses
   Amount: $2,000
   Date: 7/10/2006
   Response: It appears $2,000 was wired from the LLC operating account managed by Bernard/Allison (Property Management firm) to the LLC development account on 7/10/6 These funds were then used to pay expenses properly charged to the LLC development account. CSA, Inc., deposited $50,000 into the LLC development account on 6/28/06 and then transferred that amount to the LLC operating account on 6/29/06. A transfer of $2,000 was subsequently made from the LLC operating account back to the LLC development account on 7/13/2006 with a second transfer made from the LLC operating account to LLC development account on 7/18/2006 in the amount of $16,000. As these funds ($2,000 and $16,000) had originated in the development account less then three weeks earlier, this reversal appears appropriate under these circumstances.
3. **Payee:** Luckenbill Associates
   Description: Development consulting fees
   Amount: $35,000
   Date: 6/07/2007

Response: It appears $35,000 was paid to Luckenbill Associates on 6/07/07 for consulting services performed for the Project from the LLC operating account. The fee was paid in response to an invoice presented to the Project by Luckenbill Associates. Staff processing the invoice was apparently unaware that this was not an operating expense and paid the fee in error.

Comment 4

4. **Payee:** Park Lee (Development Account)
   Description: Wired to the development account to pay for development expenses
   Amount: $16,000
   Date: 7/18/06
   Response: It appears $16,000 was wired from the LLC operating account to the LLC development account on 7/18/6. These funds were then used to pay expenses properly charged to the LLC development account. CSA, Inc. deposited $50,000 into the LLC development account on 6/28/06 and then transferred that amount to the LLC operating account on 6/29/06. A transfer of $2,000 was subsequently made from the LLC operating account back to the LLC development account on 7/13/2006 with a second transfer made from the LLC operating account to LLC development account on 7/18/2006 in the amount of $16,000. As these funds ($2,000 and $16,000) had originated in the development account less then three weeks earlier, this reversal appears appropriate under these circumstances.

Comment 5

5. **Payee:** CSA
   Description: Reimbursement to owner for payment of relocation expenses
   Amount: $4,438.75
   Date: 7/26/2007
   Response: CSA paid two invoices to O.R. Colan Associates on behalf of the LLC for relocation services provided to the Project. The expenses were then reimbursed to CSA from the LLC, operating account on 7/24/2007.

Comment 6

6. **Payee:** JAG Compliance & Consulting
   Description: Compliance Review
   Amount: $1,300
   Date: 3/20/2006
   Response: JAG Compliance & Consulting conducted an annual compliance review for the LLC in the summer of 2005. The associated invoice was paid from the LLC operating account subsequent to that event. As a normal operational task, the LLC is not aware of any restrictions that would make this expenditure ineligible.

Comment 7

7. **Payee:** Spectrum Consulting
   Description: File Review
   Amount: $1,995
   Date: 3/20/2006
   Response: Spectrum Enterprises conducted pre-approval reviews of tenant files at Park Lee in November and December 2005. This task is a normal operating procedure required for quality control of the eligibility process. This is an eligible operating expense.

Comment 8

8. **Payee:** Bernard/Allison
   Description: Awards Banquet

Amount: $639.12
Date: 4/18/2006
Response: Bernard /Allison Management Services held an Awards Banquet that included staff managing the LLC. The Project paid for the cost of sending eight individuals to the event.

Comment 7

9. **Payee:** Julie Guffey
   Description: Compliance Review
   Amount: $1,500
   Date: 6/07/2006
   Response: JAG Compliance & Consulting conducted a File Review / Bond Report IDA for the LLC in June, 2006. The associated invoice was paid from the LLC operating account subsequent to that event. As a normal operational task, the LLC is not aware of any restrictions that would make this expenditure ineligible.

Comment 9

10. **Payee:** CSA
    Description: No Support Provided
    Amount: $53,251.29
    Date: 8/02/2006
    Response: CSA provided personnel for the Project property management and was reimbursed for payroll expenses and two other minor expenses associated with the Project. Payroll expenses were:
    5/31/2006 - $15,262.25
    6/29/2006 - $22,482.55
    6/30/2006 - $15,161.86
    Other Expenses:
    6/30/2006 – $136.63 Verizon Cell Phone (LLC staff)
    6/30/2006 - $208.00 Sonora Quest Lab (staff drug testing)
    These reimbursements are substantiated and properly payable from the LLC operating account.
11. **Payee:** Apollo Housing
    Description: Asset Management Fee
    Amount: $2,561
    Date: 2/23/2007
    Response: Payment of this fee is required by the LLC operating agreement. The fee was paid in response to an invoice presented to the Project by Apollo Housing. However, since the operating agreement provides that the fee is payable from cash flow only, Apollo housing should have been informed by the Property Manager that the fee would be accrued until the Project had adequate cash flow. The Property Manager was apparently unaware of the cash flow requirement, assumed the invoice was for an operating expense and paid the fee in error.

Comment 10

12. **Payee:** Professional Services Personnel Protection
    Description: Security Consulting Fees
    Amount: $500
    Date: 2/23/2007

Response: This invoice was paid to Project's security patrol provider for patrol services. The invoice is noted incorrectly as a "security consulting fee." Security patrol expenses are allowable operating expenses.

13. **Payee:** Apollo Housing
    Description: Asset Management Fee
    Amount: $2,640
    Date: 8/09/2007
    Response: See response to item 11.
14. **Payee:** CSA
    Description: Reimbursement for training / meals paid for same employee two times for same course
    Amount: $269.78
    Date: 6/15/2007
    Response: Reimbursement to CSA for training and meals for LLC staff in the amount of $269.78 was made on 6/15/2007.

Comment 11

15. **Payee:** CSA
    Description: Wages for non-project employee
    Amount: $2,105.04
    Date: 7/20/2007
    Response: Payroll table listed on the timesheet for coding and location noted on the timesheet were inconsistent. After review, the coding was determined to be correct for this employee (Reinaldo Villarreal) who worked at the Project during that pay period. This is an eligible operating expense.

Comment 12

16. **Payee:** Apollo Housing
    Description: Asset Management Fee
    Amount: $2,640
    Date: 3/23/2007
    Response: See response to item 11.
17. **Payee:** CSA
    Description: No Support Provided
    Amount: $15,062.51
    Date: 9/07/2007
    Response: CSA was reimbursed for $15,062.51 in expenses incurred on behalf of the Project. Substantiation attached to the check disbursement request marked as "Park Lee" notes period-to-date expenses incurred through 8/31/07 of $45,114.93 ($30,052.42 more than what was actually reimbursed). While specific documentation identifying $15,062.51 is unavailable at this time, this amount is consistent with normal payroll reimbursement by the Project for property management.

Comment 13

18. **Payee:** Julie Guffey
    Description: Compliance Review
    Amount: $1,400
    Date: 9/20/2007
    Response: JAG Compliance & Consulting conducted a File Review / Bond Report IDA for the LLC in June, 2007. The associated invoice was subsequently

Comment 7

paid from the LLC operating account. As a normal operational task, the LLC is not aware of any restrictions that would make this expenditure ineligible.

19. **Payee:** Apollo Housing
    Description: Asset Management Fee
    Amount: $2,640
    Date: 11/07/2007
    Response: See response for item 11.

Comment 14

20. **Payee:** CSA
    Description: Reimbursement for Membership Dues for Other Projects of Owner
    Amount: $1,187.21
    Date: 2/12/2008
    Response: This charge is the pro-rata share of the dues for the Property's membership in the National Affordable Housing Network, a valuable industry group for apartment listings. This is a normal, allowable operating expense.

Comment 15

21. **Payee:** Nixon Peabody
    Description: Retainer Fee for Legal Services (Not for Project Operations)
    Amount: $5,000
    Date: 5/07/2008
    Response: This retainer fee was paid by the LLC for legal work associated with the Project. This work, as noted in the law firm's engagement letter, included "…HUD regulatory advice in connection with a financially troubled FHA-insured project and potential workout issues, including a partial payment of claim." As cash flow and other financial concerns at the Project are clearly dependent on the larger financing structure, this expense is a reasonable operating expense.

Comment 16

22. **Payee:** Steven White
    Description: Pre-REAC Inspection Review
    Amount: $5,883.75
    Date: 5/07/2008
    Response: This invoice for pre-REAC inspection work was paid by the LLC on 7/21/2008. On July 2, 2008, Jennifer Reilly of the Phoenix HUD Office, e-mailed Cynthia Boston, CSA staff, about the upcoming Real Estate Assessment Center ("REAC") inspection. In that e-mail, she noted that "…units and common areas should be inspected before the inspection by your facilities staff…" As is common practice in the industry, the LLC hired an outside consulting group to conduct the inspection work. This expense is a reasonable and allowable operating expense.

Comment 17

23. **Payee:** Striver Temporary Personnel
    Description: Wages for Non-Project Employee
    Amount: $906.10
    Date: 12/24/2008
    Response: The timecard submitted to Stivers for temporary staffing for Raul Munoz incorrectly identified Pinecrest as the account holder. This temporary staff worked at the Project for the time period in question. The correction was marked on the statement as "Park Lee" and coded appropriately at that time.

Comment 18

24. **Payee:** CSA
    Description: Mileage Reimbursement for Non-Project Employees

Amount: $119.92
Date: 12/24/2008
Response: Employees are not designated as "project-only" employees. CSA often supplies employees to work at a project with which it is associated, affording CSA the opportunity to share expertise and increase staff efficiencies. Lewis Reed is CSA's licensed electrician. On 11/21/08 Mr. Reed conducted a site inspection at the Project specifically to inspect the wiring of safety detectors in several units. Other CSA staff (Bryan Mihalek, Robert Kropp, and Robert Ruiz) were assigned to relocate furniture from the Project's community room to storage during the period 11/24-11/26. Property Manager, Colleen Carone, traveled to Park Lee to perform property management functions at the Project on 10/9. Reimbursement for these Project's expenses are proper operating expenses and have been substantiated.

25. **Payee:** CSA
Description: Wire Transfer to Owner (Laundry Services Incentive)
Amount: $27,500
Date: 8/2005
Response: It appears a $27,500 incentive fees paid to the LLC was transferred to CSA. With the "Amendment to Lease" date of 2/15/2005, it appears these funds were used to off-set closing costs incurred by CSA at the property closing in February, 2005.

Comment 19

26. **Payee:** Arizona Department of Housing
Description: Loan Repayment
Amount: $15,228
Date: 4/2009
Response: This payment was authorized in error. These funds were returned to the LLC upon discovery of the error and deposited on 6/11/2009.

Comment 20

Other Problems Existed

The Project Was Maintained in Poor Physical Condition

Comments:

Comment 21

The Project received a full REAC inspection as scheduled on September 4, 2008. The "Final Score" for the entire site based on that inspection was "68 c*". This score is above 60 and considered a passing score. In fact, per the September 8, 2008 correspondence from HUD's REAC, "Because your property received a score of 60 or above, HUD requires that you note and correct all deficiencies as part of your ongoing maintenance program…" Further, that letter states that "If there are any special requirements for your property, the local Office of Housing or PB-CA having jurisdiction will contact you…" The LLC was not contacted regarding any special requirements for the property.

It must be noted that the Project had been in a difficult financial position long prior to the September 2008 inspection. Thus, even with very limited funding, the

LLC made every effort to maintain the Project adequately as evidenced by HUD's own inspection.

Additionally, OIG staff indicates that they conducted an inspection of the Project on March 11, 2009, and "noted many instances of deferred maintenance in both occupied and vacant units as well as in the project's common areas." This appears to have been a cursory review of the Project by OIG staff and not a formal inspection by REAC-certified HUD staff.

Further, the fact that two of 523 units were boarded for safety reasons so as not to be broken into again is not unreasonable under any condition. That only two other units were reported as currently ready for move-in of new residents is also not unreasonable given the financial position of the Project. Finally, it should reasonably be expected that there would be limited access to areas damaged by a fire earlier in the year and currently under repair.

The Project passed the latest REAC inspection. The review by OIG staff in March, 2009, appears to have been cursory. There is no factual evidence the Project was not maintained to minimum HUD standards according to HUD's own REAC inspection program. Moreover, the entire purpose of the REAC inspection process is to identify and remedy project issues. Thus, the fact that some deficiencies were found is simply a realistic expectation and not necessarily an indicator the Project was in poor condition as evidenced by the passing score.

The Annual Audits of the Financial Statements Did Not Meet HUD Requirements

Comments:

Comment 22

Prior to informal discussion with OIG staff in the spring of 2009, the LLC was never formally notified by any HUD staff, investor member or the certified public accounting firm conducting the annual financial audit that the audit work performed did not meet required auditing standards. Further, the financial audits conducted on behalf of the LLC were distributed widely to concerned parties including HUD.

Regarding OIG's assertion that the LLC represented that it had proper internal controls, to the best of its knowledge, it did and does. The LLC response upon which OIG appears to be relying for its assertion, was not whether there was a separate internal control report included as part of the project's annual audit report. It was a "yes or no, are there internal controls?" question on the REAC input sheet.

If there is a separate internal control report that is required under GAS or GAAS, it is the responsibility of the certified public accounting firm to be aware of the requirement and include the report. The LLC did not direct the accounting firm to include or exclude anything. It relied on the firm to comply with applicable auditing standards.

Finally, to reiterate the points above, the LLC contracted for financial auditing with an outside party for all audits performed for the LLC. At no time during those years did the accounting firm note to the LLC that the audit being conducted was out of compliance with HUD requirements. The LLC submitted the audit to the investor member of the LLC and was never notified of any compliance issues associated with the audit. Most important, the LLC submitted the audit each year to HUD and never received any formal notification that the audit was not compliant with HUD regulations..

The LLC will continue to research the findings and conditions detailed in the draft report. New information will be submitted to the appropriate party as it becomes available.

Please do not hesitate to contact me if you have any questions regarding this matter.

Sincerely,

Park Lee Highland, LLC

Noah Schwartz, President
Community Services of Arizona, Inc., Manager
CSA-Park Lee, LLC, Manager

Cc: Oren Wallace, Chairman, Board of Directors, CSA
Ray Schmitt, RBC-Apollo
Rita Spears, Legal Counsel, CSA

OIG Evaluation of Auditee Comments

Comment 1 The discussion draft report was mistakenly addressed to Community Services of Arizona (CSA), the manager of CSA-Park Lee which is a member and manager of the project. All future correspondence will be addressed to the owner of the project, Park Lee Highland, LLC.

Comment 2 We acknowledge that Community Services of Arizona advanced funds to the project and also paid for operating expenses of the project. We changed the Background section of the report to reflect the funds that were advanced to the project as reported in the audit of the 2007 financial statements.

Comment 3 We disagree with the auditee's statement that, because all operating payables appeared to be current at the time, the $400,000 transfer should be considered surplus cash. The auditee provided their determination of surplus cash at the end of the 2005 fiscal year as follows:

$1,729,005	Total revenue
$2,229,740	Total expenses
($878,089)	Reduce expenses for depreciation
($52,876)	Reduce expenses for amortization
$1,298,775	Total adjusted expenses
$430,230	**Balance**

The auditee's calculation demonstrated that the owner/management disregarded HUD's definition of surplus cash and HUD's requirements for surplus cash computation and documentation for FHA-insured multifamily projects. Section 13(f) of the regulatory agreement between Park Lee Highland, LLC and HUD defines surplus cash as any cash remaining after:

1. The payment of:
    a. All sums due or currently required to be paid under the terms of any mortgage or note insured or held by the Secretary;
    b. All amounts required to be deposited in the reserve fund for replacements;
    c. All obligations of the project other than the insured mortgage unless funds for payment are set aside or deferment of payment has been approved by the Secretary; and
2. The segregation of:
    a. An amount equal to the aggregate of all special funds required to be maintained by the project; and
    b. All tenant security deposits held.

HUD Handbook 4370.1, REV-2, also states that surplus cash is calculated by subtracting the sum of the current liabilities on the balance sheet from the sum of

the current assets on the balance sheet. The project's 2005 financial statements show that the current assets were only $101,662 while the current liabilities (minus the advances from the investor member) were $2,008,396.

In addition, HUD Handbook 4370.1, REV-2, states that surplus cash is computed as of the end of an annual or semi-annual period. Therefore, the computation of surplus cash should not have been made prior to June 30, 2005; however, the project's operating funds were improperly transferred to the project's development account on June 23, 2005. Also there was no documentation of the computation of surplus cash prior to the transfer of funds.

Comment 4 The auditee provided documentation to support that funds were transferred from the project's development account to the project's operating account to pay for the development expenses. These expenses have been removed from the report.

Comment 5 The auditee's response does not state that it disagreed with OIG's position that the relocation expenses should not be paid from the project's operating account. We reviewed the invoices during the audit and, as stated in the audit report, determined that the project's operating funds were improperly used to pay for relocation expenses.

Comment 6 We disagree with the auditee's response that the expenses paid for annual compliance reviews were for normal operations. These reviews were for compliance with the bond requirements and were not for normal project operations. Figure 6-2 of HUD Handbook 4381.5, REV-2, states that visits to spot check performance of on-site staff (i.e. reviews of occupancy files, office procedures, etc.) are a management expense. We also consulted with staff at HUD's Phoenix Office of Multifamily Housing during the audit and they concurred with our conclusion that these expenses were ineligible.

Comment 7 The auditee provided documentation to support that the vendor conducted pre-approval of tenant files. These expenses have been removed from the report.

Comment 8 The auditee's response does not state that it disagreed with OIG's opinion that the expenses should not be paid from the project's operating account. HUD handbook 4370.2, REV-1, states that project funds should only be used to pay reasonable expenses necessary for the operation and maintenance of the project.

Comment 9 The report has been modified to acknowledge that, after audit work was completed, the auditee provided documentation to support the amount of $53,251. OIG verified the supporting documentation provided by the auditee.

Comment 10 We agree that the invoice appeared to be noted incorrectly as a security consulting fee. These expenses have been removed from the report.

Comment 11 The auditee's response does not provide any explanation for these double charges to the project.

Comment 12 We agree that the timesheet coding and location are inconsistent; however, we are using the location listed as the determining factor. The auditee did not provide any documentation to support their claim that the employee worked at the project during the pay period in question.

Comment 13 We agree with the auditee's response that the expenses are unsupported.

Comment 14 We agree that the membership dues for apartment listings are an allowable operating expense; however, the documentation provided does not support the amount charged to the project. The invoice from the vendor shows that the total is $4,395.30 and is billed based on a set amount per project times 21 properties that Community Services of Arizona owns and/or manages. Each property should have been allocated $209.30 ($4,395.30 divided by 21); however, Community Services of Arizona allocated the cost based on the number of units for each property. Also, Park Lee Apartments was not listed on the invoice; however, an e-mail from the vendor states that Park Lee Apartments was upgraded from gold to platinum membership and the charge was $84 for three months plus $28 for the current month. These amounts total $112. The report has been modified to reflect this amount as allowable and the remaining balance as ineligible.

Comment 15 We disagree with the auditee's statement that the retainer fee paid for legal work associated with the project that included regulatory advice in connection with a financially troubled FHA-insured project and potential workout issues, including a partial payment of claim are reasonable operating expenses. HUD Handbook 4370.2, REV-1, states that project funds should only be used to pay reasonable expenses necessary for the operation and maintenance of the project. In addition, Figure 6-2 in HUD Handbook 4381.5, REV-2, states that legal expenses may be charged to the project's operating account; however, the handbook is referring to legal expenses related to the operation of the project, such as eviction notices.

Comment 16 We disagree that pre-REAC inspection work is an allowable operating expense. We consulted with staff at HUD's Phoenix Office of Multifamily Housing during the audit and they concurred with our conclusion that these expenses were ineligible.

Comment 17 The auditee did not provide any documentation to support their claim that the timecard for the employee should have been for the project but was incorrectly identified as Pinecrest. Also, during the audit Community Services of Arizona staff stated that the accounting department coded the entire amount of the invoice to the project instead of distributing the expense between the project and Pinecrest (the invoice included other timecards for Park Lee Apartments employees).

Comment 18 The auditee provided documentation to support that the employees performed work at the project. The expenses have been deleted from the report.

Comment 19 We disagree with the auditee's statement that the funds appeared to offset closing costs incurred by Community Services of Arizona at the property closing in February 2005. The "Amendment to Lease" dated February 15, 2005 only states that the laundry company would pay the project an additional $27,500 for extending the term of the lease for four years and two months. The auditee did not provide any documentation to indicate that these funds were used to offset closing costs incurred by Community Services of Arizona. It appears that they assumed this because the date of the "Amendment to Lease" and for the property closing both occurred in February 2005. More importantly, the incentive fee was operating revenue and should only be used for operating expenses.

Comment 20 We received adequate documentation showing that the improper loan repayment was returned to the project by the Arizona Department of Housing. This section has been removed from the report.

Comment 21 We agree that the project received a passing score from REAC's inspection on September 4, 2008 and that OIG's inspection was not a formal inspection conducted by REAC-certified HUD staff. Accordingly, this issue was not a separate finding in the report and there was no related recommendation. We modified the report language to reflect the auditee's response which stated "That only two other [of 322 vacant units] units were reported as currently ready for move-in of new residents is also not unreasonable given the financial position of the project." In our opinion, the condition of the property made it difficult to successfully market the property.

Comment 22 We disagree with the auditee's response that, without formal notification from either HUD or the certified public accountant, it was not responsible for ensuring its annual financial audit complied with HUD's audit requirements. When HUD insured the multifamily property, the property owners signed a regulatory agreement to, among other things, maintain financial records in accordance with HUD's guidance. HUD publishes its requirements and guidance in the form of handbooks readily available through HUD's website. It is the responsibility of the project's owners to ensure HUD requirements are followed. The applicable handbooks are referenced in Appendix C of this report.

The auditee's response further demonstrated a lack of understanding of the requirements. The electronic submission format for the annual audited financial statements to HUD did not ask for a "yes or no" answer regarding the existence of internal controls. It asked whether the independent auditor's report on internal controls identified Significant Deficiencies and/or Material Weaknesses. Park Lee Apartment's electronic submission to HUD contained the answer "no," which indicated the independent auditor reviewed internal controls and provided a written report stating no significant deficiencies or material weaknesses were

found. Similarly, the electronic submission format required an answer to the question, "Did the independent auditor's Report on Compliance (with laws and regulations) for Major Program include a qualified or an unqualified opinion?" It also required an answer (yes or no) to the question of whether the report contained a material noncompliance indicator.

Because all of the questions were answered in a manner certifying the independent auditor's reports did not disclose significant deficiencies or material weaknesses, HUD relied on the certifications and assumed the required audit work was performed. Below are Park Lee Apartment's actual submissions for 2006. The 2007 input contained the same answers to the same questions.

Financial Assessment Subsystem (FASS) Page 1 of 1

Report on Internal Controls

Project Name: Park Lee Apartments
FHA Number: 12335418
SOA: 221(d)(4)MKT

Sub. Type: AUD-2000.04 (Non-coop)
Date From: Jan. 1, 2006
Date To: Dec. 31, 2006
FYE: Dec 31, 2006

Report Type: Report on Internal Controls - Go

Significant Deficiencies Indicator	No
Material Weaknesses Indicator	No

Compliance | Performance | Letter | AFS | Comments

Report on Compliance - Major Program

Project Name: Park Lee Apartments
FHA Number: 12335418
SOA: 221(d)(4)MKT

Sub. Type: AUD-2000.04 (Non-coop)
Date From: Jan. 1, 2006
Date To: Dec. 31, 2006
FYE: Dec 31, 2006

Report Type: Report on Compliance - Major Program - Go

Opinion	Unqualified
Material Non-Compliance Indicator	No

Compliance | Performance | Letter | AFS | Comments

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Appendix C

CRITERIA

1. Paragraph 6(a) of the regulatory agreement states: "Owners shall not, without prior written approval of the Secretary [of HUD], convey, transfer, or encumber any of the mortgaged property or permit the conveyance of such property."

2. Paragraph 6(b) of the regulatory agreement states: "Owners shall not, without prior written approval of the Secretary, assign, transfer, dispose of, or encumber any personal property of the project, including rents, or pay out any funds except from surplus cash, except for reasonable operating expenses and necessary repairs."

3. Paragraph 6(e) of the regulatory agreement states: "Owners shall not, without prior written approval of the Secretary, make, or receive and retain, any distribution of assets or any income of any kind of the project except surplus cash."

4. Paragraph 7 of the regulatory agreement states: "Owners shall maintain the mortgaged premises, accommodations, and the grounds and equipment appurtenant thereto, in good repair and condition."

5. HUD Handbook 4370.2, REV-1,

    - Paragraph 2-6E: All disbursements from the Regular Operating Account must be supported by approved invoices/bills or other supporting documentation. The request for project funds should only be used to make mortgage payments, make required deposits to the Reserve for Replacements, pay reasonable expenses necessary for the operation and maintenance of the project, pay distributions of surplus cash permitted and repay owner advances authorized by HUD.

    - Paragraph 3-6A: An independent public accountant shall examine the books and records of the mortgagor and shall furnish an opinion on the annual financial statements in accordance with GAAS [generally accepted auditing standards] and GAGAS [generally accepted government auditing standards].

    - Paragraph 3-6B: In accordance with GAAS and GAGAS, an independent public accountant shall obtain an understanding of the project's internal control structure and shall furnish a written report on their understanding of the entity's internal control structure and the assessment of control risk made as part of a financial statement audit.

    - Paragraph 3-6C: In accordance with GAAS, independent public accounts shall prepare a written report on their tests of compliance with applicable laws and regulations in accordance with IG [Inspector General] Handbook 2000.4.

- Paragraph 3-7A: The annual financial report shall include: (1) a certification by the mortgagor, when the project is owned by an individual; (2) by two or more partners, when it is owned by a limited partnership; (3) by two officers one of which must be the president of the corporation, when it is owned by a corporation; (4) all joint venturers or partners, when the project is a general partnership; or (5) trustee and appropriate beneficiaries, when it is owned by a trust.

6. HUD Handbook 4381.5, REV-2,

- Paragraph 6.41(b): Asset management costs must not be billed to a project's operating account. These costs may only be paid from funds available for distribution to owners in accordance with the terms of the Regulatory Agreement and HUD Handbook 4370.2.

- Figure 6-2: The management agent's travel expenses to visit the project and meet with owners should be paid from the management fee.

- Figure 6-2: Visits to spot check performance of on-site staff (e.g. reviews of occupancy files, office procedures, etc.) should be paid from the management fee.