West Park Place Condominium, Chicago, IL

Resident Home-Ownership Program

Office of Audit, Region 5
Chicago, IL

Audit Report Number: 2016-CH-1009
September 30, 2016

To: Daniel J. Burke, Director of Multifamily Midwest Region, 5AHMLA

//**signed**//

From: Kelly Anderson, Regional Inspector General for Audit, 5AGA

Subject: The Condominium Association and Management Agent Lacked Adequate Controls Over the Operation of West Park Place Condominium, Chicago, IL

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of HUD's resident home-ownership program grant for West Park Place Condominium.

HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation without a management decision, please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the audit.

The Inspector General Act, Title 5 United States Code, section 8M, requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at http://www.hudoig.gov.

If you have any questions or comments about this report, please do not hesitate to call me at 312-353-7832.

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The Condominium Association and Management Agent Lacked Adequate Controls Over the Operation of West Park Place Condominium, Chicago, IL

Highlights

What We Audited and Why

We audited the U.S. Department of Housing and Urban Development's (HUD) resident home-ownership program grant for West Park Place Condominium (project) based on the results of a risk assessment of multifamily housing programs in Region 5's jurisdiction (States of Illinois, Indiana, Michigan, Minnesota, Ohio, and Wisconsin) and the activities in our fiscal year 2016 annual audit plan. Our objective was to determine whether the West Park Place Condominium Association (Condominium Association) and management agent operated the project in accordance with HUD's requirements and HUD's grant agreement with the West Park Place Resident Association for Preservation (Preservation Association).

What We Found

The Preservation Association did not transfer ownership of the project's units to the Condominium Association as required and still owned eight of the units as of July 2016. The Condominium Association and management agent did not determine the fair market value of units to support (1) that owners did not pay more than the fair market value for their units, (2) that HUD's secured interest in the units was appropriately valued, and (3) the amount of net proceeds that should have been paid to the City's HOME investment trust fund from subsequent unit sales. Further, the Condominium Association and management agent could not provide sufficient documentation to support that (1) the payments to HUD for initial unit sales were accurate, (2) the Condominium Association used its share of the proceeds from initial unit sales in accordance with the grant agreement, and (3) housing was affordable for all members. As a result, the Condominium Association is at risk of having to reimburse HUD nearly $13.9 million in program funds.

What We Recommend

We recommend that the Director of HUD's Multifamily Midwest Region (1) require the Condominium Association to resolve the issues and implement adequate procedures and controls to address the weaknesses cited in this audit report and (2) make a preliminary determination as to whether the Condominium Association is in default of the grant agreement.

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Background and Objective

During the 1960s and 1970s, the U.S. Department of Housing and Urban Development (HUD) financed thousands of housing projects under its Federal Housing Administration (FHA) mortgage insurance programs, including section 236 of the National Housing Act. HUD insured loans for the projects under section 236 for up to 40 years. However, it allowed owners to prepay the FHA-insured mortgage after 20 years and convert the projects to market-rate housing, providing a powerful incentive for owners to prepay the FHA-insured mortgage, particularly if the property had appreciated in value. This early prepayment option along with the expiration of project-based rental assistance contracts resulted in the loss of several hundred thousand affordable housing units. To prevent further loss of affordable housing units, Congress enacted the Low-Income Housing Preservation and Resident Homeownership Act in 1990. The Act imposed a general prepayment limitation of federally insured mortgages and offered owners fair-market-value incentives to (1) extend low-income affordability standards for the remaining useful life of the projects or (2) transfer the projects to nonprofit organizations, tenant associations, or community-based organizations that would keep the housing units affordable for the remaining useful life of the projects.

In October 1971, HUD insured West Park Place Condominium's (project) mortgage under section 236(j)(1) of the National Housing Act to provide low-cost rental housing. The West Park Place Residents Association for Preservation (Preservation Association), an Illinois nonprofit corporation, was organized in 1992 to ensure that the project remained as quality, affordable housing for low- and moderate-income households. In January 1995, the Preservation Association submitted a resident home-ownership plan for the project to HUD to prevent the owner of the project from prepaying the HUD-insured mortgage and converting the building to market-rate use. In May 1995, HUD awarded the Preservation Association a grant of nearly $14.2 million through its resident home-ownership program under the Low-Income Housing Preservation and Resident Homeownership Act. The Preservation Association was required to use the program funds to acquire and rehabilitate the project's buildings and transfer ownership of the project's units to the West Park Place Condominium Association (Condominium Association), which would then sell the project's units to individual owners through a condominium form of ownership.[1] The Condominium Association was responsible for operating the project in accordance with the Act. The project is a 69-unit multifamily condominium project located in Chicago, IL. As of July 2016, there were 59 units owned by Condominium Association members, 6 rental units, 2 vacant units, 1 unit where the owner of record was deceased, and 1 unit used by the Condominium Association as

[1] Tenants were not required to purchase units in the project. If the tenants did not purchase a unit in the project, they could remain in their unit and were eligible to receive Housing Choice Voucher program housing assistance from the Chicago Housing Authority.

an office and meeting space. HUD disbursed more than $14.1 million of the nearly $14.2 million in program funds from May 1995 through August 1999.[2]

Acorn Property Management, Ltd., has been the management agent for the project since January 2006. The records are at the project's office unit located 1755 North Larrabee Street, Chicago, IL; Acorn's office located at 1819 West Grand Avenue, Chicago, IL; and the Condominium Association's attorney's office located at 440 South LaSalle Street, Chicago, IL.

The Condominium Association was required to remit to HUD 50 percent of the proceeds from initial unit sales.[3] Further, initial owners were required to enter into a 20-year nonrecourse promissory note payable to HUD for the difference between the fair market value and the purchase price of a unit. Upon the sale of an initial owner's unit, the note became due.[4] If a subsequent owner purchased a unit during the 20-year note period for less than the current fair market value of the unit, that owner was required to enter into a note for the amount of the discount for the period remaining on the initial note. Further, owners were required to maintain their units at the project as their principal residence for the initial 15 years of ownership. In addition, the Condominium Association was required to ensure that owners did not pay more than 35 percent of their monthly adjusted gross income toward mortgage payments and assessment fees.

Our objective was to determine whether the Condominium Association and management agent operated the project in accordance with HUD's requirements and the grant agreement with the Preservation Association.

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[2] The project's grant account in HUD's Line of Credit Control System contained a balance of more than $27,000 in undisbursed program funds as of July 2016.

[3] The Condominium Association generally required a downpayment equal to 2 months of the assessment fees and mortgage payments for the purchase of a unit. Further, owners generally entered into 20- to 30-year notes payable to the Preservation Association for the remaining balance due for the unit. The Condominium Association was required to remit to HUD 50 percent of the downpayments and principal portion of the note payments it received.

[4] The amount due was payable to the City's HOME investment trust fund from the sales proceeds after deducting (1) amounts due for the purchase of a unit, (2) other amounts due in connection with the sale of a unit, and (3) the household's equity in a unit at the time of sale. Further, 6 years after the owners entered into the notes with HUD, the amounts payable on the notes were reduced by 1/168th each month until the 20th year, when the notes were to be forgiven.

Results of Audit

Finding: The Condominium Association and Management Agent Did Not Operate the Project in Accordance With HUD's Requirements

The Preservation Association did not transfer ownership of the project's units to the Condominium Association as required and still owned eight of the units as of July 2016. The Condominium Association and management agent did not determine the fair market value of units to support (1) that owners did not pay more than the fair market value for their units, (2) that HUD's secured interest in the units was appropriately valued, and (3) the amount of net proceeds that should have been paid to the City's HOME investment trust fund from subsequent unit sales. Further, the Condominium Association and management agent could not provide sufficient documentation to support that (1) the payments to HUD for initial unit sales were accurate, (2) the Condominium Association used its share of the proceeds from initial unit sales in accordance with the grant agreement, and (3) housing was affordable for all members. In addition, the Condominium Association and management agent did not ensure compliance with other requirements of the grant agreement. These weaknesses occurred because the Condominium Association and management agent lacked adequate procedures and controls to ensure that the project was operated in accordance with HUD's requirements and the grant agreement.[5] As a result, HUD and the Condominium Association lacked assurance that the project was operated in accordance with HUD's requirements and the grant agreement, and the Condominium Association is at risk of having to reimburse HUD nearly $13.9 million in program funds.

Ownership of the Project's Units Was Not Transferred to the Condominium Association

We reviewed the ownership of all 69 of the project's units to determine the owners of the units. Contrary to the grant agreement, the Preservation Association did not transfer ownership of the units to the Condominium Association. The Condominium Association members entered into promissory notes secured by mortgages payable to the Preservation Association for 60 units. Further, as of July 2016, the Preservation Association owned eight of the units, and the Condominium Association owned the remaining unit.[6] The notes to the project's audited financial statements for the fiscal year ended December 31, 2015, stated that the Preservation Association continued to own certain rental units until the units were converted and sold as condominium units. The Condominium Association on behalf of the Preservation Association, collected 100 percent of the rents, paid the expenses of the rental units, and had custody of and control over these funds. However, the audited financial statements did not include the number

[5] See appendix C of this audit report.
[6] As part of a foreclosure process, the Condominium Association was granted ownership of a unit in April 2016.

of or account for the value of the units owned by the Preservation Association. Further, the audited financial statements did not include that one of the units was vacant and another unit was being used as an office and meeting space by the Condominium Association. Therefore, neither HUD nor the Condominium Association members had a clear understanding of the financial position of the project and the status of units based on the audited financial statements.

The treasurer of the Condominium Association's board of directors said that to her knowledge, the Condominium Association owned the project's units. Further, the property manager for the Condominium Association's management agent said that she was not aware that the Preservation Association was required to transfer ownership of the project's units to the Condominium Association.

Units Were Not Sold in Accordance With the Grant Agreement

We reviewed initial unit sales associated with nine units, which occurred after January 1, 2006, and subsequent unit sales associated with five units,[7] which had occurred as of November 30, 2015, to determine whether (1) units were sold at or below fair market value, (2) owners entered into promissory notes secured by mortgages payable to HUD for the difference between the fair market value of the units at the time of sale and the purchase price, and (3) the City received its full share of the proceeds from subsequent unit sales. Contrary to article IV(e) of the grant agreement, the Condominium Association and management agent did not determine the fair market value of the units when they were sold. The fair market value was needed to support (1) that owners did not pay more than the fair market value for their units as required by article IV(e) of the grant agreement, (2) that HUD's secured interest in the units was appropriately valued in accordance with HUD's regulations at 24 CFR (Code of Federal Regulations) 248.173(i)(3) and 248.173(j), and (3) the amount of net proceeds that should have been paid to the City's HOME investment trust fund from the subsequent unit sales as required by regulations at 24 CFR 248.173(l).[8]

> The Condominium Association may have sold units for more than fair market value.

The Condominium Association required the initial owners to enter into promissory notes payable to HUD consistent with the amounts on the HUD notes for units sold from May 1999 through June 2001, and it generally required subsequent owners to assume the initial owners' promissory notes. Therefore, the purchase prices of the units and the amount of the promissory notes payable to HUD may not reflect the fair market value of the units. The following table shows

[7] Two of the units were sold twice to subsequent owners. Therefore, there were seven subsequent unit sales associated with the five units.

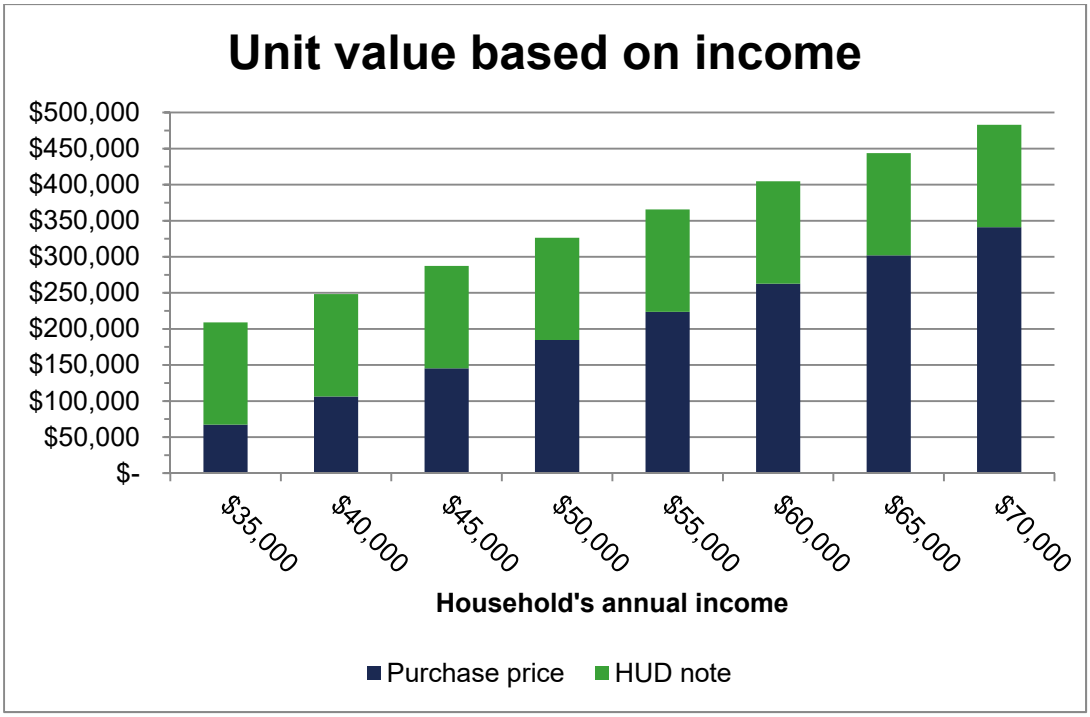
[8] The Condominium Association did not pay the City net proceeds from the subsequent unit sales. See the following section for the Condominium Association's treatment of the proceeds from the subsequent unit sales.

the differences between the purchase price plus the HUD note for the unit sales associated with 14 units (9 units sold to initial owners and 5 units sold to subsequent owners).[9]

Unit reference number	Initial unit sale	Subsequent unit sale	Date of sale	Purchase price	Amount of HUD note[10]	Purchase price + HUD note
57	X		June 2013	$143,588	$169,408	$312,996
33	X		Dec. 2012	34,001	169,408	203,409
17	X		Apr. 2007	13,847	169,408	183,255
5	X		Nov. 2006	13,847	169,408	183,255
12	X		June 2008	12,107	147,511	159,618
65	X		May 2007	12,107	147,511	159,618
63		X	Mar. 2004	10,893	147,511	158,404
45		X	July 2002	12,226	147,511	159,737
6		X	July 2014	74,979	141,881	216,860
23		X	Dec. 2013	7,777	141,881	149,658
67		X	Nov. 2013	77,615	141,881	219,496
69	X		Sept. 2012	117,429	141,881	259,310
7	X		June 2012	126,373	141,881	268,254
68	X		Mar. 2008	11,637	141,881	153,518

The attorney for the Condominium Association stated that the fair market value of the units was not determined when the units were sold. The attorney also stated that since at least May 2012, the Condominium Association based the purchase price of the units on household income. The property manager for the Condominium Association's management agent could not explain why the fair market value of the units was not determined when the units were sold and was not aware that the promissory notes payable to HUD were required to be the difference between the fair market value of the units and the purchase price. The following graph shows the impact on unit values using the Condominium Association's methodology of calculating the purchase price of a unit based on income.[11]

[9] The Preservation Association or Condominium Association purchased two units from initial owners before the units were sold to the subsequent owners that owned the units as of July 2016. The subsequent sales of the two units from the initial owners to the Preservation Association or Condominium Association were not included in the table.
[10] Promissory notes payable to HUD in amounts of $141,881, $147,511, and $169,408 were associated with three-bedroom garden, three-bedroom townhouse, and four-bedroom townhouse unit types, respectively.
[11] The purchase prices presented in the graph assumed different annual incomes for a four-person household with two dependents, a promissory note secured by a mortgage amortized over a 30-year term and with a 1 percent annual interest rate, and monthly assessment fees of $626 for a three-bedroom garden unit.



In addition, the Condominium Association could not provide sufficient documentation to support that it appropriately selected six of the nine households for units sold to initial owners from a waiting list. As of July 2016, the Condominium Association did not maintain a waiting list for rental units that met the requirements of the resident home-ownership plan. The property manager for the Condominium Association's management agent said that the Condominium Association had not sold a unit at the project since she became the property manager and that she was not familiar with the resident home-ownership plan's requirements for a waiting list.

> The Condominium Association did not maintain an appropriate waiting list for rental units.

Documentation To Support Proceeds From Initial Unit Sales Was Not Sufficient

We reviewed the proceeds from initial unit sales for fiscal years 1999 through 2015 to determine whether the Condominium Association (1) remitted 50 percent of the proceeds to HUD and (2) used its share of the proceeds in accordance with the grant agreement. The project's audited financial statements through the fiscal year ended December 31, 2015, stated that the Condominium Association accrued more than $616,000 in proceeds from initial unit sales, of which more than $308,000 in proceeds was due to HUD. Further, the Condominium Association had remitted at least $278,000 to HUD and used more than $27,000 in undisbursed program funds in the project's grant account in HUD's Line of Credit Control System to offset proceeds due to HUD.

However, contrary to regulations at 24 CFR 248.173(h) and article IV(j) of the grant agreement, the Condominium Association could not provide sufficient documentation to support that the amount due to HUD was accurate. A certified public accountant for the firm that conducted the

project's annual audit stated that the annual calculations of HUD's and the Condominium Association's share of the proceeds from initial unit sales were based on estimates rather than actual amounts collected. The property manager for the Condominium Association's management agent also said that accounting records were not available before January 2006 and stated that the Condominium Association's members' total monthly payments were recorded together rather than being separated into assessment fees and mortgage payments.

Further, (1) contrary to article IV(j) of the grant agreement, the Condominium Association did not include in its annual calculations proceeds from the initial sale of a unit after the unit had been sold to a subsequent owner and (2) contrary to regulations at 24 CFR 248.173(h), the Condominium Association inappropriately included proceeds from the subsequent sale of a unit in its annual calculations. The certified public accountant stated that the proceeds from the initial sale of a unit that had been sold to a subsequent owner were excluded from the annual calculations in error and he did not verify the calculations for all units.

In addition, HUD did not approve the use of undisbursed program funds to offset proceeds due to HUD. The certified public accountant stated that the Condominium Association sent a letter to HUD that requested approval to use the undisbursed program funds to offset the proceeds due to HUD. To his knowledge, HUD did not notify the Condominium Association that it objected to the offset.

The Condominium Association also could not provide sufficient documentation to support that it used its share of the proceeds in accordance with article IV(k) of the grant agreement. The property manager said that the specific uses of the Condominium Association's share of the proceeds from initial unit sales could not be determined since the Condominium Association did not account for its share of the proceeds separate from other funds and the proceeds could have been used for any expense paid from the Condominium Association's general operating account.

There Was No Assurance That Housing Was Affordable for All Owners

Contrary to paragraph 12 of HUD's use agreement with the Preservation Association, the Condominium Association and management agent did not ensure that mortgage payments and assessment fees did not exceed 35 percent of the owners' monthly adjusted gross income other than upon unit sales. The property manager for the Condominium Association's management agent said that the Condominium Association considered a household's income only at the time of application for ownership at the project. Further, the attorney for the Condominium Association said that it was his understanding that unit owners' incomes needed to be considered only at the time of sale. However, the use agreement does not limit the requirement to only at the time of unit sales. Further, since the Condominium Association and management agent had not determined the owners' household income after the unit sales, the Condominium Association would not be able to support that it sold units to the same proportion

> Mortgage payments and assessment fees may have exceeded 35 percent of households' income.

of very low-, low-, and moderate-income households shown in the resident income profile in paragraph 4.a. and required by paragraph 10.b. of the use agreement.[12]

In addition, contrary to the resident home-ownership plan, the Condominium Association would not consider an applicant for the initial sale of a unit if the monthly assessment fees would exceed 30 percent of the household's monthly adjusted gross income. Therefore, units would not be available to some very low-income households.

Other Requirements of the Grant Agreement Not Followed

Owners of Record Did Not Live in Their Units at the Project

We reviewed the principal residency of 94 owners of record associated with 61 units that were not owned by the Preservation Association as of November 30, 2015, to determine whether the owners maintained their units as their principal residence in accordance with regulations at 24 CFR 248.173(g)(4) and article IV(i) of the grant agreement. The sole owner of record of a unit as of July 2016 passed away in December 2010. The property manager for the Condominium Association's management agent stated that a relative of the owner who had passed away was residing in the unit with another individual. The attorney for the Condominium Association stated that the relative was still residing in the unit as of July 2016.

Further, the property manager said that two owners moved from their unit in early 2015.[13] The attorney stated that the unit was vacant as of July 2016. The property manager also said that the Condominium Association was attempting to purchase the unit from the owners but there had been disagreement on the purchase price. However, one of the owners said that he had been attempting to sell the unit to the Condominium Association since June 2015 but the Condominium Association and property manager had been unresponsive to his efforts to sell the unit. In addition, the Condominium Association did not provide documentation to support that it was attempting to purchase the unit from the owners.

A Unit Was Used for Purposes Other Than Rental or Condominium Housing

Contrary to paragraph 3 of the use agreement, the Condominium Association used a unit as an office and meeting space.[14] The treasurer of the Condominium Association's board of directors said that it was her understanding that the Condominium Association could use a unit as an office and meeting space. However, the Condominium Association did not obtain approval from HUD to use the unit for purposes other than rental or condominium housing. Further, HUD's

[12] For example, if the Condominium Association and management agent have not determined the initial owners' household income since the conversion to homeownership from May 1999 through June 2001, the Condominium Association would not be able to support that it sold units after the conversion period to the same proportion of very low-, low-, and moderate-income households.

[13] One of the owners said that they moved to be closer to relatives.

[14] The treasurer of the Condominium Association's board of directors said that the unit, which was previously owned by a household, experienced flooding. Therefore, the Condominium Association allowed the household to move from the unit to another available unit with a similar floor plan. The new unit had not been previously purchased by an initial owner. Therefore, we considered the unit that the Condominium Association used as an office and meeting space to be a unit that had never been purchased by an initial owner. Further, the Condominium Association later resolved the flooding issue with the unit by building a retaining wall.

Chicago Multifamily Housing Hub's position was that (1) it was inappropriate for the Condominium Association to use the unit as an office and meeting space and (2) the unit needed to be rented to a very low-, low-, or moderate-income household selected from a waiting list for rental units that met the requirements of the resident home-ownership plan.

Reports Were Not Submitted to HUD

Contrary to article VIII(d) of the grant agreement, the Condominium Association did not submit reports to HUD to demonstrate continued compliance with the program. The reports included but were not limited to (1) semiannual reports on vacancies, (2) semiannual reports of nonpurchasing tenants, (3) monthly reports on the status of resales, (4) monthly reports on the status of sales activity, and (5) reports on changes in closing costs. The property manager for the Condominium Association's management agent said that she was not aware that the Condominium Association was required to submit reports to HUD.

Conclusion

The weaknesses described above occurred because the Condominium Association and management agent lacked adequate procedures and controls to ensure that the project was operated in accordance with HUD's requirements and the grant agreement. Further, the Condominium Association's management agent did not have specific policies and procedures for managing a project under the program. The property manager for the Condominium Association's management agent said that she relied on the State of Illinois Condominium Property Act to manage the project. In addition, the Condominium Association's board members and the property manager lacked an adequate understanding of HUD's requirements and the grant agreement. As a result, HUD and the Condominium Association lacked assurance that the project was operated in accordance with HUD's requirements and the grant agreement, and the Condominium Association is at risk of having to reimburse HUD nearly $13.9 million in program funds as allowed by the grant agreement. In addition, the Director of HUD's Multifamily Midwest Region stated that based on the results of our review, he believed that the Condominium Association was in default of its grant and use agreements with HUD.

Recommendations

We recommend that the Director of HUD's Multifamily Midwest Region require the Condominium Association to

1A. Obtain ownership of the 8 units owned by the Preservation Association and assume the promissory notes secured by mortgages payable to the Preservation Association for the 60 units that were to be owned by Condominium Association members.

1B. Implement adequate procedures and controls to ensure that when applicable, the Condominium Association, rather than the Preservation Association, (1) purchases units from the owners, (2) takes title to the units, (3) assumes the promissory notes secured by mortgages payable to HUD, and (4) enters into promissory notes secured by mortgages payable to the Condominium Association with the purchasers of the units.

1C. Have a representative of HUD at the closing for unit sales to sign the HUD notes.

1D. Implement adequate procedures and controls to ensure that units are sold at or below fair market value, HUD's secured interest in the units is appropriately valued, and the City receives its full share of the proceeds from subsequent unit sales as applicable.

1E. Develop and maintain a waiting list for rental units that meets the requirements of the resident home-ownership plan.

1F. Implement adequate procedures and controls to ensure that any rental units vacated by current households are rented to very low-, low-, or moderate-income households selected from a waiting list for rental units that meets the requirements of the resident home-ownership plan.

1G. Provide sufficient documentation to support that HUD had received 50 percent of the proceeds from initial unit sales as of June 2016. If the Condominium Association cannot do this, it should pay HUD half of the principal on the promissory notes payable to the Condominium Association for all unit sales less the amount the Condominium Association can support that it paid HUD for initial unit sales.

1H. Implement adequate procedures and controls to ensure that HUD receives its full share of the proceeds from future initial unit sales.

1I. Establish and maintain a reserve account for its share of the proceeds from initial unit sales to be used as required by the grant agreement.

1J. Implement adequate procedures and controls to ensure that its share of the proceeds from initial unit sales is used in accordance with the grant agreement.

1K. Verify the current household income for all owners to determine whether the owners are paying more than 35 percent of their households' monthly adjusted gross income for mortgage payments and assessment fees. For any owners that are paying more than 35 percent of their households' monthly adjusted gross income for mortgage payments and assessment fees, it should determine the amount the household overpaid and reimburse the household that amount.

1L. Implement adequate procedures and controls to ensure that owners do not pay more than 35 percent of their households' monthly adjusted gross income for mortgage payments and assessment fees.

1M. Determine who has the right to ownership of the unit where the sole owner passed away, transfer ownership of the unit to that person, and require him or her to move into or sell the unit.

1N. Implement adequate procedures and controls to ensure that the appropriate actions are taken when all of the owners of a unit have passed away.

1O. Require the two owners that did not maintain their unit at the project as their principal residence to move back into or sell their unit.

1P. Implement adequate procedures and controls to ensure that owners maintain their units at the project as their principal residence or sell their units.

1Q. Ensure that the unit that it is using as an office and meeting space is in a decent, safe, and sanitary condition and then rent the unit to a very low-, low-, or moderate-income household selected from a waiting list for rental units that meets the requirements of the resident home-ownership plan.

1R. Implement adequate procedures and controls to ensure that the project's units are used for rental or condominium housing unless otherwise approved by HUD.

1S. Implement adequate procedures and controls to ensure that it submits the required reports to HUD to demonstrate continued compliance with the program.

We also recommend that the Director of HUD's Multifamily Midwest Region

1T. Ensure that appraisals are conducted of the seven units sold since May 2012 to determine the fair market value of the units at the time of sale. If any of the units sold for more than the fair market value, HUD should require the Condominium Association to (1) reduce the purchase price of the units to the fair market value by reducing the promissory notes payable to the Preservation Association and reimbursing the owners for overpayments on the downpayments and notes as appropriate and (2) release the promissory notes payable to HUD. If any of the units sold for less than the fair market value and the promissory notes payable to HUD do not reflect the difference between the fair market value of the units and the purchase price, HUD should require the Condominium Association to amend the promissory notes payable to HUD as appropriate. Further, for the three subsequent unit sales, HUD should require the Condominium Association to remit to the City any net proceeds that it should have paid to the City's HOME investment trust fund.

1U. Ensure that the Condominium Association's board members and responsible staff of the Condominium Association's management agent are provided training on HUD's requirements and the grant agreement.

1V. Make a preliminary determination as to whether the Condominium Association is in default of the grant agreement. If it is preliminarily determined that the Condominium Association is in default, HUD should provide the Condominium Association notice of the determination and propose corrective or remedial actions to address the default and prevent the Condominium Association from the possible repayment of the remaining $13,878,088 in program funds, which HUD disbursed for the project ($14,156,600 in program funds disbursed for the project – $278,512 in proceeds from initial unit sales the Condominium Association remitted to HUD).

Scope and Methodology

We performed our onsite audit work from January through May 2016 at the project located from 1719 to 1937 North Larrabee Street, Chicago, IL, and Acorn Property Management, Ltd.'s office located at 1819 West Grand Avenue, Chicago, IL. The audit covered the period May 1995 through November 2015 and was expanded as necessary.

To accomplish our objective, we reviewed

- Applicable laws, regulations at 24 CFR Part 248, and HUD's files for the project and grant and use agreements with the Preservation Association.
- The project's audited financial statements from 1998 through 2015, financial records, resident home-ownership plan, management agent agreement, and unit files.
- Acorn Property Management, Ltd.'s policies and procedures and organizational chart.
- Data in HUD's Single Family Insurance System, Integrated Real Estate Management System, and Line of Credit Control System.

In addition, we interviewed Condominium Association members, an employee of Acorn Property Management, Ltd., the attorney for the Condominium Association, and HUD staff.

As of November 2015, there were 61 units that were to be owned by Condominium Association members and 8 units that were owned by the Preservation Association.[15] We selected all 69 (61 + 8) units for review.[16]

We reviewed all 69 of the project's units to determine the owners of the units. We selected a nonrepresentative sample of all nine initial unit sales that occurred after January 1, 2006, and selected all seven subsequent unit sales associated with five units to determine whether (1) the units were sold to owners in accordance with the grant agreement (all 14 (9 + 5) units), (2) HUD's interest in the units was appropriately valued (all 14 units), and (3) the City received its full share of the proceeds from subsequent unit sales (5 units). We used a nonstatistical nonrepresentative sample since we knew enough about the population to identify a relatively small number of items of interest that were likely to be misstated or otherwise have high risk and we were not projecting the results to the population that we did not review.

[15] Of the eight units owned by the Preservation Association, six were rental units, one was vacant, and one was used by the Condominium Association as an office and meeting space.

[16] Although we selected all 69 units for review, not all of the reviews applied to the 69 units. For example, only 61 of the units were to be owned by Condominium Association members as of November 2015.

We also selected the Condominium Association's fiscal years 1999 through 2015 payments to HUD to determine whether HUD received its full share of the proceeds from initial unit sales. During the review, it appeared that the Condominium Association may not have used its share of the proceeds from initial unit sales in accordance with the grant agreement. As a result, we decided to review whether the Condominium Association used its share of the proceeds from initial unit sales in accordance with the grant agreement. However, the Condominium Association could not provide sufficient documentation to support its share of the proceeds and did not account for its share of the proceeds from initial unit sales separate from other funds. Therefore, we did not select a sample or conduct a review to determine whether the Condominium Association used its share of the proceeds in accordance with the grant agreement.

In addition, we reviewed all 61 units that were to be owned by Condominium Association members as of November 2015 to determine whether (1) the Condominium Association and management agent ensured that mortgage payments and assessment fees did not exceed 35 percent of the owner's monthly adjusted gross income and (2) owners maintained their units as their principal residence.

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 that 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:

- Effectiveness and efficiency of operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Reliability of financial reporting – Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.
- Compliance with applicable laws and regulations – Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws 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) misstatements in financial or performance information, or (3) violations 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 Condominium Association and management agent lacked adequate procedures and controls to ensure that the project was operated in accordance with HUD's requirements and the grant agreement (finding).

Appendixes

Appendix A

Schedule of Funds To Be Put to Better Use

Recommendation number	Funds to be put to better use 1/
1V	$13,878,088
Totals	**$13,878,088**

1/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (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. In this instance, implementation of our recommendations will ensure that the Condominium Association does not have to repay the remaining nearly $13.9 million in program funds HUD disbursed for the project.

Appendix B

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation	Auditee Comments
Comment 1 Comment 2 Comment 3 Comment 4 Comment 4 Comment 5 Comment 5	**RESPONSE TO DRAFT AUDIT REPORT** **Response Date: 9/14/2016** West Park Place Residents Association for Preservation ("Preservation Association") and the West Park Place Condominium Association ("Condominium Association," which with Preservation Association is collectively referred to as "WPP") has received a draft of the U.S. Department of Housing and Urban Development ("HUD) Office of Inspector General's ("OIG") Draft Memorandum Report (the "Audit") dated August XX, 2016 and submits this written response. It appears from our review of the Audit that OIG is more concerned about design of the Low Income Housing Preservation and Resident Homeownership Act of 1990 ("the Act") and its implementation by HUD than it is about WPP's compliance with the actual program requirements. Moreover, many of OIG's finding that there is "insufficient documentation" to support WPP's compliance is baseless in many cases, as it ignores the fact that this transaction closed almost twenty (20) years ago and records were only required to be kept for generally a three (3) year period. While WPP acknowledges and agrees that certain record keeping and reporting procedures can be improved, as noted in the Audit, WPP believes that it has at all times operated WPP consistent in all material respects with provisions of (i) the Act; (ii) regulations implemented pursuant to the Act, found at 24 CFR 248.173 (the "Regulations"); (iii) the HUD approved Resident Homeownership Plan approved by HUD (the "RHP"); (iv) the Grant Agreement; and (v) the Use Agreement. WPP's response will address OIG's general findings and each of its specific recommendations: **OIG Findings:** **The OIG Finding That the Project Units Should Have Been Transferred By The Condominium Association and Not the Preservation Association Is Based on a Misunderstanding of the Grant Agreement** The Audit finding concludes that sales of units should have been made by the Condominium Association rather than the Preservation Association. OIG is incorrect in this finding and there is no substantive reason for the distinction being made between the Condominium Association and the Preservation Association. All obligations under the Grant Agreement are imposed on the "Grantee" or "Resident Council" which is the Preservation Association. It appears that the OIG mistakenly relied on one reference in the definition section that states that the Condominium Association will sell the units. The Preservation Association was the "declarant" under the Illinois Condominium Property Act, submitted the project to the Act, and sold the units consistent with the way in which a declarant would sell units in any condominium situation. To do as OIG suggested would have added tremendous cost to the project as a result of duplicative transfer taxes having to be paid. **The Units Were Sold in Accordance with the Intended Purposes of the HUD Required Grant Agreement** WPP disagrees with OIG's broad conclusion that units were not sold in accordance with the Grant Agreement. WPP acknowledges that appraisals were not obtained for subsequent unit sales (of which there have been only a few). The reason for this practice was that units were only sold for an amount 1

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Comment 8
Comment 7

Comment 2

Comment 2

Comment 9

Comment 2

equal to (i) what the initial unit owner was minimally entitled to receive under the condominium documents; and (ii) assumption of any existing debt (and obligations under the HUD reducing note). As was explained to the OIG, it is clear that the prices at which the units were sold were far below "fair market value" if evaluated from a traditional market rate perspective. Even if the units were valued taking into account the very unique and value limiting provisions of the condominium documents, there was very little likelihood that buyers were the beneficiaries of a "bargain sale." Given the circumstances, commissioning a costly appraisal at transfer would do nothing more than add costs that would have to be borne by households of limited means and would not otherwise assure that the price was set in accordance with the intent of the restrictions in the Grant Agreement. On a prospective basis, WPP is amenable to incurring the additional cost of commissioning an appraisal for each sale in the future, assuming it can find an appraiser that can interpret the various value restrictions that are imposed by this homeownership program.

There is no requirement that WPP keep a waiting list for the initial sale of the units. Even if there was such a requirement, as stated above, complete records related to the initial sale may not be available as the transaction closed almost twenty (20) years ago, well after the record retention requirements expired. As for a waiting lists for rental units, WPP does not maintain a waiting list for rental units because any rental units that may become available in the future will be sold, not rented. We disagree with any suggestion by OIG or HUD that currently rented units that might become available should be rented versus sold.

OIG's Assertion that Proceeds of Sale and Other Records Should Have Been Kept for Almost Twenty (20) Years, Well Beyond the HUD Record Retention Requirements Is Without Merit.

Record retention requirements for HUD grants is generally three (3) years. OIG's suggestion that WPP did not properly document the distribution of sales proceeds and other information because it does not have records dating back to 1999 is contrary to the HUD record retention requirements. It is important to note that financial statements and annual payments were paid to HUD and any documentation requested or required by HUD was provided. While WPP understands that OIG performance is, in part, based on its ability to recover proceeds from grant recipients, WPP believes it is fundamentally unfair and inconsistent with HUD record retention requirements to conclude that WPP **may** not have made requisite payments to HUD (or the City of Chicago) simply because decade old (or more) records no longer exist. OIG's conclusion is mere conjecture. At no time since the creation of West Park Place Condominium has HUD required or requested additional documentation to support the amount funded to HUD, other than amounts included in the annual audited financial statements. WPP does not have historic back-up documentation related to initial sales (e.g. copies of checks). WPP agrees that, on a prospective basis, it will provide HUD with copies of checks and closing statements to further document the price paid for units. WPP requests specific guidance from HUD as to what additional documentation, if any, that HUD may request to substantiate annual HUD payments from WPP.

We understand that the OIG may be basing its assertion that records should have been retained for longer than typically required because the grant close out paperwork for this grant apparently was not completed by HUD, thus the three (3) year requirement has not tolled. This argument ignores the fact that HUD, not WPP, would have been responsible to initiate grant close-out procedures. WPP believes that all submissions required for a Closeout Agreement were provided, but HUD failed to provide the Closeout Agreement. Under OIG's theory, HUD's record retention requirements would be completely

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Comment 13

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meaningless, as the Department could always choose not to complete the grant close out paperwork thereby private partners would have to keep documents indefinitely. In short, this theory defies logic.

While OIG indicates that based on information from the project accountant they have identified problems with the calculations, OIG has not provided WPP with the specific units in question. As a result, WPP cannot confirm or deny whether any calculations of annual amounts due HUD were in error. If OIG provides WPP with it's the units it reviewed and the calculations, WPP will be happy to review them and, if substantiated, take corrective action.

OIG further concludes that WPP could not provide "sufficient documentation" to support that it used proceeds from unit sales per the Grant Agreement (emergency or hardship economic situations of owners). First, no hardship requests have been made to WPP as contemplated by the Grant Agreement, thus no documentation exists. Second, all cash flow after payment of project expenses, including proceeds from unit sales, are kept in the project's general reserve accounts and are available for the purposes set forth in the Grant Agreement. There is not requirement in the Grant Agreement that such funds be placed in a segregated account. Again, WPP has submitted financial statements to HUD annually for nearly twenty (20) years and this issue was never raised. If HUD changes its policies to require these funds to be segregated, we will comply moving forward.

OIG Has No Basis for Its Claim That There Was Insufficient Documentation To Support Whether Funds Were Due to the City.

To the best knowledge of WPP and its management agent, units resold to date have been sold at a price not exceeding that which the original buyer is entitle to retain, plus the assumption of the outstanding respective balances of the HUD and Coop notes. Based on those purchase prices, no funds would be required to be remitted to the City of Chicago.

WPP Did, In Fact, Confirm that Housing Was Affordable For All Owners At Initial Occupancy In Accordance with Applicable Requirements Despite OIG's Assertions to the Contrary.

OIG's conclusion is based on an incorrect interpretation of the LIHPRHA affordability requirements. The "35% test" is found at 24 CFR 173(g)(2), which provides, in pertinent part, that a resident homeownership plan must demonstrate that: "*Prospective* (emphasis added) debt service payments, occupancy charges and utilities payable by the owners shall not exceed 35% of the monthly adjusted gross income of the owners." The Grant Agreement provides that: "An initial Owner will not qualify to purchase a unit if, ***during the first year of homeownership*** (emphasis added), it would spend more than 35% of its monthly adjusted gross income on monthly expenses." This was a one-time test demonstrated by the detailed data submitted on behalf of WPP in connection with the RHP approval process. There are no ongoing income certification requirements for condominium unit purchasers and no HUD subsidies available for owners who may have a loss of income. In fact, one of the many disclosures to those who were Section 8 recipients at the time of the conversion process was the caution that giving up their Section 8 support would put them at risk in the future due to a loss of income. WPP does not agree that the 35% test is an ongoing affordability requirement of the LIHPRHA homeownership program and further believes that a sampling of any of other LIHPRHA homeownership projects would demonstrate that WPP is operating in a manner consistent with all other projects as it relates to this issue. Similarly, subsequent unit owners are qualified such that monthly payments cannot exceed 35% of projected annual adjusted gross income. It defies logic, and would be consistent with any

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Comment 18

other HUD program, that HUD would impose an ongoing affordability requirement without a corresponding source of operating support. Moreover, it would serve as a disincentive for residents to seek new job opportunities or otherwise improve their economic standing, which is contrary to the idea of creating homeownership opportunities for moderate income households.

We are hard pressed to find a HUD program that imposes an ongoing affordability restriction without a corresponding subsidy arrangement. In fact, a transfer plan of action (unrelated to homeownership) under LIHPRHA included Section 8 incentives as necessary to allow the project to meet the very specific regulatory requirement that rents for tenants would not exceed the lower of 30% of the adjusted income of the tenant or the fair market rent. Any transfer plan of action that included ongoing affordability had an alignment with an ongoing subsidy arrangement. All transfer plans of action that involved a termination of affordability had Section 8 protection for residents. In the case of homeownership, anyone who wanted ongoing affordability protection could opt for Section 8. However, after initial qualification for homeownership using the 35% test, those who wanted homeownership and the prospect of future value appreciation took the risk inherent in homeownership; namely, that the cost of homeownership could rise over time or that personal income could be reduced.

With respect to initial sale qualifications and the fact that there was a minimum income qualification (30% of AMI), OIG is incorrect in stating that this underwriting requirement was inconsistent with the RHP. The RHP had specific underlying guidelines and minimum income requirements. Further, the Act specifically contemplated that certain very low-income residents would not qualify for purchase by providing voucher assistance to those residents.

WPP Has Enforced Other Grant Agreement Requirements

WPP agrees that LIHPRHA regulations require that initial owners occupy their units for 15 years. WPP has enforced this requirement within the limits of its resources. WPP also believes that West Park residents have complied with this residency requirements. OIG has indicated that it has "investigated" situations related to the relative of a deceased owner living in the unit of the decedent and another situation where a resident is recuperating in Florida on a temporary basis. In one additional situation, there is a unit where the owner has vacated, but the unit sale to WPP has stalled due to disagreements on purchase price. That matter will be concluded in the near future. In all instances, while the deceased owner's survivor needs to address the deficiency in ownership transfer, and while a buy back of the the owner's unit needs to be concluded, none of these situations should merit a conclusion that the project is being operated in a manner inconsistent with the WPP homeownership program. OIG has simply focused on two situations that are in transition.

OIG points out that a unit is being used for other than rental or homeownership purposes. The use of this unit as a management office and meeting space has been disclosed to HUD in WPP's annual reports over many years. We will work with HUD if it seeks to have us change this use.

WPP Submitted Required Reports And Has Not Been Informed Otherwise

To the best of its knowledge, WPP has submitted all reports required under the Grant Agreement. WPP notes that the Grant Agreement was the operative document during the rehabilitation and initial sale process. WPP believes that it fulfilled its grant reporting requirements as required during the four (4)

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Comment 18

year term of the Grant Agreement and is not aware of any other reporting obligations that have not been fulfilled. We will work with HUD if it seeks additional reporting regarding this property.

OIG RECOMMENDATIONS:

1. Obtain ownership of the units owned by the Preservation Association.

Comment 4

DISAGREE: For the reasons stated above, WPP cannot legally transfer ownership. Such transfers are not required, are unnecessary and would result in unneeded cost to WPP.

2. Implement adequate procedures to ensure that the Condominium Association, rather than the Preservation Association, act as owner/seller of units.

Comment 4

DISAGREE: OIG misinterprets the Grant Agreement and fails to distinguish between the role of the Preservation Association, as grantee under the Grant Agreement and "resident council" under the Act. The Condominium Association is state law creation under the state's condominium act and is not needed to facilitate the economic aspects of the sale of condominium units. HUD has accepted documentation with respect to initial and subsequent unit sales since 1998, as well as annual audits showing annual payments to HUD, without any request for additional documentation or back up. To perform a forensic audit of its books, after these many years, during which there have been changes in management agent, onsite personnel, and board members, is unreasonably burdensome. However, with respect to any future reporting, WPP is willing to work with HUD to provide any back-up documentation that it may reasonably request.

Comment 2

3. Have a HUD representative at closings.

Comment 19

AGREE: While HUD has never requested to attend unit closings, WPP welcomes HUD attendance at closings provided HUD can provide WPP with a single point of contact for scheduling.

4. Implement procedures to determine whether units are being sold at or below fair market value, HUD's interest is appropriately valued, and the City receives, its share, if any, from sale proceeds.

Comment 6

AGREE: WPP will work with HUD to establish appropriate protocols and procedures for fair market value determinations.

5. Establish rental waiting list.

Comment 7

DISAGREE: There is no requirement that the few rental units remaining at WPP be rented rather than sold when they become vacant. This is a homeownership program.

6. Establish procedures for future rental consistent with the income mix at the time the homeownership program was approved.

Comment 7

DISAGREE: As noted, WPP does not see any basis for requiring that the few rental units remaining at WPP would be rented rather than sold when they become vacant. In addition, the proportionality requirement HUD references applies only to the sale to *initial owners*, as set forth in Section 248,173(g)(1) of the Regulations.

7. Provide sufficient documentation that HUD receive 50% of the sale proceeds from initial sales, or pay HUD one half of principal amounts owed under purchase notes.

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Comment 20
Comment 2

DISAGREE: WPP has remitted all amounts due HUD per the Regulations. HUD has not, over the course of nearly 20 years, asked for additional documentation to support amounts paid to HUD. OIG now seeks to substantiate payments with a records request that goes far beyond HUD record retention requirements.

8. Establish a reserve account for proceeds from condo note payments. Ensure that note payment proceeds are used for appropriate purposes.

Comment 11

DISAGREE: Neither the Act nor the Regulations require segregated accounts for sale proceeds. If HUD changes the program requirements, WPP will work with HUD to establish segregated accounts for note payments on a prospective basis and will work with HUD to further enumerate approved purposes for use of such funds.

9. Determine whether owners are paying more than 35% of adjusted gross monthly income. Assure that owners don't pay more than 35% of income for housing costs.

Comment 13

DISAGREE: For the reasons stated above, WPP disagrees with this recommendation and reiterates strongly that such a requirement is inconsistent with the Act, the Regulations, and the approved RHP.

10. Determine who owns a unit upon death of a prior owner.

Comment 15

AGREE: WPP will continue to follow up on current situations where units of deceased owners have yet to be transferred to those entitled to ownership and will implement procedures for such situations in the future.

11. Require two owners that did not maintain units as principal residents to move or sell.

Comments 15 and 16

DISAGREE: The two situations involve a sale in process and a temporary move for illness reasons. WPP does, however, use reasonable efforts to assure that residents are using their units as a principal residence.

12. Use all units as housing.

Comments 17

DISAGREE: HUD has been aware for many years that one unit is being used as a management office/meeting space. WPP will work with HUD to obtain any additional permission needed to use of one unit as an office/meeting space, consistent with the use of one unit for such purposes for the past 17 years, including various meetings with HUD personnel.

Conclusion

Comment 3

WPP has used all reasonable and diligent efforts to comply in all material respects with all requirements applicable to its resident homeownership program since inception as they are. Many of the findings in the Audit Report exceed current programs requirements, or are based on a misunderstanding of the same. If HUD decided to add additional reporting or other program requirements, WPP will comply moving forward, however, it is fundamentally unfair to hold it responsible for meeting standards that are not currently part of the program. Regardless, WPP believes that non-compliance issues, if any, were unintentional and inadvertent. Since being made aware of reporting and/or accounting weaknesses, WPP has remedied them, and will continue to strengthen its protocols. WPP will continue to work with HUD to be sure that it received information needed to assure

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Comment 22

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Comment 22

that West Park Place continues to succeed as an example of resident homeownership for low and moderate income families and looks forward to working with HUD to bring a conclusion to this matter.

OIG Evaluation of Auditee Comments

Comment 1 The Condominium Association stated that it appeared that the Office of Inspector General (OIG) was more concerned with the design of the Low-Income Housing Preservation and Resident Homeownership Act of 1990 and HUD's implementation of the Act rather than the Condominium Association's compliance with program requirements. We disagree. Our objective was to determine whether the Condominium Association and management agent operated the project in accordance with HUD's requirements and the grant agreement with the Preservation Association. We determined that the Condominium Association and management agent did not operate the project in accordance with HUD's requirements and the grant agreement.

Comment 2 The Condominium Association stated that records were generally required to be maintained for only a 3 year period. The Condominium Association stated that HUD had not required or requested additional documentation to support the amount of proceeds due to HUD from initial membership sales.

The historical records in question are generally needed to support the current circumstances. Regulations at 24 CFR 248.173(h) state that the entity that transfers ownership interests in or shares representing units to eligible households must return 50 percent of the proceeds to HUD for use under 24 CFR 248.173 and 248.161, subject to the availability of appropriations. The entity must keep and make available to HUD all records necessary to calculate payments due to HUD. Article IV(j) of the grant agreement states that at the time of the sales of units to the initial owners, the Condominium Association must remit to HUD 50 percent of all proceeds from the unit sales. The Condominium Association must keep and make available to HUD all records necessary to accurately calculate the payments due to HUD. Without sufficient documentation to support the historical payments to HUD, the Condominium Association would not be able to sufficiently support that the recent amounts due to HUD were accurate.

Comment 3 The Condominium Association stated that it believed that it had at all times operated the project consistent in all material respects with the provisions of (1) the Low-Income Housing Preservation and Homeownership Act of 1990, (2) regulations at 24 CFR 248.173, (3) the resident home-ownership plan for the project, and (4) HUD's grant and use agreements with the Preservation Association.

As discussed in the report, the Preservation Association did not transfer ownership of the project's units to the Condominium Association as required and still owned eight of the units as of July 2016. The Condominium Association and management agent did not determine the fair market value of units to support (1) that owners did not pay more than the fair market value for their units, (2) that HUD's secured interest in the units was appropriately valued, and (3) the amount of net proceeds that should have been paid to the City's HOME investment trust

fund from subsequent unit sales. Further, the Condominium Association and management agent could not provide sufficient documentation to support that (1) the payments to HUD for initial unit sales were accurate, (2) the Condominium Association used its share of the proceeds from initial unit sales in accordance with the grant agreement, and (3) housing was affordable for all members. In addition, the Condominium Association and management agent did not ensure compliance with other requirements of the grant agreement. In addition, the Director of HUD's Multifamily Midwest Region stated that based on the results of our review, he believed that the Condominium Association was in default of its grant and use agreements with HUD.

Comment 4 The Condominium Association disagreed that the Preservation Association was required to transfer ownership of the project's units to the Condominium Association and that the Condominium Association should have sold the units rather than the Preservation Association. There was no substantive reason for the distinction between the Condominium Association and the Preservation Association. The OIG mistakenly relied on one reference in the definitions section, article 1(a), of the grant agreement with the Preservation Association that states the Condominium Association will sell the units.

The grant agreement with the Preservation Association states that the terms and provisions of the grant agreement will be applicable to the condominium entity to which ownership of the project is transferred and in turn sells the condominium units to the initial owners. Article I(a) of the grant agreement states that the Condominium Association will assume ownership of the project from the Preservation Association and sell condominium units to individual owners. Article XII(h) states that at the time of conversion of the project to condominium ownership, all grant funds will be transferred from the Preservation Association to the Condominium Association, which will assume all rights, title, interest, and obligations held by the Preservation Association in the property, the grant agreement, HUD's use agreement with the Preservation Association, the resident home-ownership plan for the project, and any and all other property, real and personal, related to the conversion.

Therefore, contrary to the grant agreement, the Preservation Association did not transfer ownership of the units to the Condominium Association. In addition, the audited financial statements for the project, which are also the audited financial statements for the Condominium Association, did not include the number of or account for the value of the units owned by the Preservation Association. As a result, neither HUD nor the Condominium Association members had a clear understanding of the financial position of the project.

Comment 5 Although the Condominium Association acknowledged that appraisals were not obtained for units sold to subsequent owners, it disagreed that units were not sold in accordance with the intent of the grant agreement. The Condominium Association stated that units were likely sold at prices below fair market value and

obtaining appraisals for the units would have (1) done nothing but add costs that would be have been borne by households of limited means and (2) not assured that prices were set in accordance with the grant agreement.

Article IV(e) of the grant agreement states that at the time a unit is sold, the Condominium Association must calculate the fair market value of the unit. The unit purchase price must never exceed the unit value. Contrary to article IV(e) of the grant agreement, the Condominium Association and management agent did not determine the fair market value of nine units sold to initial owners after January 2006 and five units sold to subsequent owners as of November 2015. The fair market value was needed to support (1) that owners did not pay more than the fair market value for their units as required by article IV(e) of the grant agreement, (2) that HUD's secured interest in the units was appropriately valued in accordance with regulations at 24 CFR 248.173(i)(3) and 248.173(j), and (3) the amount of net proceeds that should have been paid to the City's HOME investment trust fund from the subsequent unit sales as required by regulations at 24 CFR 249.173(l).

Comment 6 The Condominium Association stated that it was agreeable to obtaining appraisals for units that are sold in the future. The Condominium Association should work with HUD's Chicago Multifamily Housing Hub to resolve recommendation 1D.

Comment 7 The Condominium Association disagreed that it was required to maintain a waiting list for the initial sale of units. It also stated that the Condominium Association does not maintain a waiting list for rental units since it would sell rather than rent any available units and disagreed that rental units vacated by current households must be rented rather than sold.

We did not state that the Condominium Association was required to maintain a waiting list for the initial sale of units.

Section VI.A of the resident home-ownership plan states any rental units vacated by current households, either during the conversion period or after the conversion to home ownership, must be marketed and households must be selected in accordance with the affirmative fair housing marketing and tenant selection plan in tab 15 of the resident home-ownership plan. The marketing and tenant selection plan in tab 15 states that the Condominium Association will market units using a waiting list and lease units to very low-, low-, and moderate-income households as defined in the resident home-ownership plan.

As the resident home-ownership plan states, the Condominium Association was required to maintain a waiting list for rental units that become vacant and then rent the vacant units to households appropriately selected from the waiting list. However, we would not have taken issue with the six units if the households (1) had been appropriately selected from a waiting list for rental units that met the requirements of the resident home-ownership plan and (2) decided to purchase the

units upon moving into the units, since the households could have purchased the units immediately after moving into the units.

Therefore, we stated that the Condominium Association could not provide sufficient documentation to support that it appropriately selected six of the nine households, for units that were sold to initial owners, from a waiting list. As of July 2016, the Condominium Association did not maintain a waiting list for rental units that met the requirements of the resident home-ownership plan.

Comment 8 The Condominium Association stated that complete records for the six units that it could not provide sufficient documentation to support that it appropriately selected households from a waiting list may not be available since the initial sales occurred almost 20 years ago. However, the initial sales of the six units occurred from May 2007 through June 2013, with four of the six units being sold since May 2012.

Comment 9 The Condominium Association stated that it does not have access to historical documentation related to initial sales. In the future, the Condominium Association will submit copies of checks and closing statements to HUD to support the amount members pay for their units. The Condominium Association requested guidance from HUD for any additional documentation it may require to support the amount of proceeds due to HUD from initial membership sales.

The Condominium Association should work with HUD's Chicago Multifamily Housing Hub to resolve recommendations 1G and 1H as applicable.

Comment 10 The Condominium Association stated that the OIG had not provided the Condominium Association the units that it had identified issues with regarding amounts calculated as due to HUD. The Condominium Association could not provide sufficient documentation to support that the amount due to HUD was accurate for any of the units since (1) the Condominium Association's annual calculations of HUD's share of the proceeds from initial unit sales were based on estimates rather than actual amounts collected, (2) accounting records were not available before January 2006, and (3) the Condominium Association's members' total monthly payments were recorded together rather than being separated into assessment fees and mortgage payments.

Comment 11 The Condominium Association implied that the only eligible use of its share of the proceeds from initial sales was to provide loans to owners who demonstrate short-term inability to make monthly occupancy payments due to the loss of income resulting from medical or other emergencies. The Condominium Association stated that (1) since no Condominium Association members have requested a loan, no documentation exists to provide for support; (2) all of the Condominium Association's funds are maintained in its general reserve accounts to be used in accordance with the grant agreement; and (3) the Act, regulations, and grant agreement did not require the Condominium Association to place its share of the proceeds into a separate account.

Article IV(k) of the grant agreement states that the portion of the proceeds from the initial sale of the units that was not paid to HUD, along with interest paid by the owner or the debt if the owner receives financing from the Condominium Association, must be used to fund a reserve, the purposes of which will be to (1) provide loans to owners who demonstrate short-term inability to make monthly occupancy payments due to the loss of income resulting from medical or other emergencies, (2) ensure that the Condominium Association can repurchase units for not less than the owner's initial investment if the owner is unable to secure a qualified buyer, (3) provide financing for prospective purchasers of low- or moderate-income means, and (4) fund a replacement reserve for expenses other than usual or customary operating expenses. The property manager for the Condominium Association's management agent said that the specific use of the Condominium Association's share of the proceeds could not be determined since the Condominium Association did not account for its share of the proceeds separate from other funds and the proceeds could have been used for any expense paid from the Condominium Association's general operating account. Therefore, the Condominium Association could not provide sufficient documentation to support that it used its share of the proceeds in accordance with article IV(k) of the grant agreement. We recommended that the Condominium Association establish and maintain a reserve account for its share of the proceeds. The reserve account could be a separate account from the Condominium Association's general operating account or a separate account within the Condominium Association's accounting system.

Comment 12 The Condominium Association stated that to the best of its and the management agent's knowledge, units have not been sold to subsequent owners at prices that would have resulted in a payment to the City. Contrary to article IV(e) of the grant agreement, the Condominium Association and management agent did not determine the fair market value of the units when they were sold. The fair market value was needed to support the amount of net proceeds that should have been paid to the City's HOME investment trust fund from the subsequent unit sales as required by regulations at 24 CFR 249.173(l).

Comment 13 The Condominium Association stated that it disagrees that it did not ensure that housing was affordable for all owners and that it was required to ensure that ownership fees did not exceed 35 percent of the owners' monthly adjusted gross incomes other than upon unit sales. Regulations at 24 CFR 248.173(g)(2) state that prospective debt service payments, occupancy charges, and utilities payable by owners must not exceed 35 percent of the monthly adjusted gross income of the owners.

Regulations at 24 CFR 248.173(g)(2) do not limit the determination that debt service payments, occupancy charges, and utilities payable by owners must not exceed 35 percent of the monthly adjusted gross income to only at the time of unit sales. Paragraph 12 of the use agreement states that monthly expenses, including principal, interest, utility costs, taxes, property insurance, and home-ownership

fees, for all owners must not exceed 35 percent of the owner's monthly adjusted gross income. Further, paragraph 4.a. of the use agreement states that during the conversion period and for as long as any unit in the project continues to be operated as rental housing after conversion, the Condominium Association must, to the extent practicable, maintain 33, 26, and 41 percent of the rental units in the project as affordable to very low-income households, low-income households, and moderate-income households, respectively. Paragraph 10.b. states that the Condominium Association to the extent practicable, must sell units at the project to the same proportion of very low-, low-, and moderate-income households as indicated in the resident income profile in paragraph 4.a. of the use agreement.

Therefore, contrary to paragraph 12 of the use agreement, the Condominium Association and management agent did not ensure that mortgage payments and assessment fees did not exceed 35 percent of the owners' monthly adjusted gross income other than upon unit sales. Further, the Condominium Association would not be able to support that it sold units to the same proportion of very low-, low- and moderate income households shown in the resident income profile in paragraph 4.a. and required by paragraph 10.b. of the use agreement. The Condominium Association should work with HUD's Chicago Multifamily Housing Hub to resolve recommendations 1K and 1L as applicable.

Comment 14 The Condominium Association stated that it disagrees that denying ownership opportunities to households if the monthly assessment fees would exceed 30 percent of the household's monthly adjusted gross income was contrary to the resident home-ownership plan.

Section IV.A. of the resident home-ownership plan states that prices and financing terms available from the Condominium Association will be established so that an initial homeowner's expenses will not exceed 35 percent of the homeowner's adjusted monthly income. Contrary to the resident home-ownership plan, the Condominium Association would not consider an applicant for the initial sale of a unit if the monthly assessment fees would exceed 30 percent of the household's monthly adjusted gross income. Therefore, units would not be available to some very-low income households where the monthly assessment fees were from 30 to 35 percent of the households' monthly adjusted gross income.

Comment 15 The Condominium Association stated that it has made an effort to enforce and it believed that owners have complied with the principal residency requirements. Further, the issues regarding the unit where the sole owner of record had passed away and the unit where the owners were attempting to sell their unit to the Condominium Association were in transition and would soon be resolved.

Regulations at 24 CFR 248.173(g)(4) and article IV(i) of the grant agreement require initial owners to occupy their unit for at least the initial 15 years of ownership. The sole owner of record of a unit as of July 2016 passed away in December 2010 and two owners moved from their unit in early 2015. The

Condominium Association should work with HUD's Chicago Multifamily Housing Hub to resolve recommendations 1M, 1N, 1O, and 1P as applicable.

Comment 16 The Condominium Association stated that the OIG took issue with a vacant unit due to an owner's illness. We did not include, in the audit report, a vacant unit due to an owner's illness.

Comment 17 The Condominium Association stated that it had disclosed its use of a unit as an office and meeting space to HUD in annual reports over many years. Further, the Condominium Association stated that it would reconsider its use of the unit as an office and meeting space upon HUD's request.

Contrary to paragraph 3 of the use agreement, the Condominium Association used a unit as an office and meeting space. Further, the Condominium Association did not obtain approval from HUD to use the unit for purposes other than rental or condominium housing. The Condominium Association's audited financial statements did not include that the unit was being used as an office and meeting space by the Condominium Association. Further, contrary to article VIII(d) of the grant agreement, the Condominium Association did not submit reports to HUD to demonstrate continued compliance with the program. The Condominium Association should work with HUD's Chicago Multifamily Housing Hub to resolve recommendations 1Q and 1R as applicable.

Comment 18 The Condominium Association stated that to the best of its knowledge it had submitted all reports required under the grant agreement to HUD, and that it believed that it has fulfilled its reporting requirements. Further, the Condominium Association stated that it would work with HUD if HUD requires additional reporting.

Article VIII(d) of the grant agreement states that the Preservation Association or Condominium Association must submit reports to HUD to demonstrate continued compliance with the requirements of the program. The areas of the resident home-ownership plan that currently require reports include but are not limited to (1) semiannual reports on vacancies, (2) semiannual reports or surveys of nonpurchasing tenants, (3) monthly reports on the status of resales, (4) monthly reports on the status of sales activity until all units have been initially sold, and (5) reports on changes in closing costs as needed. The submission of reports was not limited to the four-year term of the grant agreement. Therefore, contrary to article VIII(d) of the grant agreement, the Condominium Association did not submit reports to HUD to demonstrate continued compliance with the program. The Condominium Association should work with HUD's Chicago Multifamily Housing Hub to resolve recommendation 1S.

Comment 19 The Condominium Association stated that it welcomes a representative of HUD at the closings for unit sales if HUD can provide a single point of contact for scheduling. The Condominium Association should work with HUD's Chicago Multifamily Housing Hub to resolve recommendation 1C.

Comment 20 The Condominium Association stated that it had remitted to HUD all proceeds from initial unit sales due to HUD. Contrary to regulations at 24 CFR 248.173(h) and article IV(j) of the grant agreement, the Condominium Association could not provide sufficient documentation to support that the amount due to HUD was accurate.

Comment 21 The Condominium Association stated that it fixed reporting and accounting weaknesses as it was made aware of the weaknesses. The Condominium Association did not identify which reporting and accounting weaknesses that it fixed and did not provide documentation to support that it had addressed any weaknesses. The Condominium Association should provide HUD's Chicago Multifamily Housing Hub documentation to support which reporting and accounting weaknesses that it fixed.

Comment 22 The Condominium Association stated that it will work with HUD to ensure that HUD receives information necessary to assure that the project continues to succeed as an example of resident home-ownership for low- and moderate-income households and it looks forward to working with HUD. The Condominium Association should work with HUD's Chicago Multifamily Housing Hub to address the recommendations cited in this audit report.

Appendix C

Applicable Requirements

Section 226(b)(5)(a)(i) of the Low-Income Housing Preservation and Resident Homeownership Act of 1990 states that a homeowner under a home-ownership program may transfer the homeowner's ownership interest in or membership representing the unit except that a program may establish restrictions on the resale of units under the program.

Regulations at 24 CFR 248.173(g)(4) state that HUD must require that the form of home ownership impose the appropriate conditions to ensure that each initial owner occupies the unit the owner acquires for at least the initial 15 years of ownership, unless the resident council determines that the initial owner is required to move outside the market area due to a change in employment or an emergency situation. Section 248.173(h) states that the entity that transfers ownership interests in or shares representing units to eligible households must return 50 percent of the proceeds from the initial sale to HUD for use under 24 CFR 248.157 and 248.161, subject to the availability of appropriations. The entity must keep and make available to HUD all records necessary to accurately calculate payments due to HUD.

Regulations at 24 CFR 248.173(i)(3) state that at closing, the initial homeowner must execute a nonrecourse promissory note for a term of 20 years equal to the difference between the fair market value of the unit and the purchase price, payable to HUD, together with a mortgage securing the obligation of the note. Section 248.173(i)(3)(i) states that with respect to a sale by an initial homeowner, the note must require payment upon sale by the initial homeowner to the extent that proceeds of the sale remain after paying off other outstanding debt incurred in connection with the purchase of the property; paying any other amounts due in connection with the sale, including closing costs and transfer taxes; and paying the household the amount of its equity in the property, computed in accordance with 24 CFR 248.173(k). Section 248.173(i)(3)(ii) states that with respect to a sale by an initial homeowner during the first 6 years after acquisition, the household may retain only the amount computed under 24 CFR 248.173(k). Any excess is distributed as provided in 24 CFR 248.173(l). Section 248.173(i)(3)(iii) states that with respect to a sale by an initial homeowner 6 to 20 years after acquisition, the amount payable under the note must be reduced by $1/168^{th}$ of the original principal amount of the note for each full month of ownership by the household after the end of the sixth year. The homeowner may retain all other proceeds of the sale.

Regulations at 24 CFR 248.173(j) state that when a subsequent purchaser during the 20-year period, measured by the term of the initial promissory note, purchases the property for less than the then current fair market value, the purchaser must also execute at closing such a promissory note and mortgage for the discount. The term of the promissory note must be the period remaining in the original 20-year period. Section 248.173(k) states that the amount of equity an initial homeowner has in the property is determined by computing the sum of (1) the contribution to equity paid by the household, if any, including any downpayment and any amount paid toward principal on a mortgage loan during the period of ownership; (2) the value of any improvements installed at the expense of the household during the household's tenure as owner, as determined by the resident council based on evidence of amounts spent on the

improvements, including the cost of material and labor; and (3) the appreciated value, determined by applying the consumer price index against the contribution to equity under 24 CFR 248.173(k)(1) and (2), excluding the value of any sweat equity or volunteer labor used to make improvements to the unit. Section 248.173(l) states that any net sales proceeds that may not be retained by the homeowner under the program approved under 24 CFR 248.173 must be paid to the HOME investment trust fund for the unit of general local government in which the project is located.

In HUD's grant agreement with the Preservation Association, dated May 10, 1995, the Preservation Association and Condominium Association agreed to carry out grant activities under the grant agreement in compliance with the regulations, the terms of the resident home-ownership plan for the project, and any other applicable laws and regulations. Article I(a) of the grant agreement states that the Condominium Association will assume ownership of the project from the Preservation Association and sell condominium units to individual owners.

Article IV(e) of the grant agreement states that at the time a unit is sold, the Condominium Association must calculate the fair market value of the unit. The unit purchase price must never exceed the unit value. Article IV(h) states that if a subsequent owner purchases a unit for less than the then current fair market value, as determined by the Condominium Association, that subsequent owner must execute a promissory note meeting the requirements of 24 CFR 248.173(j) for the amount of the difference between the purchase price and the fair market value. Article IV(i) states that the Condominium Association must ensure that all initial owners use the project as their principal residence. Initial owners must agree to occupy the unit for at least the initial 15 years of ownership, unless the Condominium Association determines that the owner is required to move outside the market area where the project is located due to a change in employment or an emergency situation.

Article IV(j) of the grant agreement states that at the time of the sales of units to the initial owners, the Condominium Association must remit to HUD 50 percent of all proceeds from the unit sales. If cash is received from the initial owner because the owner receives a loan for the purchase price, 50 percent of the cash received must be remitted to HUD. If the Condominium Association provides the mortgage loan to the owner, the Condominium Association must remit to HUD 50 percent of the principal paid by the owner as it is paid to the Condominium Association. If the initial owner transfers the unit to a subsequent purchaser who assumes the initial owner's remaining debt, 50 percent of the principal amount collected will continue to be remitted to HUD. Article IV(k) states that the portion of the proceeds from the sale of the units that is not paid to HUD, along with interest paid by the owner on the debt if the owner receives financing from the Condominium Association, must be used to fund a reserve, the purposes of which will be to (1) provide loans to owners who demonstrate short-term inability to make monthly occupancy payments due to loss of income resulting from medical or other emergencies, (2) ensure that the Condominium Association can repurchase units for not less than the owner's initial investment if the owner is unable to secure a qualified buyer, (3) provide financing for prospective purchasers of low- or moderate-income means, and (4) fund a replacement reserve for expenses other than usual or customary operating expenses. HUD may approve additional uses for the funds. The Condominium Association must keep and make available to HUD all records necessary to accurately calculate the payments due to HUD.

Article IV(n) of the grant agreement states that if the initial owner sells the unit within the first 6 years after acquisition, the owner may retain only amounts as allowed by 24 CFR 248.173(k). If the initial owner sells the unit 6 to 20 years after acquisition, the owner may retain all proceeds in excess of amounts payable on the promissory note to HUD allowed by 24 CFR 248.173(i)(3) and as provided by the formula specified in the resident home-ownership plan for the project.

Article VIII(b) of the grant agreement states that the Condominium Association must submit an annual audit to HUD. Article VIII(d) states that the Preservation Association or Condominium Association must submit reports to HUD to demonstrate continued compliance with the requirements of the program. The areas of the resident home-ownership plan that currently require reports include but are not limited to (1) semiannual reports on vacancies, (2) semiannual reports or surveys of nonpurchasing tenants, (3) monthly reports on the status of resales, (4) monthly reports on the status of sales activity until all units have been initially sold, and (5) reports on changes in closing costs as needed.

Article X of the grant agreement states that a default under the grant agreement will consist of any (1) material noncompliance with the Act; the regulations; the resident home-ownership plan; or any other Federal, State, or local law as determined by HUD or (2) other material breach of the grant agreement. If HUD preliminary determines that the Preservation Association or Condominium Association is in default, HUD will give the Preservation Association or Condominium Association notice of a determination of default and the corrective or remedial action proposed by HUD. The Preservation Association or Condominium Association must have the opportunity to demonstrate, within the time prescribed by HUD, that it is not in default or that the proposed corrective or remedial action is inappropriate before HUD implements the corrective or remedial action. When HUD determines that corrective or remedial actions by the Preservation Association or Condominium Association have not been undertaken as instructed or will not be effective to correct the default and prevent further default, HUD may take the following additional corrective and remedial actions under the agreement: (1) demand repayment of all program funds disbursed, including funds held in escrow accounts funded by the grant agreement; (2) initiate litigation or other legal proceedings designed to require compliance with the Act, the regulations, the resident home-ownership plan, the grant agreement, or any other authorities; (3) require the Preservation Association or Condominium Association to transfer all of its rights and interest in the project to HUD; or (4) take any other remedial action legally available. No delay or omission by HUD in exercising any right or remedy under the grant agreement will impair HUD's ability to exercise such right or remedy or constitute a waiver of or consent in any default by the Preservation Association or Condominium Association.

Article XII(a) of the grant agreement states that the Preservation Association or Condominium Association, in performing the terms, provisions, and requirements of the grant agreement, must also follow the provisions and terms of HUD's use agreement with the Preservation Association and the resident home-ownership plan for the project, which are incorporated into the grant agreement. Article XII(h) states that at the time of conversion of the project to condominium ownership, all grant funds will be transferred from the Preservation Association to the Condominium Association, which will assume all rights, title, interest, and obligations held by the Preservation Association in the property, the grant agreement, HUD's use agreement with the

Preservation Association, the resident home-ownership plan for the project, and any and all other property, real and personal, related to the conversion.

Paragraph 2 of HUD's use agreement with the Preservation Association, dated May 10, 1995, states that the use agreement will remain in effect until each of the following four events has occurred but in no event for longer than the remaining useful life of the project: (1) there are no longer any units of the project used as rental housing, (2) all initial owners have sold their units, (3) all of the owners' promissory notes to HUD have been paid in full, and (4) all terms of the resident home-ownership plan have been performed. The Condominium Association may petition HUD to determine that the remaining useful life of the project has expired not less than 50 years from the date of approval of the plan of action for the project. Paragraph 3 states that the project must be used solely as rental or condominium housing, unless otherwise approved by HUD, for the full term of the use agreement.

Paragraph 4.a. of the use agreement states that during the conversion period and for as long as any unit in the project continues to be operated as rental housing after conversion, the Condominium Association must, to the extent practicable, maintain 33, 26, and 41 percent of the rental units in the project as affordable to very low-income households, low-income households, and moderate-income households, respectively. Paragraph 10.b. states that the Condominium Association, to the extent practicable, must sell units at the project to the same proportion of very low-, low-, and moderate-income households as indicated in the resident income profile in paragraph 4.a. of the use agreement. Paragraph 12 states that monthly expenses, including principal, interest, utility costs, taxes, property insurance, and home-ownership fees, for all owners must not exceed 35 percent of the owner's monthly adjusted gross income. Paragraph 18 states that the Condominium Association must maintain the project in a decent, safe, and sanitary condition.

Section I of the resident home-ownership plan for the project, dated January 11, 1995, states that the Preservation Association submitted the resident home-ownership plan of action as an innovative model for the implementation of the resident home-ownership objectives of the Act. Section IV.A. states that prices and financing terms available from the Condominium Association will be established so that an initial homeowner's expenses will not exceed 35 percent of the homeowner's adjusted monthly income. Estimated monthly home-ownership fees and an estimate of utility costs, taxes, and insurance for each unit size based on the financing available from the Condominium Association are included in the monthly cost schedule in tab 10 of the resident home-ownership plan. Any rental units vacated by current households, either during the conversion period or after the conversion to home ownership, must be marketed and households must be selected in accordance with the affirmative fair housing marketing and tenant selection plan in tab 15 of the resident home-ownership plan. The schedule of estimated monthly homeowner assessments and expenses in tab 10 states that monthly housing expenses include homeowners' assessments and debt service. Utilities, taxes, and insurance are included in the homeowners' assessments. The marketing and tenant selection plan in tab 15 states that the Condominium Association will market units using a waiting list and lease units to very low-, low-, and moderate-income households as defined in the resident home-ownership plan.

Appendix D

Schedule of Deficiencies

Unit reference number	Unit owner-ship	Preservation Association note	Initial unit sales	Subsequent unit sales	Owners' income	Principal residence
1		X			X	
2		X			X	
3		X			X	
4		X			X	
5		X	X		X	
6		X		X	X	
7		X	X		X	
8		X			X	
9		X			X	
10		X			X	
11	X					
12		X	X		X	
13	X					
14		X			X	
15	X					
16					X	
17		X	X		X	
18		X			X	
19		X			X	
20		X			X	X
21		X			X	
22		X			X	
23	X			X		
24		X			X	
25		X			X	
26		X			X	
27		X			X	
28		X			X	
29	X					
30		X			X	
31		X			X	
32		X			X	
33		X	X		X	
34		X			X	
35		X			X	
36		X			X	

Unit reference number	Unit owner-ship	Preservation Association note	Initial unit sales	Subsequent unit sales	Owners' income	Principal residence
37		X			X	
38		X			X	
39		X			X	
40		X			X	
41		X			X	
42		X			X	
43		X			X	
44		X			X	
45		X		X	X	
46		X			X	
47		X			X	X
48	X					
49		X			X	
50		X			X	
51	X					
52		X			X	
53		X			X	
54		X			X	
55		X			X	
56		X			X	
57		X	X		X	
58		X			X	
59		X			X	
60		X			X	
61		X			X	
62		X			X	
63		X		X	X	
64		X			X	
65		X	X		X	
66	X					
67		X		X	X	
68		X	X		X	
69		X	X		X	
Totals	**8**	**60**	**9**	**5**	**61**	**2**

* The blue fields represent when the review did not apply. During the audit, we provided the Condominium Association schedules that detailed the results of our reviews.