



***Rural Rental Housing Program
Uncovering Program Fraud and Threats
to Tenant Health and Safety***



U.S. DEPARTMENT OF AGRICULTURE
OFFICE OF INSPECTOR GENERAL



UNITED STATES DEPARTMENT OF AGRICULTURE
OFFICE OF INSPECTOR GENERAL
Washington D.C. 20250



MAR 31 1999

Honorable Dan Glickman
Secretary of Agriculture
Washington, D.C. 20250

Dear Mr. Secretary:

We are pleased to present to you our report on the results of our joint review in the Department's Rural Rental Housing Program. Our initiative began last spring to identify and prosecute the worst offenders who defraud the program and neglect the physical living conditions of tenants in the Nation's nearly 18,000 rural multifamily housing properties.

The initiative targeted 32 suspect multifamily housing owners and management agents in 13 States. Our reviews identified 18 owners and management agents who misused over \$4.2 million while neglecting the physical conditions of the properties, some of which threaten the health and safety of tenants. So far, 10 cases are under investigation. Administrative remedies are being taken for the others.

Since the owners and management agents were targeted based on our jointly-developed high-risk factors, we cannot say that the results are indicative of the entire program. However, these problems must be addressed. To that end, each State Director has been requested to develop corrective action for the deficiencies identified. In many instances, corrective actions are complete. We are also going to be asking Congress for legislation to enact civil penalty provisions where program funds are improperly withdrawn from Rural Rental Housing accounts.

The initiative demonstrated the results that can be achieved when we work together on a common goal. This collaborative effort will provide a road map for improving the integrity in the Rural Rental Housing Program, a program identified as a high-risk area by the Office of Management and Budget.

Sincerely,

ROGER C. VIADERO
Inspector General

JILL LONG THOMPSON
Under Secretary
Rural Development

Enclosure

**RURAL HOUSING SERVICE
RURAL RENTAL HOUSING PROGRAM
UNCOVERING PROGRAM FRAUD AND THREATS
TO TENANT HEALTH AND SAFETY
EVALUATION REPORT NO. 04801-0006-Ch**

MARCH 1999

NOTICE - THIS REPORT RESTRICTED TO OFFICIAL USE

This report is provided to program officials solely for their official use. Further distribution or release of this information is not authorized.

**UNITED STATES DEPARTMENT OF AGRICULTURE
OFFICE OF INSPECTOR GENERAL - AUDIT
MIDWEST REGION
111 NORTH CANAL STREET - SUITE 1130
CHICAGO, ILLINOIS 60606**

EXECUTIVE SUMMARY

RURAL RENTAL HOUSING PROGRAM UNCOVERING PROGRAM FRAUD AND THREATS TO TENANT HEALTH AND SAFETY EVALUATION REPORT NO. 04801-0006-Ch

WHAT WE DID

The Office of Inspector General (OIG) and the Rural Housing Service (RHS) combined efforts on a nationwide Initiative to identify owners and management agents that misused funds while neglecting the physical condition of Rural Rental Housing (RRH) Program apartment complexes. The Initiative was a cooperative effort, approved by the Secretary and endorsed by the President, that zeroed in on high-risk owners and management agents to reduce fraud, waste, and abuse in the RRH Program. The Inspector General and the Undersecretary for Rural Development undertook this Initiative to curb program abuse and provide a roadmap for future efforts to ensure integrity in the RRH Program.

Prior audits and investigations have disclosed owners and management agents that charged unallowable and unsupported costs to apartment complexes to withdraw funds for which they were not entitled. Such activity is commonly referred to as “equity skimming” and may reduce the Government’s security in an apartment complex that is allowed to deteriorate while creating health and safety hazards for tenants and jeopardizing its financial viability.

WHAT IS THE RRH PROGRAM

The RRH Program provides low-cost apartments to people with low incomes in rural areas. Each apartment complex is managed by an owner or his agent who oversees several accounts that contain funds derived from Government subsidy and tenant rental payments.

There are approximately 447,000 RRH units nationwide and apartment complexes pay an estimated \$161 million in authorized management fees each year to owners and management agents. In fiscal year 1998, the Government provided over \$1.3 billion in rental assistance and interest credit subsidies for tenants residing in RRH apartment complexes. USDA currently has over \$12 billion invested in RRH properties through its outstanding loans.

WHAT WE FOUND

The Initiative focused on 32 owners and management agents in 13 States who were all considered high risk, based on OIG and RHS developed criteria, to have misused RRH funds. Our financial record reviews, as performed jointly by OIG and RHS staff, uncovered over \$4.2 million in misused funds at 553 apartment complexes operated by 18 owners and management agents. It should be noted that the Initiative was not a random sample but an effort focused on owners and management agents where there was a suspicion of program abuse. We referred 16 owners and management agents for criminal investigation; 10 are currently under investigation. (When the investigations are completed, the extent of abuse may be greater than \$4.2 million.) Since the 32 owners and management agents were identified as high risk, the results of our reviews are not indicative of the level of overall abuse in the RRH Program.

The misused funds were for charges that clearly did not benefit RRH apartment complexes and in some cases were specifically prohibited by program regulations. Such charges included management costs that were charged twice; maintenance and repair charges that were inflated; maintenance and repair charges that were never incurred; and personal expenses and costs that were not related to RRH apartments.

The high-risk owners and management agents in our review also routinely charged costs that were not supported by invoices, receipts, or other documents. Without such documentation, there is no way to substantiate that charges were actually incurred for legitimate program costs. In several instances, owners and management agents diverted income and made unauthorized withdrawals from reserve and tenant security deposit accounts.

A major impact of the misused funds was reflected in the physical condition of apartment complexes. Teams consisting of OIG and RHS representatives inspected 637 apartment complexes and determined that 145 had serious physical deterioration. Another 215 needed repairs of some sort. The teams also identified 50 apartment complexes with conditions that posed a health and safety hazard to tenants. The misused funds uncovered by our financial record reviews could have been used to repair much of the physical deterioration and correct the health and safety hazards observed during our site visits.

The following examples illustrate the abuse:

- A management agent skimmed over \$630,000 from 70 RRH apartment complexes by charging duplicate costs such as salaries and workers compensation insurance for management agent employees, and bookkeeping costs. These duplicate costs were the responsibility of the management agent and paid through the management fee. They were paid again when reimbursed by the apartment complexes. Many of the apartment

complexes showed signs of neglect, such as deteriorated and leaking roofs, and worn and deteriorated exterior siding.

- An owner used over \$325,000 from five apartment complexes for personal purposes. This included, among other items, \$59,000 to purchase a house and to pay expenses associated with it such as mortgage payments and property taxes. Three of the owner's five apartment complexes had serious maintenance problems, such as dry rot, exposed electrical wiring, and sagging roofs.



House purchased with RRH apartment complex funds

Identity-of-interest companies were often associated with the illegal skimming of funds. While all 32 owners and management agents in our sample used identity-of-interest companies, 18 created such companies primarily to obscure the abuse and diversion of apartment complex funds. The following is one example of a scheme to divert funds.

- An identity-of-interest reinsurance company skimmed almost \$600,000 from 211 RRH apartment complexes primarily by charging excessive premiums. In addition, we uncovered numerous instances where the management agent used operating and reserve funds for repairs instead of making an insurance claim to the identity-of-interest company. In several other instances, the management agent submitted claims, but the identity-of-interest company never paid them or did not pay them in a timely manner.

Apartment complexes we visited where funds were skimmed frequently showed the effects of neglect: We observed leaking roofs, collapsed ceilings, moldy and rotting exterior siding and trim, unsafe balconies and stairwells, missing gutters and downspouts, unsecured hazardous materials (gasoline, etc.), and dangerous equipment in child playground areas. One complex we visited had interiors so damp and spongy that the tenant alleged that she had suffered permanent lung damage from living there. The serious conditions noted at these apartment complexes were often indicators of program abuse. However, the reader should not extrapolate these results to the program nationwide, as we focused on certain apartment complexes for review.



Rotting exterior siding



Severely damaged roof

WHERE DO WE GO FROM HERE

The cooperative nature of this Initiative provided OIG and RHS with a unique opportunity to discuss program weaknesses and devise possible corrective actions during the evaluation process. In addition to further investigation of some owners and management agents and the initiation of administrative action against others having compliance problems, RHS took immediate action in some instances, and is continuing to take action in others, to correct the health and safety hazards and physical deterioration identified at apartment complexes. Many of the apartment complexes have been reinspected to determine the full extent of damage, and RHS has required its State offices to continuously report on the status of corrective actions.

RHS has shown its commitment to the elimination of program fraud through the planned implementation of regulatory reforms and administrative controls. One specific action is the reinvention of RRH Program regulations which are to be published as a proposed rule in November 1999. Some examples of RHS' actions to combat fraud, waste, and abuse included in the proposed rule are:

- Perform yearly physical inspections of all RRH apartment complexes.
- Develop and implement quality standards for RRH apartment complexes.
- Coordinate with State and local authorities concerning health and safety hazards and seriously deferred maintenance.
- Require owners to certify, under penalties of law, to the accuracy of financial data submitted to RHS.

- Focus independent audit requirements to emphasize high-risk areas.
- Revise regulatory citations to require the approval of identity-of-interest companies by RHS.
- Develop regulatory citations prohibiting specific charges to RRH apartment complexes.

RHS' commitment to fight fraud and abuse will not end with the issuance of this report. The agency will build on the lessons learned in this review and develop multi-State review teams to identify and address high-risk owners and management agents. This continuing process will be supported by modifications to the Multi-Family Housing Information System that will enable review teams to zero in on those most likely to abuse the program.

OIG will assist RHS in its future endeavors through forensic audit techniques and the investigation of criminal activity. OIG and RHS are also planning to seek legislation to enact civil penalty provisions where program funds are improperly withdrawn from RRH accounts.

TABLE OF CONTENTS

EXECUTIVE SUMMARY	i
<hr/>	
WHY AN INITIATIVE	1
RRH PROGRAM REQUIREMENTS	2
WHERE OUR WORK WAS PERFORMED	4
HOW WE DID OUR WORK	5
<hr/>	
ISSUE AREAS	6
I. OUR HIGH-RISK PROFILE EFFECTIVELY IDENTIFIED PROGRAM ABUSE	6
PHYSICAL DETERIORATION WAS AN INDICATOR OF PROGRAM ABUSE	7
OWNERS AND MANAGEMENT AGENTS MISUSED RRH FUNDS	13
IDENTITY-OF-INTEREST COMPANIES INCREASE THE RISK OF ABUSE	17
II. ABUSIVE OWNERS AND MANAGEMENT AGENTS WILL BE PROSECUTED	21
INVESTIGATIONS ARE ONGOING	21
SOME ABUSE IS DIFFICULT TO PROSECUTE	22
III. RHS PLANS TO MODIFY ITS MULTI-FAMILY HOUSING INFORMATION SYSTEM TO IDENTIFY HIGH-RISK OWNERS AND MANAGEMENT AGENTS	24

TABLE OF CONTENTS

EXHIBITS

A - SITE VISIT RESULTS BY STATE	26
B - PHOTOGRAPHS OF HEALTH AND SAFETY HAZARDS AND PHYSICAL DETERIORATION	27

WHY AN INITIATIVE

The Office of Inspector General (OIG) and the Rural Housing Service (RHS) initiated this joint effort because of continuing concerns about fraud, waste, and abuse in the Rural Rental Housing (RRH) Program. Over the past few years, OIG has performed numerous audits and investigations, many at the request of RHS, of owners and management agents that have misused funds and neglected the physical condition of RRH apartment complexes. In February 1996, OIG reported that since fiscal year 1990, it had conducted 84 audits that uncovered almost \$97 million in misused funds and had conducted 85 criminal investigations. Unfortunately, because of regulatory and legislative weaknesses, many of those audits and investigations did not result in criminal convictions and civil or administrative action even though there had been serious program abuse.

In 1996, OIG and RHS set out to determine the reasons for the difficulty in prosecuting and removing obviously unscrupulous participants from the program. This resulted in legislative changes enacted to strengthen the program. This legislation is commonly known as the "equity skimming" statutes. It has provided OIG and RHS with a new weapon to curb program fraud and substandard living conditions. In consideration of these events, the Inspector General and the Under Secretary for Rural Development undertook this Initiative to curb program abuse and provide a roadmap for future efforts to ensure integrity in the RRH Program.

RRH PROGRAM REQUIREMENTS

The RRH Program was established to provide decent, safe, sanitary, and affordable rental housing to low and moderate income persons living in rural areas. RHS administers the RRH Program through its national office in Washington, D.C., and 47 Rural Development State offices.

As of December 31, 1998, there were nearly 18,000 RRH apartment complexes with approximately 447,000 individual units. They ranged in size from 2 units to 225 units. RRH apartment complexes average 25 units in size. An estimated 700,000 tenants reside in RRH apartment complexes. RHS' loan portfolio totals nearly \$12 billion, and it provided subsidies of almost \$1.3 billion (\$533 million in rental assistance and \$733 million in interest credit) in fiscal year 1998 to reduce rents to affordable levels for low-income tenants. The average rents before rental assistance range from \$200 to \$595 per unit.

RHS loan agreements with owners include restrictions on the use of program funds and stipulations pertaining to the physical condition in which apartment complexes must be maintained. RHS also provides regulatory guidance regarding the requirements for managing and operating apartment complexes, as well as allowable operating expenses. RHS requires owners to report budgeted amounts for the upcoming year and actual operating and maintenance expenses for each RRH apartment complex on Form RD 1930-7, "Multi-Family Housing Budget." (See figure 1.) RHS also provides guidance for completing the form and gives examples of allowable costs that can be charged to these apartment complexes. RHS servicing offices review and approve these financial reports annually and perform inspections of the apartment complexes on a triennial basis to ensure compliance with program requirements.

PART II - OPERATING AND MAINTENANCE EXPENSE SCHEDULE				
	CURRENT BUDGET	ACTUAL	PROPOSED BUDGET	COMMENTS or (YTD)
1. MAINTENANCE & REPAIRS PAYROLL				
2. MAINTENANCE & REPAIRS SUPPLY				
3. MAINTENANCE & REPAIRS CONTRACT				
4. PAINTING AND DECORATING				
5. SNOW REMOVAL				
6. ELEVATOR MAINTENANCE/CONTRACT				
7. GROUNDS				
8. SERVICES				
9. FURNITURE & FURNISHING REPLACEMENT				
10. OTHER OPERATING EXPENSES				
11. SUB-TOTAL MAINT. & OPERATING (1 thru 10)				
12. ELECTRICITY				
13. WATER				
14. SEWER				
15. FUEL (Oil/Coal/Gas)				
16. GARBAGE & TRASH REMOVAL				
17. OTHER UTILITIES				
18. SUB-TOTAL UTILITIES (12 thru 17)				
19. SITE MANAGEMENT PAYROLL				
20. MANAGEMENT FEE				
21. PROJECT AUDITING EXPENSE				
22. PROJECT BOOKKEEPING/ACCOUNTING				
23. LEGAL EXPENSES				
24. ADVERTISING				
25. TELEPHONE & ANSWERING SERVICE				
26. OFFICE SUPPLIES				
27. OFFICE FURNITURE & EQUIPMENT				
28. TRAINING EXPENSE				
29. HEALTH INS. & OTHER EMP. BENEFITS				
30. PAYROLL TAXES				
31. WORKMAN'S COMPENSATION				
32. OTHER ADMINISTRATIVE EXPENSES				
33. SUB-TOTAL ADMINISTRATIVE (19 thru 32)				
34. REAL ESTATE TAXES				
35. SPECIAL ASSESSMENTS				
36. OTHER TAXES, LICENSES & PERMITS				
37. PROPERTY & LIABILITY INSURANCE				
38. FIDELITY COVERAGE INSURANCE				
39. OTHER INSURANCE				
40. SUB-TOTAL TAXES & INSURANCE (34 thru 39)				
41. TOTAL O&M EXPENSES (11+18+33+40)				

Figure 1

A key control over apartment complexes with 25 or more units to ensure the propriety of financial operations is an independent audit performed by a licensed or certified public accountant. In 1998, RHS estimates that independent audits were performed for 10,000 RRH apartment complexes. RHS relies on these audits to provide assurance that information presented in the financial statements is accurate and that owners are in compliance with applicable laws and program regulations.

Owners may contract with agents to manage apartment complexes or they may manage the apartment complexes themselves. Frequently, owners use companies in which they have a related party (identity-of-interest) relationship to manage their properties. An identity-of-interest relationship occurs when one party (an owner or management agent in this case) has the ability to influence significantly the policies of another party. Generally, in the RRH Program, this occurs when an owner or management agent owns a company that provides services to apartment complexes participating in the program. Transactions involving identity-of-interest companies cannot be presumed to be carried out on an arm's length basis because the requisite conditions of competitive, free-market dealing may not exist.

Owners and management agents are responsible for complying with all applicable laws, regulations, and loan agreements of the RRH Program. RHS estimates that RRH apartment complexes pay approximately \$161 million in authorized management fees each year. Management fees are reported on line 20 of form RD 1930-7.

Agency regulations provide owners with an annual return on their initial investment, usually capped at 8 percent of an owner's equity contribution, once the apartment complex is operational. In 1986, Congress created the low-income housing tax credit to provide incentives for private investment at a time when many other tax benefits for real estate development, such as accelerated depreciation, were eliminated. The Federal credits are allocated by State tax agencies annually for 10 years and benefit the owners by offsetting their tax liability.

WHERE OUR WORK WAS PERFORMED

We visited 637 RRH apartment complexes in 17 States to observe and document the physical condition of properties and to substantiate reported maintenance and repair charges reported by owners and management agents. We concentrated on the owners and management agents that appeared to be of the highest risk. Therefore, some apartment complexes visited, and the owners and management agents that operated them, were not included in the financial record review.

Based on the results of our physical inspections, we selected the 32 owners and management agents for a more detailed examination of financial transactions. (See figure 2.) We then reviewed in detail the financial records of a total of 794 RRH apartment complexes operated by these 32 owners and management agents. The period of our review initially included calendar years 1996 and 1997. However, we included additional periods when we identified misused funds or when we suspected that significant abuse had occurred in earlier periods.

The owners of the apartment complexes included in our review reported over \$13 million in operating expenses in calendar years 1996 and 1997. RHS provided over \$10 million in rental assistance and interest credit subsidies to these apartment complexes during the 2-year period. These owners and management agents operated a total of 1,275 RRH apartment complexes nationwide.

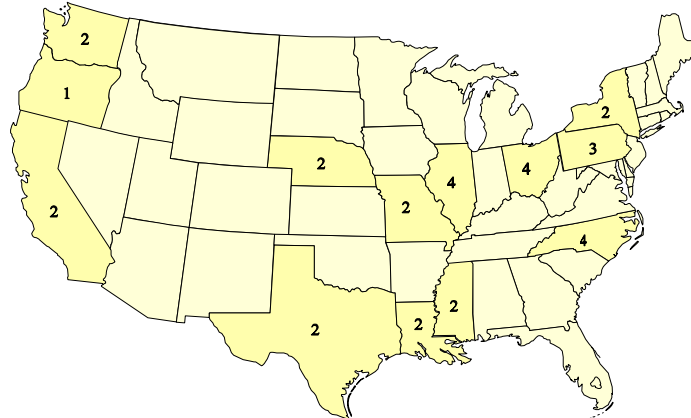


Figure 2

Review work was primarily conducted between March and October 1998. However, work is continuing for those owners and management agents under investigation. OIG and RHS initially selected 12 States with large RRH loan portfolios for the Initiative. An additional State was added at the request of RHS and four other States were visited to confirm conditions identified during the financial reviews.

HOW WE DID OUR WORK

RHS and OIG planned this Initiative to identify high-risk owners and management agents that were suspected of abusing the RRH Program. The owners and management agents were selected based on a high-risk profile developed jointly and on specific recommendations made by State offices. Our high-risk profile included criteria such as the use of identity-of-interest companies, and high operating and maintenance expenses as indicators of potential abuse.

Once high-risk owners and management agents were identified, teams consisting of OIG and RHS staff performed inspections and photographed the physical conditions of RRH apartment complexes. The teams used their observations of the physical conditions, along with the high-risk profile, to select two owners and management agents in each State. Thus, we initially visited 24 owners and management agents for more detailed review. We subsequently selected eight additional owners and management agents. Since our selections were made based on a profile intended to identify those more likely to abuse the program, the proportion of abuse identified during our review is not indicative of the rate of abuse in the overall RRH Program.

The teams selected two apartment complexes for each owner and management agent for in-depth financial record reviews. The apartment complexes were selected based on physical condition, size, and other criteria used in our high-risk profile. Our financial record reviews consisted of an examination of owner or management agent accounting records such as general ledgers, invoices, receipts, canceled checks, and other supporting source documents.

When necessary, we confirmed transactions with independent vendors to determine the propriety of expenses reported to RHS. When we expanded our scope to include other apartment complexes under the same management, we reviewed transactions from areas where deficiencies had been identified during our review of the initial apartment complexes.

We confirmed bank account balances when necessary and verified that withdrawals were approved by RHS. We made additional visits to apartment complexes to verify that repairs had been made for reported maintenance expenses. We also interviewed owners, management agent personnel, and apartment complex tenants to verify reported costs.

We presented the results of our reviews to the applicable Rural Development State offices in the form of evaluation reports. When appropriate, the reports recommended recovery of overclaimed amounts, restrictions on the use of identity-of-interest companies, or additional servicing actions. When significant abuse was uncovered, the owner or management agent was referred for criminal investigation. We conducted the evaluation in accordance with Quality Standards for Inspections issued in March 1993 by the President's Council on Integrity and Efficiency.

ISSUE AREAS

I. OUR HIGH-RISK PROFILE EFFECTIVELY IDENTIFIED PROGRAM ABUSE

Our joint effort identified fraud, waste, and abuse of RRH Program funds by selected owners and management agents. Our financial record reviews of 553 apartment complexes uncovered over \$4.2 million in misused funds by 18 owners and management agents. Due to the egregious nature of this abuse, we referred 16 of these owners and management agents for criminal investigation; 10 cases are currently under investigation. (When the investigations are completed, the extent of abuse may be greater than the \$4.2 million.) Since the 32 owners and management agents were identified based on specific risk factors, the results of our review are not indicative of the extent of abuse in the RRH Program.

Owners and management agents had also allowed the physical condition of apartment complexes to deteriorate, in some cases to the point where health and safety hazards existed for the tenants. Teams consisting of OIG and RHS representatives inspected 637 apartment complexes and determined that 145 had serious deterioration. Another 215 needed repairs of some sort. The teams also identified 50 apartment complexes with health and safety hazards.

The misuse of funds jeopardizes the integrity of the RRH Program in several ways. First, sufficient funds are not always available to repair physical deterioration of apartment complexes. As a result, tenants may be living in housing that is not maintained or repaired in a timely manner which, if left unchecked, could result in housing with health and safety deficiencies. The deterioration, if unabated, also threatens the Government's security interests in the properties. Misuse may also burden low-income and elderly tenants with higher rents. Finally, it increases the Government's rental assistance subsidy costs.

**PHYSICAL DETERIORATION WAS
AN INDICATOR OF PROGRAM
ABUSE**

ISSUE NO. 1

deterioration, (3) minor deterioration, and (4) no physical deterioration. The apartment complexes falling into the first two categories, and some in the third category, had conditions that warranted immediate attention to prevent further deterioration or to remove a threat to the health and safety of tenants.

RHS regulations and loan agreements require owners to maintain RRH apartment complexes in a manner that provides decent, safe, and sanitary housing for tenants, and protects the Government's security value. Further, management agreements for each apartment complex generally state that owners and management agents are required to maintain and repair apartment complexes in accordance with local codes.

RHS also requires owners to accumulate and retain funds in reserve accounts to meet the major capital expenditures of RRH apartment complexes.¹ However, our review of the financial records of deteriorated apartment complexes noted that reserve account balances were generally very low, not sufficient to make the repairs needed at most of the apartment complexes.

HEALTH AND SAFETY HAZARDS

The teams observed conditions at 50 apartment complexes that, in their opinion, posed an immediate danger to the health and safety of tenants. Most of the conditions should have been identified and corrected by owners and management agents during routine visits to apartment complexes. In some instances, tenants or RHS field staff had previously reported the conditions to owners and management agents. The health and safety issues included conditions such as rotted stairwells and balconies, broken playground equipment, fire ants, dangerous water drainage areas, and hazardous materials that were accessible by children. Some of these conditions, such as the fire ants and hazardous materials, could easily be corrected.

A significant number of our safety concerns were caused by the physical deterioration of apartment complexes. For example, the supporting structure

¹ RD Instruction 1930-C, Exhibit B, Section XIII.B.2.c., dated August 30, 1993.

of several second floor balconies at one apartment complex had deteriorated to the point where they appeared to be on the verge of collapsing. Remarkably, neither the owner nor its identity-of-interest management agent had taken action to repair the balconies or restrict tenants' access to them.



Balcony on the verge of collapse

The metal framed floor landings at a second apartment complex were badly rusted, exposing the enclosed concrete on the underside. A further danger to tenants were the landings' railings that were secured only at their base, which were also rusting. Other examples of safety concerns caused by physical deterioration include: rusted and rotted stairs, loose guard rails on balconies and broken and cracked concrete stoops. One staircase was so rusted, team members could see through the steps.



Severely rusted stairs

At a third complex, tenants complained of severe mold in their apartments. One tenant stated that water from a spring was running under the apartment complex causing the moisture problem. This tenant alleged that she had permanent lung damage as a result of the mold problem. She had subsequently moved to another unit to avoid the mold. We observed mold on the outside of several units, but were unable to gain access to interiors because the tenants were not home. We also observed water coming from the joint between the concrete walkway and the asphalt driveway in front of these units. The reserve account balance for this apartment complex was far too low to make needed repairs.

The teams observed conditions that were especially dangerous for children such as numerous instances of exposed electrical wiring on the exteriors of apartment complexes, dilapidated playground equipment and play areas, and abandoned appliances. (See photographs nos. 2 through 4 in exhibit B.) At one apartment complex, the team observed a water-filled drainage area that was adjacent to a playground area and that appeared deep and contained debris, including children's toys. While we were inspecting the area, a young child walked past us along the edge of the pond.



Debris-filled water drainage area



Child dangerously close to water drainage area

The teams observed several instances where hazardous materials were left unattended on apartment complex grounds. At one complex, a team observed containers holding gasoline, kerosine, and antifreeze within a few feet of apartment units and a children's playground. These hazardous materials were easily accessible to children living in the apartment complex. In fact, we observed children playing in these areas. At another apartment complex, a broken storage building door allowed access to paint and gasoline. (See photographs nos. 5 and 6 in exhibit B.)

SERIOUS DETERIORATION

The teams identified conditions that they classified as serious at 145 apartment complexes. To be classified as serious, a condition generally had to involve physical deterioration that threatened an apartment complex's structure, or part of its structure. However, in some instances, teams concluded that conditions were serious because the deterioration was extensive and the estimated cost to repair the apartment complex was high.

Some of the serious conditions that affected tenant living conditions and threatened the value of the Government's collateral included: (1) Deteriorated and leaking roofs; (2) water damage to the ceilings of apartment units; (3) worn, moldy, and rotted exterior siding and trim; (4) missing, dented, or moldy aluminum or vinyl siding; (5) cracks in foundations; (6) cracked and broken bricks; (7) broken gutters and downspouts; and (8) significant deterioration of parking lots. (See photographs nos. 7 through 10 in exhibit B for examples of typical serious conditions at apartment complexes.)

In many instances, the teams identified exterior siding damage so severe that the siding throughout the entire apartment complex would have to be replaced. They also identified roof deterioration that threatened the structural integrity of the apartment complex.

The exterior siding of many apartment complexes needed paint or stain. Based on our observations, this appeared to be the primary reason that so many apartment complexes had siding that was rotted and in need of replacement. The teams also observed roof deterioration at a significant number of apartment complexes. The deterioration ranged from worn and missing shingles to uneven roof decks. One roof had so much moss growing on it, that we could not see the shingles in some areas. In the cases of uneven roof decks, the teams were unable to determine if there was structural damage to the building. However, in some instances, they did observe water damage to the ceilings of apartment units.

The conditions at some apartment complexes were so bad that some units were uninhabitable. For example, a leaky roof led to the ceiling collapsing in several units of one apartment complex. When we entered these units, we observed insulation and other debris on the floor and black mold on the carpeting. (See photographs on next page.) We pulled the carpeting back in some areas and also found mold on the floor. Incredibly, some units in this apartment complex were still occupied. When we entered these units, we observed mold on the carpeting, just as we had in the unoccupied units. The reserve account balance for this apartment complex was insufficient to repair the deterioration. If the management agent had not misused apartment complex funds, additional money may have been available to improve tenant living conditions.



Insulation and debris on apartment floor from collapsed ceiling (due to leaking roof)



Moldy carpeting in apartment unit

CONDITIONS WARRANTING MINOR REPAIRS

The teams noted that minor repairs were needed at 215 apartment complexes. The conditions needing only minor repairs were similar to the conditions cited as serious, except that they were less extensive. The teams determined that the deterioration and the estimated cost to repair it was not material. While these conditions were currently only minor in nature, if left uncorrected, they could become serious maintenance problems.

Some of the common types of minor repairs included: (1) Wood trim and siding that needed to be painted, (2) missing or broken shutters and windows, (3) broken gutters and downspouts, (4) dented or missing aluminum and vinyl siding, and (5) cracked sidewalks and driveways.

We believe that the abuses disclosed in Issues Nos. 2 through 5 contributed to the deterioration reported in this issue. Some owners and management agents in our review misused reserve funds, charged unallowable and unsupported costs to apartment complexes, and used identity-of-interest companies to derive excessive profits from apartment complexes. These were funds that could have been used to make much needed repairs and maintenance.

ACTIONS TAKEN AND PLANNED TO ENSURE DECENT, SAFE, AND SANITARY HOUSING

RHS is working with the owners and management agents whose apartment complexes had health and safety issues or serious physical deterioration to correct the deficiencies uncovered during the Initiative. Many of the apartment complexes have been reinspected to determine the full extent of damage and the amount of funds necessary to repair the properties. In December 1998, RHS required its State offices to report on the current status of corrective actions and informed them to take appropriate servicing actions. RHS also required that State offices prepare status reports on a quarterly basis for these apartment complexes.

To prevent this type of problem from occurring in the future, RHS plans to inspect every apartment complex on an annual basis rather than every 3 years as is currently required. Further, inspections will be performed in accordance with new quality standards currently being developed by RHS. The inspections would be made before approval of the annual budget for an apartment complex. RHS is also developing guidelines for coordinating with State and local authorities responsible for monitoring buildings with health and safety violations or serious physical deterioration. RHS' goal is to publish a proposed rule by November 1999, to implement these provisions.

OWNERS AND MANAGEMENT AGENTS MISUSED RRH FUNDS

ISSUE NO. 2

We identified 18 owners and management agents that charged over \$3 million in unallowable and unsupported costs to RRH apartment complexes. RHS officials have committed to taking necessary actions to address these issues. Charges were for duplicate costs; costs that were either specifically prohibited by program regulations, or while not specifically prohibited by regulations, clearly did not benefit RRH apartment complexes; or were unsupported by invoices, receipts, canceled checks or other supporting documentation. The owners and management agents skimmed another \$1.2 million by diverting apartment complex income or withdrawing funds from reserve and tenant security deposit accounts without approval and for unauthorized purposes. We referred 16 owners and management agents for criminal investigation; 10 cases are currently under investigation.

The duplicate management agent expenses were for overhead costs such as postage, office supplies and equipment, and employee salaries. Other unallowable charges included improper markups added to actual costs incurred, inflated maintenance and repair costs or related costs that were never incurred by the owner or management agent, costs related to

non-RRH apartment complexes and other personal expenses, and unauthorized loans. The owners and management agents used identity-of-interest companies to perpetrate much of the abuse (see Issue No. 3).

RHS regulations state that apartment complex disbursements must be made for actual, reasonable, and necessary expenses.² To determine the propriety of costs charged on forms RD 1930-7, we examined the management plans and agreements for each apartment complex and traced expenditures to supporting documents such as accounting ledgers, bank statements, canceled checks, invoices, receipts, and labor time records.

Owners and management agents improperly charged costs to various categories on form RD 1930-7. The following examples illustrate some of the abuse uncovered by our Initiative:

- A management agent made unauthorized withdrawals totaling over \$381,000 from the reserve accounts of five apartment complexes and almost \$55,000 from the operating accounts of two apartment complexes. Management agent officials acknowledged that they used these funds for expenses not related to the apartment complexes.
- A management agent charged almost \$168,000 in unallowable and unsupported costs to 21 apartment complexes. Of this amount, \$87,000 was derived from inflated maintenance costs. The management agent charged between \$14 and \$60 per hour for maintenance work even though its actual costs were between \$9 and \$14 per hour.

It also charged inflated fees on numerous occasions for traveling to apartment complexes to perform maintenance. For example, it charged \$90 for two visits to an apartment complex on the same day. However, because the employee labor was paid separately by the apartment complex, the only incremental cost to the management agent was \$3.36 paid to the employee for mileage (\$.28 per mile). Payment of \$90 for travel costing \$3.36 is clearly abusive. In another instance, the management agent charged \$30 for an employee to travel to an apartment complex to change a single light bulb. (The only incremental cost was \$5.04 for mileage.)

We also noted 53 instances where the management agent charged fees ranging from \$30 and \$60 to each apartment complex visited

² RD Instruction 1930-C, Exhibit B, Section XIII.B.2.a(3), dated August 30, 1993.

during a single trip even though the apartment complexes were adjacent to each other. The amount reimbursed to employees for mileage was the same as it would have been for visiting one apartment complex, but the management agent benefitted by charging a fee to both apartment complexes.

- A management agent charged about \$147,000 in unallowable costs to 59 apartment complexes. This included almost \$60,000 in auditing fees above the actual amount billed by an independent public accounting firm, over \$47,000 for questionable tax return preparation costs, and almost \$40,000 in unallowable photocopying charges.
- A management agent charged over \$75,000 in unallowable consulting fees for lobbying efforts to secure equity and preservation loans for RRH apartment complexes.

A common area of abuse occurred when management agents charged management related costs to RRH apartment complexes. This resulted in double charging expenditures--once through the management fee and again as a direct charge to the apartment complex.

Management agents, including owners acting as managers, receive remuneration from the apartment complexes they manage for performance of administrative duties and related operating costs. The administrative duties and the manager's related compensation are set forth in written management agreements that must be approved by RHS. Typically, management agreements require agents to perform functions such as bookkeeping (including bill payment), preparation of leases, verification of tenant income, oversight of apartment complex caretakers, contracting for apartment complex repairs, and arranging for regular maintenance at apartment complexes. Management agents receive, on average, \$30 per unit per month for performing these services.

The charge for management fees is made to line 20 of form RD 1930-7. (See figure 1 on page 2.) Claiming these costs on other line items, such as the "Other Administrative Expenses" and "Office Supplies" categories, results in duplicate charges to RRH apartment complexes. Figure 3 below presents the types of management-related expenses we identified in our review that were improperly charged to apartment complexes, as a duplication of expenses reimbursed through the management fee.

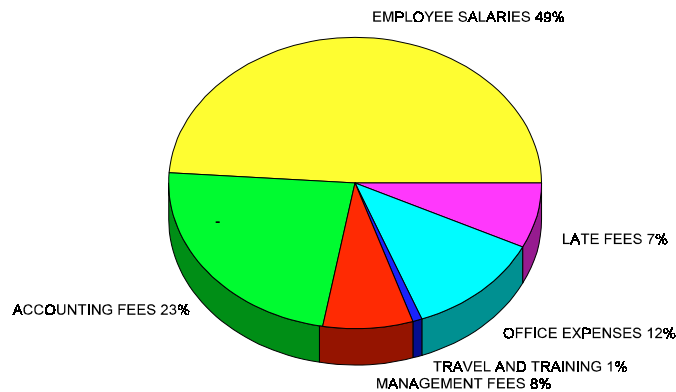


Figure 3

The following examples illustrate the scope of duplicate charging we uncovered during our review.

- A management agent skimmed over \$630,000 by charging unallowable management-related costs to 70 apartment complexes. These charges were duplicate costs because they were the responsibility of the management agent and paid through the management fee. Most of the charges, about \$463,000, were for the salaries and workers compensation insurance for management agent employees, and bookkeeping costs.

The management agent improperly charged about \$80,000 in bank overdraft fees to apartment complexes. Maintaining accounts, which includes ensuring that sufficient funds are available in accounts before writing checks, is a management duty that is compensated through the management fee. Since the management agent was negligent in performing its duties, payment of the overdraft fees was its responsibility. The fees should not have been charged to the apartment complexes.

The management agent also overbilled management fees of about \$87,000 to apartment complexes. RHS had approved a \$35 per unit charge for management fees; however, the management agent actually charged \$40 per unit to many apartment complexes.

- A management agent improperly charged almost \$82,000 in unallowable and duplicate operating costs to eight apartment complexes. These charges were for costs such as postage, mileage

for management employee visits to apartment complexes, and bookkeeping. The management agent charged payroll tax expenses for management employees that it did not incur. It also failed to disclose an identity-of-interest maintenance company and did not have documentation to support some charges made by that company.

- A management agent charged over \$98,000 in unallowable costs to two apartment complexes. The unallowable costs were for labor charges, costs for supplies for non-RRH apartment complexes, late fees, and expenses that were the responsibility of the management agent.

RHS' EFFORTS TO CURB ABUSE

RHS is seeking recovery of overclaimed amounts, when appropriate, from owners and management agents who misused program funds. RHS is also developing multi-State review teams that will identify high-risk owners and management agents. The review teams will use criteria similar to that used during the Initiative, such as deteriorated apartment complexes and identity-of-interest companies, to select the high-risk owners and management agents. RHS plans to develop a review guide that focuses on high-risk transactions and will require a complete review of all owners and management agents every 3 years.

RHS and OIG are jointly revising the guide used by independent public accountants during annual audits of apartment complexes. The guide will require the use of agreed-upon procedures in future engagements to focus on high-risk transactions and increase the likelihood of detecting financial abuse.

IDENTITY-OF-INTEREST COMPANIES INCREASE THE RISK OF ABUSE

ISSUE NO. 3

accounts. This amount represented most of the improper charges uncovered during our reviews.

Each of the 32 owners and management agents selected for financial record reviews used identity-of-interest companies to provide services or supplies to apartment complexes. Our review disclosed that 18 of these improperly withdrew over \$4.2 million from apartment complex

The use of identity-of-interest companies is commonplace in the RRH Program and in the multi-family housing industry and may create opportunities for abuse that are difficult to detect. Both OIG and RHS have

identified instances of abuse by owners and management agents using identity-of-interest companies to provide services and supplies to apartment complexes.

RHS regulations require owners and management agents to disclose the use of identity-of-interest companies.³ However, the teams discovered that five owners and management agents had not disclosed identity-of-interest relationships to RHS. If RHS is not aware of the relationships, the possibility of abusive activity is further increased.

Transactions involving identity-of-interest companies are especially vulnerable to abuse because owners and management agents originate transactions and then approve them for payment by the apartment complex; there is no independent monitoring, approval of the payments, or other compensating control to provide any assurance of propriety. Consequently, owners and management agents can create fictitious work for identity-of-interest companies, such as maintenance or repairs, to increase profits.

Some identity-of-interest transactions have enabled owners and management agents to easily generate unearned and unreasonable profits from apartment complexes. The Initiative uncovered several schemes. Some were unique and elaborate, such as the awarding of service contracts through dubious bidding practices and diverting apartment complex income. Others were more common, such as the improper markups of services, supplies, and materials. In these instances, owners and management agents purchased goods through the identity-of-interest companies and then charged the apartment complexes for the product plus an additional fee, or markup.

Some owners and management agents also obtained excessive profits through identity-of-interest companies that provided services to apartment complexes. Some charged excessive labor rates and payroll tax expenses that were not incurred for repairs and maintenance. The services were usually provided only for the owners and management agents' apartment complexes. These companies typically do not do business with the general public. The following examples illustrate some of the abuses identified during our Initiative:

- One management agent skimmed over \$596,000 from 211 RRH apartment complexes through an identity-of-interest reinsurance company⁴ chartered in Bermuda. The team determined that the 211

³ RD Instruction 1930-C, Exhibit B, Section V.B., dated March 16, 1994.

⁴ Reinsurance is the assumption by an insurer of all or part of risk undertaken originally by another insurance carrier.

apartment complexes were paying 25 to 115 percent more in insurance premiums than those operated by other management agents in comparable geographic areas. Some of the apartment complexes did not have sufficient funds to pay these premiums. Consequently, the management agent arranged for high interest outside financing, costing about \$10,500 annually, to pay the premiums for 55 apartment complexes. The financing was not approved by RHS and violated RHS regulations.

The teams also identified numerous instances where the management agent did not file insurance claims with the identity-of-interest company for damage that was covered in apartment complexes' policies. Instead, the management agent used operating and reserve account funds to make the repairs. In effect, the cost of damages was paid for twice - once through the inflated insurance policy and again as a direct maintenance expense. This reduced the identity-of-interest company's costs and increased its profits. In other instances, the management agent submitted claims, but the identity-of-interest company never paid them or did not pay them in a timely manner. As a result, damage to apartment complexes went unrepaired for long periods of time. This reduced the quality of tenant housing and the value of the Government's collateral.

- A management company used an identity-of-interest maintenance company in a scheme to divert over \$135,000 in RRH funds. Over a 2-year period, the identity-of-interest company deposited checks payable to various subcontractors into its own bank account and either reissued checks to the subcontractors for a lesser amount or retained the total amount of the checks.

The identity-of-interest company also charged \$1.43 per square foot to install floor tile totaling about \$38,500. An official from a local store estimated that they could have done the same work for \$0.60 per square foot, or about \$17,000. Also, an invoice for tile installation services (at another apartment complex included in our review) performed by this same store showed a rate of \$0.60 per square foot charged for labor. Based on this comparison, we determined that the identity-of-interest company charged the apartment complex an excessive rate for tile installation services amounting to over \$21,000.

- A former partner and a former employee of one management agent diverted over \$175,000 from apartment complex accounts by creating fictitious invoices for an identity-of-interest maintenance company. The company never performed the work.

- An owner used an identity-of-interest company to skim over \$77,000 in laundry revenue from its apartment complexes. The collection of laundry revenue and the repair of laundry equipment was performed by an independent company that received 40 percent of all laundry revenue. The independent company remitted 40 percent of the laundry revenue to the apartment complex and 20 percent directly to the identity-of-interest company. The identity-of-interest company did not provide any laundry service for these fees.

MONITORING THE USE OF IDENTITY-OF-INTEREST COMPANIES

As illustrated in the above examples, there is an inherent risk of abuse by allowing identity-of-interest companies to provide services and supplies to RRH apartment complexes. OIG's history of audits in this area has shown the difficulty of identifying abuse by identity-of-interest firms through routine control procedures. In fact, it took our detailed transaction-type reviews to uncover abuse by identity-of-interest companies. However, RHS plans to implement measures that they believe will reduce the risk of abuse by identity-of-interest companies and increase the ability to prosecute those who skim funds from apartment complexes.

First, RHS will require owners to certify, under penalties of law, to the accuracy of financial information they report. RHS will also seek legislation to enact civil penalty provisions where program funds are improperly used.

RHS will also require that identity-of-interest companies be approved by RHS to provide goods or services to apartment complexes. To obtain approval, these companies must: Provide a list of charges for specific transactions and include cost comparisons with independent parties; supply RHS with copies of contracts with the apartment complexes to which it will provide services or supplies; and agree to special audit requirements for all apartment complexes in which they do business as an identity-of-interest company and for the identity-of-interest companies themselves.

RHS plans to require that owners and management agents provide access to records for identity-of-interest companies. RHS will review these records and identity-of-interest companies' bookkeeping systems to ensure compliance with loan agreements and regulatory requirements. The agency will also perform cost comparisons of identity-of-interest charges with comparable businesses to evaluate the reasonableness of identity-of-interest charges. Finally, RHS will require competitive bidding for all purchases or repairs which cost over \$5,000.

II. ABUSIVE OWNERS AND MANAGEMENT AGENTS WILL BE PROSECUTED

The primary objective of our Initiative was to use the new "equity skimming" statute to criminally prosecute owners and management agents that misused program funds. This statute, enacted in 1997, specified that whoever willfully used any part of project rents, assets, or other funds for unauthorized purposes was subject to fines of not more than \$250,000 or imprisonment, or both.⁵ Although we were unable to gain acceptance for criminal prosecution in every instance, we are continuing to pursue civil action in several cases. In some cases, we were unable to seek prosecution because Rural Development State offices had inadvertently authorized unallowable costs and because RHS regulations did not specifically prohibit some activities or charges as unallowable.

INVESTIGATIONS ARE ONGOING

ISSUE NO. 4

Ten cases have been opened for criminal investigation. Those cases were discussed in Issue Nos. 2 and 3. For two other owners and management agents, the misuse of funds was serious enough that the U.S. Attorney has accepted them for prosecution using civil statutes.

In one case, a management agent purchased a small fraction (.01 percent) of a general partnership interest in five apartment complexes for a cost of over \$106,000. In return, the management agent was given the right to manage the properties. The review team concluded that this was merely a means to "kickback" a portion of the management fees to the owners because the purchase price was notably larger than the value of the .01 percent ownership share, which we valued at \$475.

In the other case, a management agent charged nine apartment complexes almost \$184,000 for costs that should have been paid from the management fees and markups on labor costs, vehicle rental costs, and other costs associated with maintaining the apartment complexes.

⁵ 42 U.S.C. 1485, dated January 6, 1997.

SOME ABUSE IS DIFFICULT TO PROSECUTE

ISSUE NO. 5

Other cases that appeared to be especially abusive, nonetheless, were declined for criminal prosecution because Rural Development State offices had inadvertently approved some costs and because RHS' regulations did not specifically prohibit the activities or identify the charges as unallowable.

The following is one example of the activities that U.S. Attorney offices did not believe warranted criminal prosecution.

- An owner improperly withdrew almost \$325,000 from five apartment complexes' reserve, operating, and tenant security deposit accounts to pay for personal expenses such as the purchase of a house. The owner charged other unallowable costs related to the house including mortgage payments, real estate taxes, and insurance premiums. Despite the apparent flagrancy of these charges, we were unsuccessful in pursuing criminal prosecution because most of the funds were returned prior to and during our review. Thus, the U.S. Attorney office did not wish to pursue the case for criminal prosecution.

We were also unable to seek prosecution against two management agents that charged over \$42,000 of excessive costs because a State office and an area office inadvertently authorized those charges. In one case, the management agent altered RHS' standard management plan to allow it to charge both the maximum management fee and a flat administrative fee, which exceeded the actual administrative expenses incurred by the apartment complex. In the other case, even though the management agent charged \$35,000 in tax preparation fees for tax returns that were considered to be expenses of the partnerships, we were unable to pursue it for criminal investigation because the State office had issued a memorandum that was misinterpreted as permitting the fees.

RHS PLANS TO MAKE PROSECUTION MORE LIKELY

To promote a greater acceptance of these cases for criminal prosecution in the future, RHS plans to incorporate stricter language into its regulations that will prohibit common unallowable charges and practices, including the unauthorized use of reserve funds, and clearer definitions of unallowable costs, such as those related to tax preparation fees. RHS will also require owners and management agents to certify that management agreements are in compliance with program regulations.

RHS further plans to provide extensive training on these revised regulations and on the approvals of management agreements. The training effort will

include RHS National Office and State office staff, as well as owners, and management agents.

III. RHS PLANS TO MODIFY ITS MULTI-FAMILY HOUSING INFORMATION SYSTEM TO IDENTIFY HIGH-RISK OWNERS AND MANAGEMENT AGENTS

ISSUE NO. 6

RHS was unable to identify high-risk apartment complexes in a timely manner using its database information systems. The identification and selection of high-risk apartment complexes, a crucial aspect of our Initiative, was hindered by the lack of an effective automated system. RHS cited aging computer equipment and inadequate software as the primary reasons why it was unable to obtain the automated data for analysis in a timely manner. RHS plans to update and enhance its system in the future to provide for these capabilities.

During the planning phase of this Initiative, RHS officials suggested that we use their database information systems to identify high-risk apartment complexes. One database, in particular, contained information such as the size and type of apartment complexes, vacancy rates, specific costs incurred by apartment complexes, reserve account activity and balances, and deferred maintenance. The data was exactly the information needed to identify high-risk apartment complexes.

RHS officials believed that our high-risk criteria could be easily matched against its multi-family housing database. However, when we discussed our proposal with RHS' information technology staff, we were informed that the agency had no direct access to the databases. The databases were maintained by individual Rural Development area offices for all apartment complexes within the specific geographic boundary where it had oversight responsibility. Thus, RHS' staff had to write and test a program, and forward it to each State office's system administrator.

The system administrators had to visit each area office to load and run the program, download the information onto disks, and forward the disks back to the agency's staff. The staff would then have to create a database using the files from each area office before preparing the reports we had requested. RHS' information technology staff informed us that this would be a long and arduous process.

We also encountered numerous other problems during this process. One problem involved the quality of information in the area office databases. According to one RHS official, the information may not always be complete, or consistent among area offices.

RHS ACTIONS TO UPGRADE INFORMATION SYSTEMS

RHS is currently updating its management information system. This includes integrating area office data directly into the agency's management information systems. Once accomplished, RHS will have the information readily available to monitor for the misuse of funds and the physical deterioration of apartment complexes. RHS' goal is to begin testing the system modifications by August 1999.

EXHIBIT A - SITE VISIT RESULTS BY STATE

STATE	APARTMENT COMPLEXES WITH HEALTH AND SAFETY DEFICIENCIES	APARTMENT COMPLEXES WITH SERIOUSLY DEFERRED MAINTENANCE	APARTMENT COMPLEXES WITH MINOR MAINTENANCE DEFICIENCIES	NUMBER OF APARTMENT COMPLEXES VISITED
CALIFORNIA	1	10	29	72
COLORADO*	5	6	0	6
IDAHO *	0	0	0	2
ILLINOIS	6	13	26	53
KANSAS *	0	6	2	8
LOUISIANA	0	8	11	36
MISSISSIPPI	3	8	2	19
MISSOURI	0	27	38	87
NEBRASKA	4	18	27	68
NEW YORK	2	2	11	43
NORTH CAROLINA	3	2	14	30
OHIO	9	24	15	72
OKLAHOMA *	0	3	1	6
OREGON	0	0	0	1
PENNSYLVANIA	1	0	1	33
TEXAS	10	9	16	41
WASHINGTON	6	9	22	60
TOTAL	50	145	215	637

**Teams expanded inspections to these States based on concerns noted during their financial record reviews and site inspections in other States.*

EXHIBIT B - PHOTOGRAPHS OF HEALTH AND SAFETY HAZARDS AND PHYSICAL DETERIORATION



*Unlocked cover to water
main pit in Ohio*

Photograph No. 1



*Exposed electrical
wiring in
North Carolina*

Photograph No. 2

EXHIBIT B - PHOTOGRAPHS OF HEALTH AND SAFETY HAZARDS AND PHYSICAL DETERIORATION



*Sunken area covered
with broken
plywood near
play area in Washington*

Photograph No. 3



*Abandoned refrigerator
which posed a threat to
children in Washington*

Photograph No. 4

EXHIBIT B - PHOTOGRAPHS OF HEALTH AND SAFETY HAZARDS AND PHYSICAL DETERIORATION



*Hazardous materials left
unattended near entrance
to apartment units
in Washington*

Photograph No. 5



*Hazardous materials in an
unlocked storage building
in Washington*

Photograph No. 6

EXHIBIT B - PHOTOGRAPHS OF HEALTH AND SAFETY HAZARDS AND PHYSICAL DETERIORATION



*Deteriorated siding
in Missouri*

Photograph No.7



*Hole in siding
(mansard design)
in Illinois*

Photograph No. 8

EXHIBIT B - PHOTOGRAPHS OF HEALTH AND SAFETY HAZARDS AND PHYSICAL DETERIORATION



*Deteriorated
parking lot
in Oklahoma*

Photograph No. 9



*Peeling paint on balcony
in Washington*

Photograph No. 10