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Audit Report Number	2012-LA-1006
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TO: Kelly Boyer, Director, Los Angeles Multifamily Housing Hub, 9DHML
Dane Narode, Associate General Counsel for Program Enforcement, CACC

Tanya E. Schulze

FROM: Tanya E. Schulze, Regional Inspector General for Audit, Los Angeles Region IX, 9DGA

SUBJECT: Amar Plaza, La Puente, CA, Was Not Administered in Accordance With HUD Rules and Regulations

HIGHLIGHTS

What We Audited and Why

We reviewed the books and records of Amar Plaza (project), a U.S. Department of Housing Department (HUD)-insured (Section 236) multifamily cooperative housing project with project-based Section 8 assistance located in La Puente, CA. We initiated the review in response to a request from the Departmental Enforcement Center due to its concerns about Amar Plaza's serious compliance issues, including but not limited to overdue 2009 and 2010 financial audit reports. The request also referenced a letter from the project's former independent public accountant, indicating possible diversions of the project's cash. Our objective was to determine whether the project was administered in accordance with HUD rules and regulations. Specifically, we wanted to determine whether project funds were used for eligible purposes.

What We Found

The project was not administered in accordance with HUD rules and regulations. The project's shareholders violated and defaulted on the project's regulatory agreement by inappropriately approving an unauthorized encumbrance on the project. The project executed a deed and note for \$100,000 and named a HUD-terminated management agent as the beneficiary of the project, which resulted in legal fees of at least \$147,284. Regarding the note amount, \$45,518 was for ineligible costs, and \$8,465 was unsupported. The project also improperly used \$4,921, lacked supporting documentation for \$133,904, and did not maintain a general operating reserve or adequately document shareholder interest. Further, it did not adequately support its procurement activities.

What We Recommend

We recommend that the Director of HUD's Los Angeles Office of Multifamily Housing pursue administrative sanctions, as appropriate, against the project, applicable shareholders, and the HUD-terminated management agent for their part in violations of the regulatory agreement, including but not limited to taking possession of Amar Plaza, and require the project to (1) seek indemnification of \$75,038 in paid legal costs and any outstanding (\$72,246) or future applicable legal costs from the two shareholders who improperly executed the deed and note; (2) repay the operating account \$50,439 used for ineligible expenses from non-Federal sources; (3) support \$142,369 in unsupported expenses or repay the project's operating account from non-Federal sources; (4) establish and implement controls and procedures to ensure compliance with the regulatory agreement and other HUD requirements for the use of operating funds, documenting shareholder interest and the funding and maintenance of the general operating reserve; and (5) follow its current management agent's procurement procedures.

Further, we recommended that HUD's Associate Counsel for Program Enforcement pursue double damages remedies, civil money penalties, and administrative sanctions, as appropriate, against the project, applicable shareholders, and the applicable management agent(s) for their part in the regulatory violations cited in this report.

For each recommendation in the body of the report without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.6, REV-4. Please furnish us copies of any correspondences or directives issued because of the audit.

Auditee's Response

We provided the project a discussion draft report on April 13, 2012, and held an exit conference on April 19, 2012. The project provided written comments on May 7, 2012, and generally disagreed with our findings. The project's management agent also provided written comments on May 11, 2012.

The complete text of the project and management agent'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

Amar Plaza (project) is a nonprofit cooperative Section 236 U.S. Department of Housing and Urban Development (HUD)-insured multifamily project located in La Puente, CA, with a loan maturity date of July 1, 2014. Section 8 assistance is provided to 42 of the 96 units. The cooperative has been incorporated as a nonprofit cooperative housing corporation for the purpose of acquiring, owning, and operating a housing project consisting of apartment houses, the permanent occupancy of which will be restricted to members in the cooperative. Each member of the project is entitled to one vote. The cooperative's members are their own landlord. The members pay monthly carrying charges to their cooperative in accordance with the occupancy agreement. The cooperative corporation holds title to the property and executes a blanket mortgage. The individual member signs no note or mortgage and has no personal obligation.

The cooperative functions through its board of directors, which is selected by and acts on behalf of the members. The board performs important duties, such as (1) engaging a management agent acceptable to the lender and HUD for the operation of the project; (2) establishing eligibility standards for admission and service; (3) promulgating rules and regulations pertaining to use and occupancy of the premises; and (4) adopting an operating budget subject to the approval of HUD, which must reflect carrying charges adequate to meet the costs of operation. If necessary, any board member who is not properly fulfilling his duties may be removed by a vote of the members as prescribed in the by-laws.

There has been contention among residents and shareholders, including allegations of impropriety, resulting in changes of board members and management agents. The project has experienced multiple changes in management agent since 2008. HUD terminated Rampart Properties, Inc., effective December 1, 2008. Top Notch Management was the management agent from January 1 to August 31, 2009, followed by Tripod Management from September 1, 2009, to December 31, 2010. As of January 1, 2011, and during our audit fieldwork, Solari Enterprises, Inc., was Amar Plaza's HUD-approved management agent. It appears that the project tried to solicit another management agent to replace Solari; however, it was unsuccessful. In addition, there was a significant change in the project's board in December 2008. The shareholders who had been acting as the project's board while Rampart was the management agent could not produce records to verify their appointment. HUD, therefore, approved and recognized another group of shareholders as board members because they were able to provide documentation to show that they had been officially elected.

Audit Objective

Our objective was to determine whether the project was administered in accordance with HUD rules and regulations. Specifically, we wanted to determine whether project funds were used for eligible purposes.

RESULTS OF AUDIT

Finding 1: The Project's Shareholders Inappropriately Approved an Unauthorized Encumbrance on the Project

Amar Plaza violated and defaulted on its regulatory agreement with HUD by inappropriately approving an unauthorized encumbrance on the project. Two shareholders named the project's former, HUD-terminated management agent as the beneficiary of the project and executed a promissory note for \$100,000. More than 50 percent of the loan proceeds was used by the former agent to pay for questionable expenses, including \$45,518 in ineligible costs and \$8,465 that was unsupported. This condition occurred because the project did not follow its regulatory agreement with HUD. Further, the project lacked controls to properly manage the cooperative and ensure records were maintained to confirm that the two shareholders in question had been officially elected as board members and approved by HUD. As a result, Amar Plaza, a HUD-insured property, was placed at significant financial and legal risk. Further, an exorbitant amount of legal fees had been spent and incurred as a result of this action, thus reducing funds available for reasonable operating expenses and necessary repairs.

The Project Approved an Unauthorized Encumbrance

Contrary to the regulatory agreement (appendix C) and without HUD's approval, Amar Plaza executed a deed of trust and a promissory note, placed a lien on the property, and named its former management agent, Rampart, as the beneficiary. Rampart had been determined to be no longer satisfactory to HUD and was terminated as management agent, effective December 1, 2008. However, ignoring the agent's termination by HUD, two shareholders¹ executed the deed on February 1, 2009, and notarized it on June 19, 2009. The promissory note was in the amount of \$100,000 with a maturity date of July 1, 2009. Executing the note and naming the former, HUD-terminated agent as beneficiary placed the project and HUD at significant financial and legal risk.

Promissory Note Proceeds Were Used Inappropriately

We identified deficiencies and irregularities in the methods by which the two shareholders and Rampart carried out the inappropriate deed and promissory note (loan). The loan amount was not deposited into the corporate account held by the

¹ Two of the shareholders that had previously acted as Amar Plaza board members and were replaced with HUD's approval (see Background and Objectives)

new management agent. Instead, a majority of the loan, \$58,600, was used to pay for the costs of the lender, Rampart, and its identity-of-interest entities on the project's behalf, including

- Building Services, Rampart's maintenance subsidiary;
- Rampart's legal invoices for its part in pursuing legal action against the project, such as challenging the board recognized by HUD, although it had been terminated as the management agent;
- Loan processing costs for the Los Angeles County Recorder, postage, overnight mailings, etc.;
- Loan origination points and fees charged by Rampart; and
- Legal and loan processing costs.

The payment dates for these expenses occurred from January to October 2009, after Rampart was terminated as management agent.

The remaining amount of the loan, \$40,100,² was deposited into the project's former operating account held by Rampart, although Rampart was no longer the management agent and the project's new, HUD-approved agent had opened a new operating account. Rampart had sole check-signing authority. Therefore, it was essentially transferring the loan funds to itself. Portions of the funds were used to pay more of Rampart's legal costs or transferred to Rampart's maintenance subsidiary. However, it would be inappropriate for the HUD-terminated agent to use project funds (the loan proceeds) to pursue legal action against the project to challenge the board recognized by HUD or seek reimbursement of any fees that Rampart believed may have been owed. It was also unreasonable for the two shareholders to execute a "loan" from the former agent in order for that agent to pay its own future legal costs for actions against the project.

Overall, \$45,518 and \$8,465 of the loan proceeds were used for ineligible and unsupported costs, respectively (refer to appendix D for additional details). Further, the execution of an unauthorized encumbrance on the project proved to be irresponsible because it placed Amar Plaza, a HUD-insured property, at significant financial and legal risk.

² According to documents, Rampart indicated that \$41,400 was paid to the borrower directly and deposited; however, we were only able to confirm \$40,100.

A Lawsuit Resulted in Significant Legal Costs

Due to the unauthorized encumbrance, the project was in an ongoing lawsuit with Rampart during the course of the audit fieldwork. As the beneficiary, Rampart attempted to use the promissory note to sell Amar Plaza at a public auction for cash on March 8, 2010. However, a judge issued a preliminary injunction on March 29, 2010, preventing Rampart from proceeding with the foreclosure sale, contingent upon Amar Plaza's maintaining a deposit of \$120,000 with the Los Angeles Superior Court.

As detailed in the table below, the project incurred at least \$147,284 in legal fees for years 2009 to 2011³ in relation to this matter, of which \$75,038 had been paid and \$72,246 remained outstanding. The project's current counsel refused to provide invoices or billing information for 2011, and as of the end of our audit field work, the project was continuing to incur associated legal costs, so the actual total cost remained unknown. Overall, the costs far exceeded the disputed promissory note amount. Consequently, the operating funds used on legal fees were not available for reasonable operating expenses and necessary repairs for the project.

Legal costs	
Year	Amount
2009	\$12,771
2010	\$32,064
2011	\$30,203
Subtotal (paid amount)	\$75,038
Accrued expenses (not paid): forensic accountant	\$42,677
Accrued expenses (not paid): former legal counsel's costs	\$27,950
HinesReporter.Com, Inc.	\$1,619
Subtotal (not paid)	\$72,246
Total	\$147,284

The occupancy and subscription agreements signed by the two shareholders who improperly executed the deed and note indicate that they should be held responsible. The occupancy agreement states, "...if a member defaults in the performance of any provision in this agreement, and the Corporation [the project] has obtained the services of any attorney with respect to the defaults involved, then the member shall pay the costs of the suit, in addition to other costs and fees." Further, section 5 of the subscription agreement states that if a subscriber

³ The project's current legal counsel submitted invoices only through January 2011.

defaults, any amount paid toward the subscription, the price may be retained by the corporation as liquidated damages.

Conclusion

The project violated regulatory agreement requirements when it executed a deed of trust and a promissory note and placed a lien on the property. We attribute the project's failure to comply with its regulatory agreement to a lack of controls necessary to properly manage the cooperative, which include maintaining records to confirm when shareholders are officially elected and approved by HUD. As a result, Amar Plaza, a HUD-insured property, was placed at significant financial and legal risk. In addition, a significant amount of legal fees had been incurred, leaving less funding available for reasonable operating expenses and necessary repairs of the project.

Recommendations

We recommend that the Director of HUD's Los Angeles Office of Multifamily Housing:

- 1A. Require the project's cooperative ownership to repay the project operating account \$45,518 in ineligible expenses from non-Federal funds if Rampart wins the lawsuit or a settlement occurs.
- 1B. Require the project's cooperative ownership to provide support for the \$8,465 in unsupported costs applied to the loan proceeds or repay the project from non-Federal funds if Rampart wins the lawsuit or a settlement occurs.
- 1C. Require Amar Plaza to seek indemnification of \$75,038 in paid legal costs, \$72,246 in outstanding costs, and future legal costs from the two shareholders who improperly executed the deed and note and named Rampart as the beneficiary and retain the two shareholders' subscription price for liquidated damages incurred for the unauthorized encumbrance on the project.
- 1D. Require the project to implement procedures and controls to ensure compliance with HUD requirements and all terms and conditions of the regulatory agreement, including the maintenance and retention of board records.
- 1E. Pursue administrative sanctions, as appropriate, against the project, applicable shareholders, and the applicable management agent(s) for their part in the violations of the regulatory agreement identified in this report,

including but not limited taking possession of Amar Plaza until it is determined that the project is in a position to operate in accordance with the terms of the regulatory agreement or until the maturity date of the note, July 1, 2014.

We recommend that HUD's Associate Counsel for Program Enforcement, in coordination with the Director of the Los Angeles Office of Multifamily Housing and HUD's Office of Inspector General (OIG):

- 1F. Pursue double damages remedies against the responsible parties for the ineligible and unsupported use of the loan proceeds in violation of the project's regulatory agreement.

We recommend that HUD's Associate Counsel for Program Enforcement:

- 1G. Pursue civil money penalties and administrative sanctions, as appropriate, against the project, applicable shareholders, and the applicable management agent(s) for their part in the regulatory violations cited in this report.

Finding 2: The Project Improperly Used or Lacked Supporting Documentation for the Use of \$138,825 in Project Funds and Did Not Submit Required Annual Financial Reports

The project did not comply with the terms of its regulatory agreement when it improperly used or lacked supporting documentation for the use of \$138,825 in project operating funds and did not submit required annual financial reports. Specifically, the project used \$4,921 in project funds for ineligible or unreasonable expenses, and it could not support the eligibility of \$133,904 in project funds. Further, it had not submitted its 2009 and 2010 required annual financial reports to HUD. The problems occurred due to contention between shareholders and residents that resulted in the project's overall ineffective management and a lack of controls to ensure it followed its regulatory agreement and all HUD rules and regulations. The project's books and accounts were also not kept in accordance with the Uniform System of Accounting prescribed by HUD. As a result, \$138,825 in project funds was not available for reasonable operating expenses and necessary repairs, and HUD did not have the information necessary to assess the project's financial condition or compliance with program requirements.

The Project Spent \$138,825 on Ineligible and Unsupported Expenses

The project spent \$4,921 for ineligible or unreasonable and \$133,904 for unsupported expenses (see appendix E). The ineligible and unreasonable expenses included

- \$1,748 in reimbursable expenses for food, beverages, and party supplies;
- \$1,320 in unreasonable expenses spent on laptops and electronic devices;
- \$1,103 for sit-down restaurant meals;
- \$600 for stipends paid to its (former) board of directors; and
- \$150 in gift certificates.

The unsupported expenses included

- \$109,904 for project services, payroll, supplies, shareholder reimbursements, etc., and
- \$24,000 to repurchase subscriptions.

Ineligible Reimbursement for Food, Beverages, and Party Supplies (\$1,748)

The project used operating funds totaling \$1,748 for ineligible food, beverages, and party supplies (see appendix E-1). The regulatory agreement states, "...no compensation or fee shall be paid by the Mortgagor [the project] except for necessary services..." These expenses were not necessary to the project operations and, consequently, were ineligible.

Unreasonable Expenses for Missing Laptops and Electronic Devices (\$1,320)

The project also spent \$1,320 to purchase unnecessary equipment for its board members, including laptops, blackberries, and modems (see appendix E-4). These items were not necessary in carrying out Amar Plaza's activities and, therefore, should not have been paid for with project funds. Further, the project was unable to account for the equipment purchased with the operating funds.

Ineligible Sit-Down Restaurant Meals (\$1,103)

Contrary to the regulatory agreement, the project used operating funds for ineligible sit-down restaurant meals. Overall, \$1,103 was spent on items that were not necessary for project operations, as shown in the table below.

Restaurant	Total
Marie Callender's	\$265
Elephant Bar	\$166
Michael J's Restaurant	\$152
Bucca Di Beppo	\$136
Pizza Hut	\$133
Sizzler	\$87
Boca Del Rio Restaurant	\$45
Starbucks	\$36
IHOP	\$33
Durango Restaurant	\$25
Bistango Café	\$25
Total	\$1,103

Ineligible Stipends (\$600) and Gift Certificates (\$150)

The project used \$600 in operating funds to pay stipends to its (former) board of directors and spent \$150 on gift certificates. According to the regulatory agreement, no compensation should be paid to its "... officers, directors, or stockholders..." without prior written approval from HUD. However, HUD did not grant approval for the payment of stipends to the project's directors. The project also charged \$150 to Home Depot Credit Services for gift certificates. These items were not necessary in carrying out the project's operation and, therefore, ineligible costs charged to the project.

Lack of Supporting Documentation (\$109,904)

Expenses totaling \$109,904 were unsupported because the project lacked documentation to support the disbursements. This documentation included missing checks, timesheets, invoices, etc., to support \$109,828 in expenses such as payroll, maintenance materials, telephones services, fire extinguisher maintenance, contract repair services, and office supplies (see appendix E-4). In addition, former board members and a shareholder were reimbursed \$76 for gasoline without proper mileage logs (see appendix E-1). HUD Handbook 4370.2, paragraph 2-6(E), states that all disbursements from the regular operating account “must be supported by approved invoices/bills or other supporting documentation.” The records were missing because the previous board requested that all project documents be kept at the project’s site with inadequate controls over their safeguarding. The shareholders and former board members alleged that other shareholders, including current board members, took and destroyed financial records from the project’s office. We also found that the previous board’s president had some records, which we requested and reviewed.

Expense account	Amount
Office supplies	\$1,756
Security contract expense	\$2,000
Contract services – repairs	\$2,200
Contract service	\$2,322
Telephone services	\$3,376
Accounting-auditor fee	\$9,500
Miscellaneous expense	\$9,722
Grounds contract	\$10,100
Maintenance material	\$15,016
Legal fees	\$26,215
Salary expense	\$27,621
Reimbursements to former board members and a shareholder	\$76
Total	\$109,904

Unsupported Subscription Repurchases (\$24,000)

The project used \$24,000 in operating funds to repurchase the shares of two withdrawing members (see appendix E-3). The current board overrode the amount calculated by the management agent and determined the repurchase amount themselves. However, the project could not support how the amount was determined.

The Project Did Not Submit Required Audited Financial Statements

The project failed to submit the audited financial statements for 2009 and 2010 to HUD. According to the regulatory agreement, the project is required to submit audited annual financial statements, due on the 90th day following the end of each fiscal year. As of March 2012, the 2009 and 2010 statements were, therefore, 2 years and 1 year overdue, respectively. Due to a lack of records, the certified public accountant was unable to perform the audit. Further, the annual audited financial reports had been submitted late for the fiscal years ending December 31, 2006 (312 days late) and December 31, 2007 (302 days late). These conditions occurred because the project did not follow the regulatory agreement requirements and the project's books and accounts were not kept in accordance with the Uniform System of Accounting prescribed by HUD. Consequently, without timely audited financial statements, HUD could not reasonably assess the financial condition of the project.

Conclusion

The project used \$138,825 in project funds for ineligible or unsupported expenses. The contention among residents and shareholders led to multiple changes in management agents and board members (see Background and Objective). This, in turn, resulted in overall ineffective management of the cooperative and a lack of controls to ensure that it complied with all HUD rules and regulations. The project's books and accounts were also not kept in accordance with the Uniform System of Accounting prescribed by HUD. As a result, \$138,825 in project funds was not available for reasonable operating expenses and necessary repairs. Further, HUD could not reasonably assess the financial condition of the project without timely audited financial statements.

Recommendations

We recommend that the Director of HUD's Los Angeles Office of Multifamily Housing:

- 2A. Require the project's cooperative ownership to repay the operating account the \$4,921 in ineligible or unreasonable expenses from non-Federal funds.
- 2B. Require the project's cooperative ownership to support \$133,904 in unsupported costs or repay the project from non-Federal funds.

- 2C. Require the project to implement controls and procedures to ensure compliance with HUD requirements and all terms and conditions of the regulatory agreement, including but not limited to documenting disbursement expenses and submitting timely audited financial statements.

Finding 3: The Project Did Not Maintain a General Operating Reserve or Adequately Document Shareholder Interest

The project did not comply with the terms of its regulatory agreement when it did not maintain a general operating reserve or adequately document shareholder interest. It did not follow HUD rules and regulations due to a lack of procedures and controls. As a result, the project could not provide the intended financial stability, thus placing HUD at significant financial and legal risk.

The Project Did Not Establish a General Operative Reserve

Contrary to the regulatory agreement, the project did not maintain a general operating reserve account. The regulatory agreement requires that a general operating reserve be established and maintained. The purpose of the account is to provide a measure of financial stability, and it may be used to finance the sale of memberships and provide funds for the repurchase of memberships of withdrawing members. The account needs to equal at least 25 percent of annual carrying charges. Consequently, the project should have a general operating reserve account with at least \$127,303 (\$509,210 x 25 percent). Since it did not have a general operating reserve account, the project had to use operating funds to repurchase the shares of withdrawing shareholders.

The Project Failed To Document Its Shareholder Interest

The project did not document its shareholder interest (membership), as detailed in its regulatory agreement, because it lacked procedures and controls. The regulatory agreement states that the sale of membership “shall be supported by a certification by the seller and the purchaser as to the amount of the sales price...” Of the 95 tenants, 89 collectively paid \$387,364 in stocks toward Amar Plaza to have an exclusive right to occupy a dwelling unit. We could not determine the amount paid by the remaining six tenants because their information was either not available or not clearly identified in their documents. Consequently, the project should have documented and accounted for at least \$387,364 in subscription funds.

Conclusion

The project did not maintain the required general operating reserve of at least \$127,303 and did not adequately document shareholder interest. It did not follow

HUD rules and regulations due to a lack of procedures and controls. As a result, the project could not provide the intended financial stability, thus placing the project and HUD at significant financial and legal risk.

Recommendation

We recommend that the Director of HUD's Los Angeles Office of Multifamily Housing require the project to:

- 3A. Establish and implement sufficient written procedures and controls for documenting shareholder interest and the funding and maintenance of the general operating reserve account, which would ensure that \$127,303 in funds can be put to better use.

Finding 4: The Project Did Not Adequately Support Its Procurement Activities

Amar Plaza procured professional services and awarded contracts without properly soliciting bids or obtaining oral or written cost estimates and did not maintain procurement records as required by HUD regulations. This condition occurred because the project lacked policies and procedures for years 2009 and 2010 and due to a lack of controls, the project overrode the current agent's established procedures in 2011. As a result, the project paid at least \$114,058 to contractors and suppliers without adequate support to show whether the services were performed at a reasonable cost.

Prudent Procurement Practices Were Not Followed

Contrary to HUD Handbook 4381.5 paragraph 6.50(a) and 6.50(c), the project did not obtain the required number of bids before awarding contracts. The project was unable to provide documentation showing that bids were obtained for services exceeding \$10,000 per year, such as landscape, contract service for tiles, accounting-auditor fees, video surveillance, repair and maintenance, and its security payroll contract. Overall, the project paid \$114,058 to six vendors for services exceeding \$10,000 per year without following procurement requirements, as detailed in the spreadsheet below.

Service	January– December 2009	January– December 2010	January– August 2011	Total
Landscape	\$28,000	\$2,000	\$10,504	\$40,504
Contract service for tile and stones	\$0	\$10,311	\$0	\$10,311
Accounting-auditor fee	\$0	\$11,300	\$0	\$11,300
Video surveillance	\$13,345	\$1,371	\$0	\$14,716
Repair & maintenance	\$10,821	\$7,091	\$0	\$17,912
Security payroll contract	\$19,225	\$90	\$0	\$19,315
Total	\$71,391	\$32,163	\$10,504	\$114,058

Although, the current management agent had appropriate procedures in place, when the project was planning to hire a vendor for landscape service in 2011, the board wanted the project's prior landscape vendor to be recontracted. To meet the board's request, the agent obtained only one verbal bid from another vendor and did not follow its procedures or HUD rules and regulations. The landscape

service exceeded the \$10,000 per year threshold, thereby requiring at least three written solicitations.

Conclusion

The project violated HUD procurement requirements in each of the six sample items tested and paid at least \$114,058 without adequate support to ensure that services were obtained at a low and competitive cost and in accordance with HUD rules and regulations. This condition occurred because the project lacked policies and procedures for years 2009 and 2010 and due to a lack of controls, overrode the agent's procedures in 2011. Although the project did not support its procurement activities, since the payments were made to unrelated third-party vendors and potential overpayments would not likely be material, we do not believe it is necessary for the project to demonstrate their reasonableness to HUD. However, we recommend that the project implement and follow its current management agent's procurement procedures to ensure that all expenditures are performed at a reasonable cost and HUD funds are spent accordingly.

Recommendation

We recommend that the Director of HUD's Los Angeles Office of Multifamily Housing require the project to:

- 4A. Implement and follow its current management agent's procurement procedures and implement adequate controls to ensure compliance with HUD requirements.

SCOPE AND METHODOLOGY

We performed our onsite audit work primarily at the project's management agent's office, located in Orange, CA, between August 2011 and February 2012. Our audit generally covered January 1, 2009, through July 31, 2011. We expanded our scope as necessary.

To accomplish our audit objective, we

- Reviewed applicable HUD regulations, including Financial Operations and Accounting Procedures, HUD Handbook 4370.2, and the Management Agent Handbook, 4381.5.
- Reviewed the regulatory agreement and the agent's internal policies and procedures.
- Interviewed the project's management staff and HUD employees.
- Reviewed the project's accounting records including general ledgers, invoices, and supporting documentation related to the disbursements selected for review. Since the project had three different management agents during our scope of January 1, 2009, to July 31, 2011, we obtained three different nonstatistical samples from each of the three management agents: Solari Enterprises, Inc., Tripod Management, and Top Notch Management.
 1. Solari Enterprises, Inc.
 - The total amount of expenditures between January 1 and July 31, 2011, was just under \$275,000. We selected five expense accounts between January 1 and July 31, 2011, that we considered to be higher risk and selected subaccounts and invoices with the highest disbursement amounts totaling \$34,357 (more than 12 percent of all expenditures).
 2. Tripod Management
 - The total amount of expenditures between July 2009 and December 2010 was just over \$1.3 million. Of the 78 subexpense accounts, we selected the 24 that we considered to be higher risk. We then selected at least two invoices with the highest disbursement amount for each of the 24 accounts totaling \$465,147 (more than 35 percent of all expenditures).
 3. Top Notch Management
 - The total amount of expenditures between January 1 and August 2009, was just under \$250,000. Of the 28 expense accounts, we selected the 14 expense accounts that we considered to be higher risk and selected at least two invoices with the highest disbursement amount from each totaling \$39,531 (more than 15 percent of all expenditures).

We did not assess the reliability of computer-processed data because we did not use or rely on that type of data; therefore, the assessment was not necessary.

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(s). We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

INTERNAL CONTROLS

Internal control is a process adopted by those charged with governance and management, designed to provide reasonable assurance about the achievement of the organization's mission, goals, and objectives with regard to

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

Internal controls comprise the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal controls 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:

- Policies and procedures that management has implemented to ensure that project funds are expended in accordance with HUD rules and regulations.

We assessed the relevant controls identified above.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness or efficiency of operations, (2) misstatement in financial or performance information, or (3) violation of laws and regulations on a timely basis.

Significant Deficiency

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

- The project lacked sufficient policies, procedures, and controls to ensure that project funds were expended in compliance with HUD rules and regulations (findings 1, 2, 3, and 4).

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS AND FUNDS TO BE PUT TO BETTER USE

Recommendation number	Ineligible <u>1/</u>	Unreasonable or Unnecessary <u>2/</u>	Unsupported <u>3/</u>	Funds to be put to better use <u>4/</u>
1A	\$45,518			
1B			\$8,465	
1C				147,284
2A	\$3,601	\$1,320		
2B			\$133,904	
3A				\$127,303
Total	\$49,119	\$1,320	\$142,369	\$274,587

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. These ineligible and unreasonable costs consist of project operating funds that were not used for reasonable operating expenses or necessary repairs.

2/ Unreasonable or unnecessary costs are those costs not generally recognized as ordinary, prudent, or necessary within established practices. Unreasonable costs exceed the costs that would be incurred by a prudent person in conducting a competitive business.

3/ 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.

4/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an OIG recommendation is implemented. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified. The \$147,284 represents project legal expenditures that should be recovered from the appropriate parties, resulting in savings to the HUD-insured project. The \$127,303 in funds put to better use represents funds that should have been maintained in the project's general operating reserve for the purpose of financial stability and used to finance the sale of memberships and provide funds for the repurchase of memberships of withdrawing members.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

	<p style="text-align: center;">AMAR PLAZA 15640 Amar Road Management Office La Puente, California 91744</p> <p>Telephone: (626) 330-1074 Facsimile:</p> <p style="text-align: center;">May 7, 2012</p> <p><u>VIA E-MAIL</u> (Tschulze@hudoig.gov)</p> <p>Ms. Tanya Schulze Regional Inspector General for Audit U.S. Department of Housing and Urban Development Office of Inspector General, Region IX 611 West Sixth Street, Suite 1160 Los Angeles, CA 90017</p> <p style="text-align: center;"><u>Amar Plaza, Discussion Draft Report</u> Audit Report Number 2012-LA-100X</p> <p>Dear Ms. Schulze:</p> <p>Comment 1</p> <p>The Board of Directors of Amar Plaza has reviewed the Draft Report regarding the HUD OIG audit performed at Amar Plaza. The Board of Directors does not have access to all of the information regarding financial statements and bank accounts that the OIG reviewed. Therefore, the Board cannot say with certainty whether all of the information contained in the report accurately reflects the financial picture of the Co-Op. However, from the information that the Board does have in its possession, it appears that the amounts and numbers stated in the report pertain to Amar Plaza.</p> <p>Comment 2</p> <p>The Board would like to comment on both the findings of the report as well as the corrective action that the Draft Report recommends. First, it should be noted that it was not until October 2010 that the present Board of Directors was given any authorization to act as the Board from HUD. In the last three months of 2010, the management company, Tripod, completely abdicated its responsibility to act as the management company. Until the new management company, Solari Enterprises, was selected by the Board and began managing the property in January 2011, the present Board did not have the help of a management company to address Amar Plaza's problems. As the draft report shows over and over, the changes at Amar Plaza to its spending and financial situation have improved dramatically in the year 2011.</p> <p>Comment 3</p> <p>We agree with the OIG's assessment that HUD pursue administrative sanctions against the previous management companies, including Rampart Properties and Tripod, as well as the previous illegally appointed Board of Directors, specifically [REDACTED] and [REDACTED]. We furthermore support without reservation the OIG's recommendation the HUD's Associate Counsel for Program Enforcement pursue double damages remedies, civil monetary penalties, and administrative sanctions against the applicable management agents for their part in regulatory violations cited in the report. (Page 2)</p>
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* Names redacted for privacy reasons.

Comment 3

The Board of Directors, and its counsel, BASTA, have requested for over a year that HUD become involved in the legal aspects of Amar Plaza. As both the Director of Multifamily Housing as well as the OIG know, Amar Plaza has pursued legal action in order to prevent a corrupt management agent, Rampart Properties, from using a corrupt, unelected Board of Directors hand-picked by ██████████ from foreclosing on Amar Plaza. The Deed of Trust obtained by Rampart Properties and ██████████ was from a fraudulent transaction and is invalid. The Board believes that once HUD engages fully in the legal fight against the former management company, that the case will end quickly and favorably for Amar Plaza. Amar's legal expenses will be paid back by ██████████ and his alter ego Rampart Properties. Further extraordinary legal expenses will cease. This will enable the Co-Op to implement quickly and efficiently payback of borrowed monies from the Reserve Account as well as replenishing the Operating Account to levels recommended by the OIG. The Board looks forward to HUD's participation in the present lawsuit, its removal to Federal Court and the favorable outcome that such involvement will bring to the legal proceedings. We hope this recommendation is implemented as soon as possible.

Comment 4

The Board is grateful that HUD has stated that in December 2008, a meeting took place wherein HUD recognized a duly elected Board of Directors and specifically indicated that the corrupt Board appointed by ██████████ was not the Board and had no power or authorization to act after the decision by HUD. (Page 5). Such a finding will surely aid Amar in its quest to have its funds returned and its fees and expenses reimbursed. The Board notes that Rampart Properties has never wanted the Promissory Note paid, but rather Rampart Properties and ██████████ want Amar Plaza. ██████████ counsel demanded nearly \$200,000 to settle the case – far more than Amar has been expended in legal costs. ██████████ saw in Rampart an opportunity to obtain a piece of property worth \$10-\$20 million for approximately \$41,000. ██████████ was never willing to settle. The legal expenses were necessary as Amar was fighting to save itself.

Comment 5

The Board of Directors agrees with the recommendations 1A-1G. The Board notes that recommendation 1C, seeking indemnification from ██████████ and ██████████ is impractical as neither one likely has any assets other than their memberships at Amar Plaza. The only entities with funds to make Amar Plaza whole are ██████████ and Rampart Properties. In fact, the Board of Directors, following the advice of the Director of Multi-Family Housing instructed the management company to evict ██████████ in January 2011. Regrettably, ██████████ is still at the property. However, issues of this nature are in the purview of the management company and the Board does not want to insert itself in the management arena. The Board has worked hard to avoid managing the Co-Op – instead leaving those duties to the management company.

Comment 6

Regarding recommendation 1D, the Board notes that maintenance of records has been a serious issue. Rampart Properties failed to turn over thousands of pages of records to Top Notch management and has been unable to produce them. It appears that those records may have been destroyed or absconded with by ██████████ and Rampart. In addition, there have been accusations that shareholders and members have stolen and/or destroyed records (Page 13.) As stated in the report, HUD was able to obtain information from a former Board president – information the current Board does not know about and has never seen. The current Board hopes that at some point it too can see these records.

Comment 1

Comment 7

The Board notes that regarding Finding #2, improper use of disbursements, that of the \$109,828 that the OIG found to be unsupported from 2009-2011, only \$738 (payment of a phone bill) were disbursements from the time that this Board had any authority. The other \$109,000 in unsupported disbursements came before this Board took over at Amar Plaza. (Table E-4, Page 41-43.) The inescapable conclusion is that this Board in combination with its choice of Solari Enterprises as the management company has drastically changed the spending culture at Amar Plaza. The change from \$109,000 in unsupported expenses from January 2009 to September 2010 and zero dollars from November 2010 to the present is clear and convincing evidence that the present Board has made tremendous strides in controlling expenses.

Comment 8

The Board wishes to address the only two issues that relate directly to it in this report. The first is the lack of proper procedures regarding procurement. The Board admits that a bidding system regarding the landscaping should have occurred because the expense was over \$10,000.00. (Page 18). In fact, the Board believed it was acting appropriately and within the HUD specified guidelines. As it turned out, the total expense was \$10,504. The \$504 overage exists. However, given that the OIG found a total of \$114,058 in procurement where practices were not followed, the \$504 overage is minor. Moreover, the previous year, the Board had spent only \$2000 on landscaping (Page 18). For a property that encompasses approximately 14 buildings, 150 covered parking spaces, and vast open areas, spending \$165/month on landscaping to maintain it is clearly inadequate. The approximately \$1000/month the Board spent in 2011 was not out of line. And the property looks vastly superior to the state in which the Board inherited it. Nevertheless, the Board is working with Solari to ensure that property procedures for procurement are followed in the future – even for only \$504 dollars in an annual budget of over \$500,000.00.

Comment 9

Secondly, the Board notes that an issue with subscription reimbursements exists. The table on Page 41, E-3 indicates that \$24,000 or \$12,000 per subscription is unsupported. First of all, the Board did use a formula based upon HUD tables. The Board believed that the OIG had this documentation from Solari. However, the Board will forward the appropriate documents to the OIG as soon as practicable. There is no dispute that the two former members left and that the Co-Op needed to repurchase their subscriptions, as the former members did not attempt to sell them to a prospective member with Board approval. However, the table as well as the description in the report (Page 13) seems to indicate that the entire \$24,000 is unsupported. Clearly, there is some amount of money due these members. The report leaves that amount blank. While the Board believes they were properly reimbursed according to the tables it used, the Board believes that the proper way to measure the “unsupported” amount would be to inquire how much the OIG believes the reimbursement should have been and then subtract that amount from the actual reimbursement to obtain the “unsupported” amount.

Comment 10

As is evident from the report’s findings on page 20, the Board of Directors and Solari have continued to improve the spending and internal controls of the project. In year and a half before the present Board and Solari took over, spending averaged over \$72,000/month with more than 35% of all expenditures being considered high risk. Since 2011, expenditures have been running closer to \$45,000/month with only 12% being considered high risk. Even if one were to include the unpaid but outstanding legal bills (Page 8), spending is still only \$51,000 -- \$20,000/month less than when this Board took over its duties at Amar Plaza. Again, the changes are dramatic, measurable, and a tribute to the hard work this Board and the management company it selected has put into Amar Plaza.

Comment 1

Comment 11

Comment 3

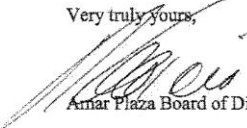
In conclusion, the Board does not have all of the information to know if the OIG report contains all of the numbers as it does not have access to, nor does it wish to interfere in, the responsibilities of the management company. However, the report clearly demonstrates that Amar Plaza is on the right track towards fixing its problems, following HUD rules and making sure errors in spending and procurement do not occur in the future. The changes this Board has overseen in its time at Amar Plaza demonstrate that the Board is serious about making Amar Plaza work for all of its members. The Board is excited to know that HUD and the Associate Counsel for Program Enforcement are going to pursue the major spending issues. The Board looks forward to working with HUD to obtain the return of its \$120,000 bond with the Los Angeles Superior Court as well as the \$150,000 in legal fees expended due to Rampart Properties and [REDACTED] fraudulent and corrupt scheme to steal Amar Plaza from its members. With nearly \$300,000 additional dollars for Amar Plaza, the Operating and Reserve Accounts can be put on a path towards sustainability long after the mortgage pay-off in 2014.

Comment 11

In conclusion, it appears that the main reason for the OIG investigation and the vast majority of the problems reflected in the report are related to misconduct of the prior board and the management company hired by the prior board. Included within the problems reflected in the report was the failure to file audited financial statements for 2009 and 2010. These events occurred before the present Board and management company were in place at Amar Plaza. Since January 2011, the controls put in place and the efforts of the Board and the management company have been very successful. Amar Plaza is a better run, more stable place. Due to the major improvements made by the current Board in Amar Plaza operations, the Board respectfully requests that HUD refrain from removing the member-elected Board of Directors and inserting itself as the de facto Board of Amar Plaza. The Board, having already made great strides and improvements at Amar Plaza, would like to see Amar Plaza through the lawsuit against [REDACTED] and into a better future.

The Board thanks the OIG for its report and the hard work of all the individuals who contributed to it. The Board will continue its hard work and dedication towards making Amar Plaza a great place for all of its members.

Very truly yours,



Amar Plaza Board of Directors



May 11, 2012

Ms. Tanya Schulze
US Department of Housing & Urban Development
Office of Inspector General
611 West Sixth Street, Suite 1160
Los Angeles, California 90017

RE: Amar Plaza – OIG Audit Report Number 2010-LA-100X

Dear Ms. Schulze:

This letter is being submitted to your office to be included in the final report. The purpose of my letter is to provide my opinion / comments regarding a couple of statements made in the May 7, 2012 letter submitted by Amar Plaza's Board of Directors.

Comment 5

Regarding the statement on page 2, paragraph 3 related to the [redacted] household still being at Amar Plaza; in January 2011 the Board of Directors [redacted] did instruct Solari Enterprises, Inc. to begin an eviction on the [redacted] household. However there was no evidence provided in order to show a lease violation or illegal activity had taken place. In approximately April 2012, the new Board [redacted] instructed Solari Enterprises, Inc. to begin the eviction process based on a newspaper article. We explained to the Board that the statements in the newspaper would need to be verified. We are instructed to proceed immediately, as they knew the information was accurate. Based on the instructions from the Board of Directors we began the eviction process. The aforementioned information is a contradiction of the following statement "However, issues of this nature are in the purview of the management company and the Board does not want to insert itself in the management arena. The Board has worked hard to avoid managing the Co-Op – instead leaving those duties to the management company".

Comment 8

Regarding the statement on page 3, paragraph 2 related to procurement procedures; the Board [redacted] instructed Solari Enterprises, Inc. to hire the current landscape vendor, even after we explained the procurement process. Additionally, the new Board [redacted] provided a Board Resolution increasing the monthly payment to the landscape vendor. The aforementioned information is a contradiction of the following statement "Nevertheless, the Board is working with Solari to ensure that property (proper) procedures for procurement are followed in the future...".



1572 N. Main Street • Orange, CA 92867-3448 • Tel: 714•282•2520 • Fax: 714•282•2521 • www.solari-ent.com



Page two
Ms. Tanya Schulze
US Department of Housing & Urban Development, Office of Inspector General
RE: Amar Plaza – OIG Audit Report Number 2010-LA-100X

May 11, 2012

Comment 9

Regarding the statement on page 3, paragraph 3 related to the subscription reimbursements; Solari Enterprises asked numerous times of both Boards that we worked with to provide documentation as to how they calculated the \$12,000 Shareholder Subscription Refunds for the Park and Corona households. We have not received any documentation. We have been informed by both Boards the documentation would be provided, to no avail. The aforementioned information is a contradiction of the following statement "The Board believed that the OIG had this documentation from Solari".

Comment 11

Regarding the statement on page 3, paragraph 4, related to the Board's participation. I would like to state the Board has had little to no involvement in efforts "to improve the spending and internal controls of the project." Examples of the inaccuracies of that statement have been discussed with both OIG auditors assigned to Amar Plaza. We, as the management agent are continuously battling the Board of Directors regarding following HUD policies and procedures.

Solari Enterprises, Inc.'s intent is to provide accurate data to be included as of part OIG's report.

Additionally, we are hopeful the Board of Directors will continue it's education and growth in relation to their responsibilities and we are committed to assist in any way possible.

Should you have any questions please feel free to contact me at 714-282-2520 extension 211.

Sincerely,

SOLARI ENTERPRISES, INC.



Gianna Solari
Vice President / COO

OIG Evaluation of Auditee Comments

Comment 1 The current Board of Directors indicated that it does not have access to all of the information regarding financial statements and bank accounts that the OIG reviewed. As cited in our report, records were missing because the previous board requested that all project documents be kept at the project's site but had inadequate controls over its safeguarding. In addition, the project ownership is ultimately responsible for ensuring that its management agent(s) maintain adequate documentation in accordance with HUD regulations. Since the project did not have all its books, contracts, records, documents, and papers available for examination, we had to gather the financial records from various sources in order to conduct our review, including

- The former board's president;
- The former management agent, Rampart Properties;
- Solari Enterprises, Inc.; and
- The project's on-site storage room.

The documents we obtained from Solari or the project's on-site storage room were left at the agent's site. In addition, the project's current legal counsel had the majority of the financial information we obtained from Rampart Properties; therefore, it was already available to the board. The current board was made aware that the former board president had information; however, we do not know if the board made any effort to contact this person. The board made no prior request for us to provide them with additional documentation. Given the board's response, we have forwarded copies of information obtained from the former board president to the project's current management agent.

Comment 2 We disagree. The board stated that the project drastically improved its spending and financial situation in 2011. However, the board withheld crucial information from its management agent and HUD. For instance, the board did not acknowledge until the exit conference that it never did execute an agreement with BASTA, its legal counsel. Further, BASTA refused to cooperate and provide invoices or billing information for year 2011 to the OIG for review. As a result, the spending for year 2011 did not reflect actual spending. By not executing an agreement, the board placed a HUD-insured project and HUD at a significant financial and legal risk.

Further, the project states that it was the prior management agent abdicating its responsibility to act as the management company; thus, the present board did not have the help of a management company to address Amar Plaza's problems. However, through interviews, OIG was informed that the prior management agent

and board were both terminated due to the contention between shareholders and residents, including allegations of impropriety (See background and objectives).

Comment 3 The board states that it looks forward to HUD’s participation in the present lawsuit; however, we did not recommend HUD’s involvement in the current lawsuit. Our recommendations 1F and 1G were for HUD to pursue separate actions, as appropriate.

The board believes that the case will end quickly and favorably for Amar Plaza; thus, legal expenses will be paid back by Rampart Properties and legal expenses will cease. However, there is no assurance Rampart will be required to pay back the project’s legal expenses as part of any judgment. As such, the project may ultimately be liable for the legal expenses. The board admitted at the exit conference that an agreement was never executed with its current legal counsel. In addition, the project’s legal counsel has refused to provide invoices and billing information for year 2011. The Board also did not appear to know what rate its legal counsel was actually charging.

Comment 4 The project states that Rampart Properties demanded nearly \$200,000 to settle the case. However, we have received nothing to confirm this. We also do not know the total legal cost incurred to date, as the project’s legal counsel has still not provided the requested invoices and there is no agreement.

Comment 5 We were not previously informed or aware of any attempts to have the shareholder evicted, and no documentation has been provided to us on this matter.

Comment 6 To clarify, the OIG (not HUD) obtained financial records from the former board president.

Comment 7 We reviewed the project, Amar Plaza for the period of 2009 to July 2011, and not the current board of directors. Regardless of who the board members were, the project is accountable for inappropriate activity in accordance with the regulatory agreement executed with HUD.

Comment 8 HUD Handbook 4381.5 section 6.50(a) requires “...written cost estimates from at least three contractors or suppliers for any contract, ongoing supply or service which is expected to exceed \$10,000 per year.” Per the agent’s May 11, 2012, response to the draft and the project’s comments, the project’s board instructed its agent to hire the current landscape vendor, even after the agent explained the procurement process. Further, the board then increased its monthly payment to the landscape vendor.

Comment 9 We disagree with the board’s response. The board did not provide documentation supporting how the amount (\$24,000) was determined, and no documentation was provided with the project’s response to the audit report. The current management

agent had calculated the amount for the subscription reimbursements far less than the amount the board decided to pay its withdrawing members.

Comment 10 Our review was not based on the average costs the board and its management agent spent each month, but whether the expenses were allowable. We identified \$50,439 in ineligible/unreasonable expenses, \$142,369 in unsupported costs, and \$274,587 in funds to be put to better use during the audit period. Further, as discussed in comment number 2, the board withheld crucial information from its management agent, HUD, and the OIG. It revealed at the exit conference that an agreement was never executed with BASTA. As a result, the spending for year 2011 is not reflective of its actual spending.

Comment 11 We do not believe that the project is on the right track towards fixing its problems. In addition to our findings, there has been constant contention among residents and shareholders, including allegations of impropriety, which have resulted in changes of board members and management agents. We determined that the project lacked overall effective management and controls to ensure that it followed its regulatory agreement and all HUD rules and regulations. The project (including its present board) has also not provided financial statements to HUD for years 2009 and 2010. Consequently, we recommended under 1E that HUD pursue appropriate administrative sanctions, including temporarily taking over to the project, to protect both HUD's interest and the interest of the project shareholders and tenants.

Appendix C

CRITERIA

Regulatory Agreement

Section 3. Commencing with occupancy, the Mortgagor shall establish and maintain a general operating reserve by allocation and payment thereto monthly of a sum equivalent to not less than 3 percent of the monthly amount otherwise chargeable to the members pursuant to their occupancy agreements. Upon accrual in said General Operating Reserve Account, of an amount equal to 15 percent of the current annual amount otherwise chargeable to the members pursuant to their Occupancy Agreements, the rate of such monthly allocations may, by appropriate action of the mortgagor, be reduced from 3 percent to 2 percent provided, however, that in the event withdrawals from such account reduce it below said 15 percent accrual, the rate of such monthly deposits shall immediately be restored to 3 percent; at any time thereafter upon accrual in said General Operating Reserve Account of an amount equal to 25 percent of the current annual amount otherwise chargeable to the members pursuant to the Occupancy Agreements, such monthly deposits may, by appropriate action of the mortgagor, be discontinued and no further deposits need to be made into such General Operating Reserve so long as said 25 percent level is maintained and provided, further, that upon any reduction of such reserve below said 25 percent level, monthly deposits shall forthwith be made at the 3 percent rate until the 25 percent level is restored. (This reserve shall remain in a special account and may be in the form of cash deposit or invested in obligations of, or full guaranteed as to principal by, the United States of America...

Section 5. The Mortgagor shall not without prior approval of the Commissioner, given in writing,

- (a) sell, assign, transfer, dispose of or encumber any real or personal property, except as specifically permitted by the terms of the Mortgage;
- (j) encumber or dispose of in any manner whatsoever any funds derived from the proceeds of its insured Mortgage in excess of sums required to pay the applicable statutory percentage of the actual cost of legitimate obligations incurred...

Section 6. No compensation or fee shall be paid by the Mortgagor except for necessary services and except at such rate as is fair and reasonable in the locality for similar services, nor, except with the prior written approval of the Commissioner, shall any compensation be paid by the Mortgagor to its officers, directors, or stockholders, or to any person, or corporation, for supervisory or managerial services, nor shall any compensation be paid by the Corporation to any employee in excess of \$6,000 per annum, except with such prior written approval...

Section 8. The Mortgagor, its property, equipment, buildings, plans, office, apparatus, devices, books, contracts, records, documents and papers shall be subject to inspection and examination by the Commissioner or his duly authorized agent at all reasonable times.

Section 9. The books and accounts of the Mortgagor shall be kept in accordance with the Uniform System of Accounting prescribed by the Commissioner.

Section 13. The Mortgagor agrees that any membership shall be sold by the Mortgagor or by a member only in the manner and for the amount as provided in the By-Laws, and that to this end a sale by a member shall be supported by a certificate by the seller and the purchaser as to the amount of the sales price not in excess of that permitted by the By-Laws.

Section 17. Upon a violation of any of the above provisions of this Agreement by the Mortgagor, the Commissioner may give written notice, thereof, to the Mortgagor, by registered or certified mail, addressed to the addressees stated in this Agreement. If such violation is not corrected to the satisfaction of the Commissioner within 15 days after the date such notice is mailed, or within such additional period of time as is set forth in the notice, or where the Mortgagor proceeds immediately and diligently, within such further time as the Commissioner determines is necessary to correct the violation, without further notice the Commissioner may declare a default under this Agreement and upon such default the Commissioner may:

(a) (i) If the Commissioner holds the note - declare the whole of said indebtedness immediately due and payable and then proceed with the foreclosure of the mortgage;
(ii) If said note is not held by the Commissioner - notify the holder of the note of such default, and the holder, with the prior written consent of the Commissioner, may declare the whole indebtedness due, and therefore upon proceed with foreclosure of the mortgage, or assign the note and mortgage to the Commissioner as provided in the Regulations;

(b) Collect all rents and charges in connection with the operation and use such collections to pay the Mortgagor's obligations under this Agreement and under the note and mortgage and the necessary expenses of preserving the property and operating the project;

(c) Take the possession of the mortgaged property, bring any action necessary to enforce any rights of the Mortgagor of the project, and any rights of the Commissioner, arising by reason of the Agreement, and operate the project in accordance with the terms of this Agreement until such time as the Commissioner in his discretion determines that the Mortgagor is again in a position to operate the project in accordance with the terms of this agreement and in compliance with the requirements of the note and mortgage;

(d) Apply to any court, State or Federal, for specific performance of this Agreement, for an injunction against any violation of the Agreement, for the appointment of a receiver to take over and operate the project in accordance with the terms of the Agreement, or for such other relief as may be appropriate, since the injury to the Commissioner arising from a default under any of the terms of this Agreement would be irreparable and the amount of damage would be difficult to ascertain.

(e) Terminate the interest reduction payments to the mortgagee.

Section 18. The covenants and agreements herein set out shall be deemed to run with the land herein described so long as there is a mortgage on said property insured or owned by the Commissioner and to bind any future purchasers of the real property or any part thereof.

Occupancy Agreement

Article 1. Monthly Carrying Charges.

Commencing at the time indicated in Article 2 hereof, the Member agrees to pay to the Corporation a monthly sum referred to herein as "Carrying Charges," equal to one-twelfth of the member's proportionate share of the sum required by the Corporation, as estimated by its Board of Directors to meet its annual expenses, including but not limited to the following items:

(a) The cost of all operating expenses of the project and service furnished...

Article 13. Member to Comply with All Corporate Regulations.

The Member covenants that they will preserve and promote the cooperative ownership principles on which the Corporation has been founded, abide by the Charter, By-Laws, rules and regulations of the Corporation and any amendments thereto, and by his acts of cooperation with its other members bring about for himself and his co-members a high standard in home and community conditions. The Corporation agrees to make its rules and regulations known to the Member by delivery of same to him or by promulgating them in such other manner as to constitute adequate notice.

Article 17. Late Charges and Other Costs In Case Of Default

If a Member defaults in making a payment of Carrying Charges or in the performance or observance of any provision of this Agreement, and the Corporation has obtained the services of any attorney with respect to the defaults involved, the Member covenants and agrees to pay to the Corporation any costs or fees involved, including reasonable attorney's fees, notwithstanding the fact that a suit has not yet been instituted. In case a suite is instituted, the Member shall also pay the costs of the suit, in addition to other aforesaid costs and fees.

By-Laws

Article III Membership

Section 3. Subscription Funds. All subscription funds (except funds required for credit reports) received from applicants prior to the endorsement of the mortgage note by the Federal Housing Administration (hereinafter sometimes referred to as the Administration) shall be deposited promptly without deduction in a special account or accounts of the Corporation as escrowee or trustee for the Subscribers to Membership, which monies shall not be corporate funds, but shall be held solely for the benefit of the Subscribers until transferred to the account of the Corporation as hereinafter provided. Such special account or accounts shall be established with Title Insurance and Trust Company... Such funds shall be subject to withdrawal or transfer to the account of the Corporation or disbursed in a manner directed by the Corporation only upon certification by the President and Secretary of the Corporation to the above-named institution or institutions that:

- A. The Subscription Agreement of a named applicant has been terminated pursuant to its terms and such withdrawal is required to repay the amount paid by him under such agreement...

Section 5 Membership Certificates. Each membership certificate shall state that the Corporation is organized under the laws of the State of California, the name of the registered holder of the membership represented thereby, the Corporation lien rights as against such membership as set forth in this Article.....

Section 6 Lost Certificates. The Board of Directors may direct a new certificate or certificates to be issued in place of any certificate or certificates previously issued by the Corporation and alleged to have been destroyed or lost...

Section 8

Transfer of Membership. Except as provided herein, membership shall not be transferable and, in any event, no transfer of membership shall be made upon the books of the Corporation within ten (10) days next preceding the annual meeting of the members.

B. Option of Corporation to Purchase. If the member desires to leave the project, he shall notify the Corporation in writing of such intention, and the Corporation shall have an option for a period of 30 days thereafter, but not the obligation, to purchase the membership, together with all of the member's rights with respect to the dwelling unit, at an amount to be determined by the corporation as representing the transfer value thereof, less any amounts due by the member to the Corporation under the Occupancy Agreement, and less the cost or estimated cost of all deferred maintenance, including painting, redecorating, floor finishing and such repairs and replacements as are deemed necessary by the Corporation to place the dwelling unit in suitable condition for another occupant. The purchase by the Corporation of the membership will immediately terminate the member's rights and the member shall forthwith vacate the premises.

D. Transfer Value. Whenever the Board of Directors elects to purchase a membership, the term "transfer value" shall mean the sum of the following:

1. The consideration (i.e., down payment) paid for the membership by the first occupant of the unit involved as shown on the books of the Corporation;
2. The value, as determined by the Directors, of any improvements installed at the expense of the member with the prior approval of the Directors, under a valuation formula which does not provide for reimbursement in an amount in excess of the typical initial cost of the improvements...

Section 9. Termination of Membership for Cause. In the event there is a default by the member under the Occupancy Agreement, and the Corporation has notified the member thereof, the member shall be required to deliver promptly to the Corporation his membership certificate, endorsed in such a manner as may be required by the Corporation. The Corporation shall thereupon, at its election, either (1) repurchase said membership at its transfer value (as hereinabove defined) or the amount the retiring member originally paid for the acquisition of his membership certificate, which is the lesser, or (2) proceed with reasonable diligence to effect a sale of the membership to a purchaser and at sales price acceptable to the Corporation. The retiring member shall be entitled to receive the amount so determined, less the following amounts (the determination of such amounts by the Corporation to be conclusive):

A. Any amounts due to the Corporation from the member under the Occupancy Agreement;

B. The cost or estimated cost of all deferred maintenance, including painting, redecorating, floor finishing and such repairs and replacements as are deemed necessary by the Corporation to place the dwelling unit in suitable condition for another occupant;

C. Legal and other expenses incurred by the Corporation in connection with the default of such member and the resale of his membership. In the even the retiring member for any reason should fail for a period of 10 days after demand to deliver to the Corporation his endorsed membership certificate, said member-ship certificate shall forthwith be deemed to be cancelled and may be reissued by the Corporation to the new purchaser.

Article V

Directors

Section 6. Compensation. No compensation shall be paid to Directors for their services as Directors. No remuneration shall be paid to a Director for services performed by him for the Corporation in any other capacity, unless a resolution authorizing such remuneration shall have been unanimously adopted by the Board of Directors before the services are undertaken. No remuneration or compensation shall in any case be paid to a Director without the approval of the Administration. A Director may not be an employee of the Corporation.

Section 14. Safeguarding Subscription Funds. It shall be the duty of the Board of Directors to see to it that all sums received in connection with membership subscriptions prior to the closing of the mortgage transaction covering the housing project of the Corporation are deposited and withdrawn only in the manner provided for....

Article VII FHA Controls

Section 1. Rights of Federal Housing Administration. The management, operation and control of the affairs of the Corporation shall be subject to the rights, powers and privileges of the Federal Housing Administration pursuant to the Regulatory Agreement between the Corporation and the Federal Housing Administration pursuant to the Regulatory Agreement between the Corporation and the Federal Housing Administration. The Corporation is bound by the provisions of the Regulatory Agreement which is a condition precedent to the insurance of a mortgage of the Corporation on the project.

Article X Fiscal management

Section 2. Books and Accounts. Books and accounts of the Corporation shall be kept under the direction of the Treasurer and in accordance with the Uniform System of Accounts prescribed by the FHA Commissioner...

Section 3. Auditing. At the closing of each fiscal year, the books and records of the Corporation shall be audited by a Certified Public Accountant or other person acceptable to the Administration, whose report will be prepared and certified in accordance with the requirements of the Administration...

Section 4. Inspection of Books. Financial reports such as are required to be furnished to the Administration and the membership records of the Corporation shall be available at the principal office of the Corporation for inspection at reasonable times by the members.

Subscription Agreement

Section 5. Cancellation Rights

(a) By Corporation: The Corporation reserves the right, at any time before it has notified the Subscriber of his acceptability for membership, for reasons deemed, sufficient by the Corporation, to return the amount paid by the Subscriber under this Agreement, or in the event the Subscriber shall have died prior to becoming a member the Corporation reserves the right to return same to Subscriber's estate or legal representative, and thereupon all rights of the Subscriber shall cease and terminate without further liability on the part of the Corporation.

If the Subscriber shall default in any of the obligations called for in this Agreement, and such default shall continue for fifteen (15) days after notice sent by registered mail by the Corporation to the Subscriber at the address given below, then forthwith at the, option of the Corporation, the Subscriber shall lose any and all rights under this Agreement, and any amount paid toward the subscription price may be retained by the Corporation as liquidated damages, or may at the option of the Corporation be returned less the Subscriber's proportionate share of expenses incurred by the Corporation, such proportionate share of expenses to be determined solely by the Corporation. The Corporation may, at its option, release the obligations of the Subscriber under this Agreement in the event the Subscriber shall secure an assignee of this Agreement who has assumed the obligations herein contained and is satisfactory to the Corporation and the Federal Housing Administration (FHA). This Agreement is not otherwise assignable.

HUD Handbook 4370.2, Financial Operations and Accounting Procedures (Insured Multifamily Projects), Chapter 2

Cash Management Controls

B. Disbursement Controls

1. A request for a check must have supporting documentation (i.e., invoice itemizing amount requested with an authorized signature) in order for approval to be obtained to make the disbursement.
2. Checks must be approved by an individual authorized to approve checks.
3. The authorized check signer shall review supporting documentation before signing the check...

2-6 Regular Operating Account

E. All disbursements from the Regular Operating Account (including checks, wire transfers and computer generated disbursements) 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.

HUD Handbook 4350.1, REV-1, Chapter 26

26-1 Introduction. The establishment and maintenance of a general operating reserve (GOR) fund is a program requirement applicable to cooperative housing projects insured by HUD.

26-1(a). Purpose of the general operating reserve account: this accumulative reserve is intended to provide a measure of financial stability and may be used to finance the sale of memberships, to meet deficiencies arising from time to time as a result of delinquent payment by individual cooperators and other contingencies, and to provide funds for repurchase of membership of withdrawing members, etc.

26-1(b). The requirement for GOR funding for cooperative housing projects is separate and apart from other project-related financial obligations, including reserve fund for replacements...

26-4 Funding Requirement. The Regulatory Agreement requires that, commencing with occupancy, monthly deposits must be made to the general operating reserve, in an amount equal to not less than 3 percent of the monthly amount otherwise chargeable to the regular members pursuant to their occupancy agreements. When the GOR account reaches 15 percent of the annual carrying charges, the monthly accrual rate may be reduced to 2 percent (provided that monthly deposits will be immediately restored to 3 percent in the even withdrawals from the account reduce it below the 15 percent accrual); and when the GOR account equals 25 percent of annual carrying charges, such monthly accruals may be discontinued until the account is reduced below 25 percent.

26-6 Account Maintenance and Investment. The general operating reserve will be maintained in a special account and may be in the form of a cash deposit or invested in the same manner as replacement reserve funds, except that the GOR account will be under the control of the mortgagor...

HUD Handbook 4381.5, The Management Agent Handbook

6.50. Contracting Guidelines

6.50 a. When an owner/agent is contracting for goods or services involving project income, an agent is expected to solicit written cost estimates from at least three contractors or suppliers for any contract, ongoing supply or service which is expected to exceed \$10,000 per year or the threshold established by the HUD Area Office with jurisdiction over the project.

6.50 c. Documentation of all bids should be retained as a part of the project records for three years following the completion of the work.

24 CFR (Code of Federal Regulations) 5.801, Uniform Financial Reporting Standards

(a) *Applicability.* This subpart H implements uniform financial reporting standards for...

Section (3) Owners of housing assisted under any Section 8 project-based housing assistance payments program...

Section (4) Owners of multifamily projects receiving direct or indirect assistance from HUD, or with mortgages insured, coinsured, or held by HUD, including but not limited to housing under the following HUD programs...

(xii) Section 236 of the NHA [National Housing Act] (Rental and Cooperative Housing for Lower Income Families);

(b) *Submission of financial information...*

(2) For entities listed in paragraphs (a)(3) and (4) of this section, the financial information to be submitted to HUD in accordance with paragraph (b) of this section, must be submitted to HUD annually, no later than 90 days after the end of the fiscal year of the reporting period, and as otherwise provided by law.

Appendix D

PROMISSORY NOTE: SCHEDULE OF QUESTIONED COSTS

Table D-1: Part 1 of disbursements

	Description	Ineligible	Unsupported
1	L.A. Printing Center		\$158
2	Franchise Tax Board		\$20
3	Rampart Properties, Inc., final sums due 12/12/08		\$3,537
5	Rampart's Legal Counsel	\$27,771	
6	Rampart's Legal Counsel	\$600	
7	Loan processing costs to Rampart	\$835	
8	Rampart Properties, Inc., loan processing fees	\$5,000	
9	Legal and loan processing fees	\$2,410	
	Total	\$36,615	\$3,715

Note: The \$41,100 Rampart claimed to have deposited into the project's account was reviewed under table D-2.

Table D-2: Part 2 of disbursements

Description	Amount	Ineligible	Unsupported	Auditor's notes
Confirmed funds-deposits				
Beginning balance	\$1,876			
Transfer from reserve	\$62			
LOMOD Section 8	\$2,942			
Rampart 1/21/09	\$20,000			1st of 3 Rampart deposits totaling \$40,100 (20,000 + 6,100 + 14,000)
Rampart 2/24/09	\$6,100			2nd of 3 Rampart deposits totaling \$40,100 (20,000 + 6,100 + 14,000)
Building Services 2/27/09	\$400			
Rampart 3/9/09	\$14,000			3rd of 3 Rampart deposits totaling \$40,100 (20,000 + 6,100 + 14,000)
Total	\$45,380			
Total expenditures-transfers out				
Transfer to Building Services	\$2,730		\$2,730	No supporting documentation as to why \$2,730 was transferred to Building Services.
Independent public accountant	\$32,960			Eligible costs for 2007 and 2008 audited financial statements.
Misc. items	\$261	\$194		This bank account should have been closed since Rampart was no longer the project's agent. Account balance should have been forwarded to the project, not retained by Rampart. Therefore, fees incurred by Rampart to keep the account open were ineligible (\$193.60). Remaining amount of \$67.25 was an eligible cost for the project's gas company bill.
Rampart Properties	\$42	\$42		This bank account should have been closed since Rampart was no longer the project's agent. Any account balances should have been forwarded to the project, not retained by Rampart. Therefore, fees incurred by Rampart to keep the account open were ineligible.
Rampart's legal counsel	\$520	\$520		Rampart Properties was terminated as a management agent by HUD, effective 12/1/08. These costs were incurred after its termination and paid on 2/19/09.
Rampart's legal counsel	\$5,951	\$5,951		Rampart was terminated as management agent, effective 12/1/08. However, the 2/6/09 invoices were paid on 2/19/09. The services were obtained after the agent's termination. Rampart had no reasonable justification to use project funds in pursuit of legal action on behalf of anyone at the project, nor would it be reasonable for the project to pay Rampart's cost to pursue legal action against the project. Therefore, the costs were not for necessary services as required by the regulatory agreement.

Description	Amount	Ineligible	Unsupported	Auditor's Notes
Transfer to operating	\$2,020		\$2,020	No supporting documentation was available to show where the \$2,020 was transferred to or for what purpose. There was nothing showing that the amount of \$2,020 was transferred to Amar's operating account.
Cashier's check	\$897	\$897		Unable to confirm that the cashier's check was deposited into Amar's operating account.
Total	\$45,380⁴	\$7,603⁴	\$4,750	
Unconfirmed deposit of \$1,300		\$1,300		No deposit of \$1,300 could be confirmed (see note 1 above).
Total		\$8,903	\$4,750	

⁴ Calculation differences are due to rounding.

Table D-3: Summary

Description	Ineligible	Unsupported
L.A. Printing Center		\$158
Franchise Tax Board		\$20
Rampart Properties, Inc., final sums due 12/12/08		\$3,537
Rampart's legal counsel	\$27,771	
Rampart's legal counsel	\$600	
Loan processing costs to Rampart	\$835	
Rampart Properties, Inc., loan processing fees	\$5,000	
Legal and loan processing fees	\$2,410	
Transfer to Building Services		\$2,730
Misc. items	\$194	
Rampart Properties	\$42	
Rampart's legal counsel	\$520	
Rampart's legal counsel	\$5,951	
Transfer to operating		\$2,020
Cashier's check	\$897	
Unconfirmed deposit of \$1,300	\$1,300	
Total	\$45,518⁵	\$8,465

⁵ Calculation differences are due to rounding.

Appendix E

SCHEDULE OF QUESTIONED COSTS: SIT-DOWN RESTAURANT MEALS, REIMBURSEMENTS, STIPENDS, SUBSCRIPTION REIMBURSEMENTS, SAMPLE DISBURSEMENTS

Table E-1: Reimbursements

Expense account	Date	Check no.	Ineligible	Unsupported	Notes
Misc. admin. expenses (specify)	4/7/10	3111	\$50		Applebees - board of directors' dinner meeting with legal counsel
	2/3/10	3077	\$56		Sodas - Amar market for HUD site visit 2/24/10
	6/12/09	1161	\$71		Food for meeting expense
	6/12/09	1160		\$19	Reimbursement for gas expense
	2/24/10	3076	\$80		Refreshments at Costco such as water, coffee, muffins, etc.
	4/17/09	1130	\$327		Food items from Costco
	3/3/10	3088	\$24	\$10	1) \$13.15 board lunch after court 3/3/10 2) \$10.71 - breakfast before HUD meeting 2/5/10 3) \$10 - No support
Contract service-repairs	9/22/09	1024	\$37		Receipt indicates party supplies for items purchased at Walmart such as cookies, water, tea, sodas, etc.
Misc. admin. exp. (\$49.53) & vehicle allowance (gas, parking \$46.68)	5/20/10	3148	\$50	\$47	Receipt: lunch at Michael J's after a meeting at Congresswoman office (\$49.53); Gas reimbursement for 4/21/10; \$42.68 receipt but reimbursed \$46.68 with no supporting mileage information
Misc. admin. expense (specify)	4/7/10	3110	\$15		Reimbursement for court case Amar vs. Rampart; cafeteria lunch \$6.75 & \$8.18
	2/19/09	1049	\$133		Food for board meeting on 1/17/09
	9/10/09	1013	\$57		Reimbursable for food
	9/10/09	1011	\$63		Purchased at Perfectly Sweet bakery
	2/24/10	3073	\$430		Mary's party rental-other renting expense
	2/24/10	Cash withdrawal	\$350		Payment for taco man
	3/20/10	3143	\$5		Snack
			\$1,748	\$76	

Table E-2: Stipends

Date	Check no.	Position	Description	Ineligible amount
12/22/2009	1114	Treasurer	2009 annual stipend	\$200
12/22/2009	1113	Secretary	2009 annual stipend	\$200
12/22/2009	1115	President	2009 annual stipend	\$200
Total				\$600

Table E-3: Subscription reimbursements

Payee	Unsupported amount	Date	Description
Former shareholder: ██████████	\$12,000	5/5/2011	Disbursement did not support how the amount was determined.
Former shareholders: ██████████	\$12,000	5/5/2011	Disbursement did not support how the amount was determined.
Total	\$24,000		

Table E-4: Sample disbursements

Expense account	Date	Check no.	Ineligible	Unreasonable	Unsupported
Top Notch Management					
Salary expense	2/13/09	N/A			\$1,600
	2/28/09	N/A			\$1,600
Miscellaneous administrative expense	6/11/09	1022			\$2,000
Grounds contract	1/9/09	1001			\$2,000
	2/10/09	1036			\$2,000
Maintenance material	7/6/09	1113			\$1,289
Miscellaneous maintenance	1/14/09	1005			\$2,588
	1/17/09	1009			\$1,691
Telephone services	5/22/09	N/A			\$692
Miscellaneous expenses	1/14/09	1004			\$1,264
	1/14/09	1006			\$768
Legal fees	3/2/09	1055			\$450
Tripod Management					
Miscellaneous administrative expense	9/25/09	1030		\$698	
	12/17/09	N/A		\$622	
	4/1/10	3107			\$1,411

Expense account	Date	Check no.	Ineligible	Unreasonable	Unsupported
Payroll expenses	11/4/09	N/A			\$3,452
	12/17/09	N/A			\$3,934
	9/7/10	N/A			\$4,078
	12/3/10	N/A			\$4,523
Legal & professional fees	11/20/09	Cashier's check			\$20,000
	12/3/09	1107			\$4,265
	1/27/10	3032			\$1,500
	2/26/10	3091	\$1,500		
Contract service – grounds-landscaping	9/21/09	1018			\$2,000
	2/11/10	3054			\$2,000
	4/30/10	3134			\$2,100
Contract services - repairs	10/22/09	2004			\$2,200
Telephone services	10/20/09	1048			\$586
	12/3/09	1134			\$513
	6/18/10	N/A			\$847
	10/21/10	N/A			\$738
Supplies - repair	10/9/09	1061			\$4,665
	2/11/10	3080			\$894
Accounting-auditor fee	2/11/10	3066			\$6,500
	4/19/10	3122			\$3,000
Salaries - maintenance	9/18/09	N/A			\$1,246
	10/20/09	N/A			\$1,250
	1/20/10	N/A			\$567
	1/25/10	N/A			\$99
Security payroll contract	10/24/09	1077			\$2,000
Contract service	12/29/09	2019			\$500
	1/22/10	3036			\$1,822
Office supplies	3/8/10	N/A			\$452
	4/27/10	N/A			\$609
Salaries - manager	9/18/09	N/A			\$1,600
	10/5/09	N/A			\$3,674
Office expenses	11/2/09	N/A			\$694

Expense account	Date	Check no.	Ineligible	Unreasonable	Unsupported
Solari Management					
Operating and maintenance expense	3/31/11	N/A	\$150		\$8,169
		Subtotal	\$1,650	\$1,320	\$109,828
		(less) legal costs**	\$1,500		
		Total	\$150	\$1,320	\$109,828⁶

** Note: We excluded the legal costs performed from the total because we reviewed legal costs under finding 1.

Table E-5: Summary

Finding issue	Eligibility		
	Ineligible	Unreasonable	Unsupported
Sit-down restaurant meals	\$1,103		
Reimbursable	\$1,748		\$76
Stipends	\$600		
Subscription reimbursements			\$24,000
Sample disbursements	\$150	\$1,320	\$109,828
Total	\$3,601	\$1,320	\$133,904

⁶ Calculation differences are due to rounding.