



OFFICE of
INSPECTOR GENERAL

UNITED STATES DEPARTMENT OF
HOUSING AND URBAN DEVELOPMENT

Solis Gardens Apartments Was Not Properly Managed in Accordance with HUD Requirements or Its Regulatory Agreement

Report Number: 2026-BO-1001

June 16, 2026

Highlights

Solis Gardens Apartments Was Not Properly Managed in Accordance with HUD Requirements or Its Regulatory Agreement | 2026-BO-1001

What We Audited and Why

We audited Solis Gardens Apartments' management of its HUD-insured Section 207/223(f) multifamily property as part of our annual work plan. The owner of Solis Garden Apartments manages 62 units in accordance with HUD requirements and its regulatory agreement which includes restrictions on the use of project funds and assets. We selected Solis Gardens Apartments for an audit based on risk indicators, such as surplus cash deficiencies, missed or late mortgage payments, HUD's risk rating, and the absence of any HUD Management and Occupancy reviews. Our audit objective was to determine whether the owner managed Solis Gardens Apartments in accordance with HUD requirements and its regulatory agreement.

What We Found

The owner of Solis Garden Apartments did not manage its property in compliance with HUD requirements or its regulatory agreement. Specifically, the owner made improper routine cash distributions totaling more than \$1.5 million and improperly deposited \$35,979 of reserve for replacement funds into an owner-controlled account while the property was in a non-surplus cash position. The owner also accrued \$25,210 in excess asset management fees and charged more than \$16,764 in excess property management fees. Lastly, property accounting records were not maintained in accordance with HUD requirements. These conditions occurred due to insufficient oversight by the owner, and owner-established policies that conflicted with HUD requirements. Collectively, these deficiencies demonstrate a failure to maintain transparent and HUD-compliant financial management and accounting practices. Without corrective action, these conditions increase the risk of further regulatory violations and undermine the long-term financial viability of the property.

What We Recommend

We recommend that the San Francisco Region Director of Multifamily Housing require the Solis Gardens Apartments' owner to, (1) reimburse the property \$1,556,322 from non-property funds for the ineligible distributions into the owner-controlled account; (2) reimburse the property account \$35,979 from non-property funds for the ineligible deposits into the owner-controlled account from the reserve for replacement disbursements; (3) reverse the asset management fee accruals by \$25,210 for the net over-accrual from 2023 and 2024; and (4) reimburse the property account \$16,764 for excess property management fees.

Table of Contents

Background and Objective	1
Results of Audit.....	2
Solis Garden Apartments Was Not Properly Managed In Accordance with HUD Requirements or Its Regulatory Agreement.....	2
Scope and Methodology	8
Appendixes	9
Appendix A – Schedule of Questioned Costs	9
Appendix B – Management Response	10

Background and Objective

The U.S. Department of Housing and Urban Development's (HUD) Federal Housing Administration (FHA) provides mortgage insurance for eligible multifamily housing properties under Section 207 of the National Housing Act, as amended. Pursuant to Section 223(f), FHA insurance is available for the purchase or refinancing of existing multifamily rental properties that meet HUD's underwriting, physical condition, and financial requirements. Properties insured under this program operate subject to the terms of a HUD regulatory agreement, which imposes restrictions on property operations, use of property funds, distributions to owners, and other financial and managerial activities to protect the FHA insurance fund.

Solis Gardens Apartments is a 62-unit multifamily rental property located at 145 Lund Avenue, Hayward, CA. The property is owned by 145 Lund LP (partnership), which was originally formed as a limited liability company, on November 28, 2016, under the laws of the State of California. In December 2020, the entity was converted to a limited partnership and operates under a Second Restated and Amended Operating Agreement.

On October 31, 2019, the partnership obtained an FHA-insured mortgage in the original principal amount of \$17.3 million pursuant to Section 207/223(f). As of December 2024, the outstanding mortgage balance was approximately \$15.4 million. As an FHA-insured property, Solis Gardens Apartments operates under a HUD regulatory agreement and is subject to its associated financial, operational, and reporting requirements.

The property reported negative surplus cash at the end of fiscal years 2022, 2023, and 2024, totaling \$95,131, \$252,889, and \$37,257, respectively. In addition, the property failed to make timely mortgage payments during 2023, although the delinquency was cured in early 2024. As of April 2025, HUD rated Solis Gardens Apartments as "potentially troubled" and had not conducted any management and occupancy reviews of the property.

The property was managed in accordance with a management agreement between the owner and an unrelated management agent. Under the agreement, the management agent was responsible for the day-to-day management of the property, including tenant leasing and occupancy, rent collection, maintenance, preparation of financial reports and other financial activities. Although operational responsibilities were delegated to the management agent, the owner remained responsible for ensuring compliance with HUD requirements and the regulatory agreement. As of December 1, 2025, HUD conditionally approved a new management company to assume management responsibilities for the property.

Our audit objective was to determine whether the owner managed Solis Gardens Apartments in accordance with HUD requirements and its regulatory agreement.

Results of Audit

Solis Garden Apartments Was Not Properly Managed In Accordance with HUD Requirements or Its Regulatory Agreement

The owner of Solis Garden Apartments did not manage its Section 207/223(f) property in compliance with HUD requirements or its regulatory agreement. Our review disclosed systemic noncompliance related to owner distributions, reserve for replacement disbursements, improper excess asset management fee accruals, unallowable excess property management fees paid, and incomplete and unreliable accounting records. Collectively, these deficiencies demonstrated a failure to maintain transparent and HUD-compliant financial management and accounting practices. These conditions occurred due to insufficient oversight by the owner, and owner-established policies that conflicted with HUD requirements. Without corrective action, these conditions increase the risk of further regulatory violations and undermine the long-term financial viability of the property.

The Owner Made Ineligible Cash Distributions

Contrary to its regulatory agreement, which only allows distributions when there is surplus cash in the prior year¹, the owner transferred more than \$1.5 million from its operating account without a prior year surplus. Specifically, the owner made distributions to an owner-controlled bank account routinely between January 1, 2023, and December 31, 2024.

These transfers occurred despite the property reporting negative surplus cash in 2022 and 2023, which is in violation of the regulatory agreement. Due to the property's non-surplus cash position, the following distributions were ineligible.

Year	End of year surplus cash	Cash transfers allowed in next fiscal year	Cash transfers made in next fiscal year
2022	(\$95,131)	\$0	\$789,019
2023	(\$252,889)	\$0	\$767,303
Total cash transferred in 2023 and 2024			\$1,556,322

The regulatory agreement requires that any distribution of funds of the property not permitted by the agreement or program obligations be returned to the appropriate property account as specified by HUD immediately. As of fiscal year-end December 31, 2024, the property was still operating at a deficit, reporting negative surplus cash of \$37,257. Ownership's practice of reoccurring cash distributions regardless of prior year cash, resulted in improper distributions which limited HUD's ability to safeguard project resources and ensure compliance with applicable HUD and regulatory agreement requirements. When funds are maintained in owner-controlled accounts, HUD cannot monitor their use, increasing the risk that project funds may be spent on ineligible purposes.

¹ The regulatory agreement requires that any distribution must be taken within the accounting period immediately following the computation of surplus cash and only to the extent that there is surplus cash.

The Owner Improperly Managed Its Reserve for Replacement Funds

HUD's regulatory agreement requires that the owner establish and maintain a Reserve for Replacement Account that may be used to pay for certain costs, such as major structural elements and mechanical equipment. The account is funded with required monthly deposits from the property and consistent with HUD guidance. Reimbursements should go back to the property operating account and can only be made as approved by HUD pursuant to program obligations. Between January 1, 2023, and January 3, 2025, HUD approved four reimbursements totaling \$44,979; however, \$35,979 was improperly deposited into an owner-controlled account² rather than the required property operating account, which is a violation of HUD requirements. This represents another ineligible owner distribution since the disbursements were meant for the property account and not for the owner.

Of the \$35,979 in improper deposits, the owner lacked documentation to support that \$12,226 was used for HUD-approved capital replacement items, indicating systemic weaknesses in cost eligibility and documentation. Specifically, the following disbursements were unsupported:

- Two disbursements included duplicate invoices for appliances, pipe, and water heater replacements totaling \$5,540.
- Multiple disbursements were for routine maintenance rather than capital repairs under HUD requirements, including drywall repairs and flange and pipe work, totaling a net of \$3,211 (\$5,411 minus \$2,200 for a duplicate invoice reflected in the first bullet above).
- Multiple disbursements for items, such as appliances and doors, lacked adequate support, including invoices with inconsistent dates or number of items, or otherwise inconsistent documentation, totaling \$3,475.

Insufficient oversight by ownership contributed to these conditions, along with policies created by ownership that conflicted with HUD requirements. Failure to comply with HUD and regulatory agreement requirements resulted in mismanagement of restricted funds and unsupported costs.

The Owner Accrued Improper Asset Management Fees

Asset management fees payable to the property's ownership were not properly calculated in accordance with the applicable operating agreement. As a result, for the 2-year period of 2023 and 2024, the property over-accrued asset management fees by \$25,210 (\$34,470 over-accrual in 2024 minus \$9,260 under-accrual in 2023). Specifically, the annual asset management fee is limited to five point five percent of effective gross income (EGI) less the property management fee paid.³ For 2024, the property over-accrued asset management fees by \$34,470 and for 2023, the property under-accrued asset management fees by \$9,260.⁴

² The remaining \$9,000 of the \$44,979 was also deposited into the owner-controlled account. However, the item was documented as initially paid for with owner funds and deemed supported; therefore, the reimbursement is not included in the total amount questioned.

³ See below subsection "Unallowable Property Management Fees and Misleading Financial Reporting" for more information on actual property management fees paid. To assess the improper asset management fee accruals, we used the maximum allowed management fee for 2023 and 2024 versus the actual management fee paid for consistency and to avoid double counting any questioned costs.

⁴ For 2023 and 2024, the allowable asset management fees payable was the EGI times .055 percent less the management fee paid. For 2023, that calculation was \$1,491,323 times .055 percent less \$37,283 = \$44,740. For 2024, that calculation was \$1,561,769 times .055 percent less \$39,044 = \$46,853. For consistency, we used the maximum allowed fee.

Ownership engaged separate accountants to calculate these fees and did not oversee the calculations. These errors demonstrate noncompliance with the methodology required by the governing agreement, and the accruals in the financial statements lacked accurate supporting calculations.

The Owner Improperly Charged and Recorded Property Management Fees

In addition to the improper accruals for asset management fees, the owner also charged and recorded property management fees more than the amount allowed per the HUD-approved management agreement. In total the property paid excess property management fees of \$16,674 between January 1, 2023, and December 31, 2024. Specifically, the property management fees paid to the management agent exceeded the limits established in the agreement, which restricted fees to the greater of 2.5 percent of EGI or \$18 per unit per month.⁵ Based on reported EGI, allowable fees were \$37,283 for 2023 and \$39,044 for 2024 as follows:

Year	EGI	Maximum allowed fee at 2.5 percent of EGI
2023	\$1,491,323	\$37,283
2024	\$1,561,769	\$39,044

However, the property paid \$44,731 in 2023 and \$48,360 in 2024, resulting in the excess, unallowable fees.

Year	Property management fees paid	Maximum allowed fee at 2.5 percent of EGI	Excess fees paid (paid minus allowed)
2023	\$44,731	\$37,283	\$7,448
2024	\$48,360	\$39,044	\$9,316
Totals	\$93,091	\$76,327	\$16,764

Further, the excess fees were not recorded or reported transparently. Ownership policies introduced accounting practices that divided the management fee into two general ledger categories, “management fees” and “professional fees.” Although the individual postings varied each month, the combined amounts consistently equaled the full property management fee paid. In the audited financial statements, only the portion charged to the “management fees” account was reported under HUD Account 6320 -Management Fees. The remaining amounts were reported under HUD Account 6390-Miscellaneous Other Administrative Expenses. The recording of some management fees under this

⁵ For both 2023 and 2024, the 2.5 percent calculation produced the higher allowable fee.

miscellaneous account masked the actual cost of management services in the project's financial documentation and audited financial statements, making them unreliable.

The Owner Failed to Maintain Complete and Accurate Accounting Records

The owner did not maintain its accounting records, including the general ledger, in accordance with HUD requirements. Ownership established policies that contributed to this issue. Specifically, the property did not maintain a single, consolidated set of accounting records that reflected all operations as required, by the regulatory agreement and HUD Handbook 4370.2 REV-1, Financial Operations and Accounting Procedures for Insured Multifamily Projects. Instead, separate records were maintained by the owner and the management agent, resulting in incomplete and unreliable financial records. The property's general ledger omitted fundamental accounts, including the first mortgage, notes payable, interest expense, owner advances, affiliate loans, and reserve for replacement reimbursement activity. Additionally, mortgage payments and other owner-managed transactions were excluded from both the property's books and property operating account.

Material balances in the audited financial statements, such as General partner advances and Loan from affiliate, could not be reconciled to the property's general ledger or bank statements. For example, the December 31, 2024 audited financial statements reported \$307,025 in General partner advances to the property and a \$290,000 Loan from affiliate to the property; however, these amounts were not recorded in the general ledger and could not be traced to bank statements, contrary to the regulatory agreement requirement that "any borrower advances⁶ must be deposited into the property's operating account as required by program obligations."

Conclusion

The owner's insufficient oversight and policies that conflicted with HUD requirements led to improper cash transfers, mismanagement of restricted reserve funds, inaccurate fee accruals, excess management charges, and incomplete accounting records. Without corrective action, these conditions increase the risk of further regulatory violations and undermine the long-term financial viability of the property.

Recommendations

We recommend that the San Francisco Region Director of Multifamily Housing require the Solis Gardens Apartments' owner to:

- 1A. Reimburse the property \$1,556,322 from non-property funds for the ineligible distributions into the owner-controlled account.
- 1B. Reimburse the property account \$35,979 from non-property funds for the ineligible deposits into the owner-controlled account from reserve for replacement disbursements.

⁶ Per HUD's regulatory agreement, "Borrower Advances" means any advance of funds or loan to the Project made by Borrower or any Affiliate for whatever reason.

- 1C. Provide documentation to support the \$12,226⁷ in unsupported reserve for replacement disbursements or reimburse the reserve for replacement account.
- 1D. Reverse the asset management fee accruals by \$25,210 for the net over accrual from 2023 and 2024.
- 1E. Reimburse the property account \$16,764 for the excess property management fees paid.
- 1F. Consolidate accounting records and maintain a single general ledger reflecting all property financial activity.
- 1G. Establish and implement stronger oversight procedures and update accounting policies to ensure ongoing compliance with HUD, regulatory agreement, and the applicable ownership operating agreement requirements, to include monitoring management fee payments and accruals to prevent overcharges, ensuring cash transfers align with regulatory provisions, and verifying that reserve for replacement reimbursements are properly deposited into the operating account with required documentation.

Management Response

Ownership of Solis Garden Apartments (Ownership) agreed with some audit findings but disputed others. For recommendations 1A and 1B, they disagreed that the \$1,556,322 transferred from the operating account to the owner-controlled account, or that the \$35,979 in reserve for replacement disbursements deposited into the owner-controlled account constituted ineligible distributions. It stated that both accounts operate within the property's cash-management structure; therefore, the transfers and deposits did not meet the regulatory definition of "distributions." Ownership acknowledged the need for better tracking of reserve-for-replacement activities and committed to depositing future reserve reimbursements back into the operating account from which eligible expenditures were paid. For recommendation 1C, it agreed to reimburse \$8,751 of the \$12,226 in questioned reserve-for-replacement costs and to provide documentation to HUD supporting the remaining \$3,475.

Regarding the asset management fee accruals and excess property management fees paid, cited in recommendations 1D and 1E, Ownership agreed the accruals were overstated but disputed the total amount. It stated that their CPA inaccurately reported the asset management fee as 5 percent instead of the correct 5.5 percent per the property's operating agreement. Ownership committed to reversing \$25,211 of the \$40,476 in over-accrued fees, reflecting the difference between the 5 percent and 5.5 percent allowable fee, and to strengthening internal controls to ensure accurate fee reporting. It also agreed to reimburse the \$16,764 in excess property management fees.

For recommendations 1F and 1G, Ownership disagreed that the accounting records were incomplete. It explained that although some transactions do not appear in the management agent's reports, they are fully recorded in Ownership's financial statements. Ownership maintains that its accounting policies are generally consistent with HUD requirements and property's governing agreements. However, it agreed with the recommendation to strengthen oversight procedures and internal review processes related to management fee payments, asset management fee accruals, cash transfers, and reserve for replacement

⁷ To avoid double-counting, the \$12,226 cited in recommendation 1C is not included as a separate questioned cost in this report, as it is part of the \$35,979 in ineligible costs cited in recommendation 1B.

reimbursement activity. Ownership emphasized its commitment to compliance with HUD requirements and maintaining sound financial oversight and operational management of the property.

Ownership's full comments are included in Appendix B.

OIG Evaluation of Management Response

We acknowledge Ownership's comments and appreciate their willingness to address several of our recommendations.

Regarding the operating and owner-controlled accounts, the only accounting records initially provided were the property's general ledger, which did not include activity from the owner-controlled account. The former accountant informed us that no other ledgers existed. The project's ledger recorded transfers to the owner-controlled account as "317000 Distributions to Partners." Only after our meeting with the former accountant were the owner-controlled bank statements submitted. These statements showed project related mortgage payments made from the account, along with other transactions that did not appear related to the project. Although we discussed these issues with Ownership throughout the audit and included them in preliminary findings shared in December 2025, Ownership did not disclose that the owner-controlled account functioned as a project account until after issuance of the draft report. During audit resolution, HUD will determine whether the \$1,556,322 and the \$35,979 deposited into the owner-controlled account were for property related expenditures or whether those deposits were ineligible distributions as cited in this report.

We acknowledge the willingness of Ownership to reimburse the property \$8,751 from non-project funds, provide HUD support for the remaining \$3,475 in reserve for replacement disbursements, and reimburse the property \$16,764 from non-project funds for the excess management fees paid. Concerning the asset management fee calculation, we agree that the operating agreement allows a 5.5 percent fee, while the audited financial statement notes referenced a 5 percent fee. Based on our calculations using the correct 5.5 percent rate, the required reversal is \$25,210 rather than the \$40,476 initially calculated. The report has been revised accordingly.

We disagree that the accounting records are complete. While a project may maintain more than one operating account, all accounts and related activity must be included in a single set of books. Transfers between operating accounts should not be recorded as distributions. We continue to recommend that Ownership consolidate accounting records and maintain a single general ledger reflecting all property financial activity. Ownership should work with HUD during the audit resolution process to address the required corrective actions. Lastly, we acknowledge the agreement from Ownership to strengthen oversight procedures and internal review processes related to management fee payments, asset management fee accruals, cash transfers, and reserve for replacement activity.

Scope and Methodology

We performed our audit off-site at our offices in Hartford, CT, and Pittsburgh, PA, from July 2025 to January 2026. The audit covered the period January 1, 2023, through December 31, 2024, and was expanded to include the property's surplus cash position as of December 31, 2022, verification of January 2, 2025, reserve for replacement reimbursement, and a review of bank statements through January 31, 2025.

To accomplish our audit objective, we

- Reviewed applicable laws, regulations, and HUD handbooks for FHA-insured multifamily properties.
- Interviewed HUD and Solis Garden Apartments staff to understand property management and operations.
- Examined key agreements, including the regulatory agreement, the management agreement, and the second restated and amended operating agreement.
- Obtained and reviewed 145 Lund LP (owner) bank statements for the period January 1, 2023, through January 31, 2025.
- Reviewed Solis Garden Apartments' financial and operational records, including audited financial statements for 2022–2024, reserve for replacement records for January 2023 to January 2025, and general ledgers, trial balances, check registers, reconciliations, mortgage schedules, work orders, and rent roll reports for the audit period January 1, 2023, to December 31, 2024.
- Assessed the property's accounting records and examined property and asset management fees, owner distributions and other cash sweeps, and reserve for replacement activity.

Due to insufficient reporting by the prior management agent, we were unable to confirm that all cash receipts were deposited into an account in the property's name.

We used the computer-processed data from HUD's Integrated Real Estate Management System, Gov Cloud Records Management Application and the prior management agent's systems. Although we did not perform a detailed reliability assessment, minimal testing, including comparing the computer-processed data to source documents, indicated the data was adequate for our purposes.

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

Appendixes

Appendix A – Schedule of Questioned Costs

Table 1. Schedule of Questioned Costs

Recommendation Number	Ineligible 1/
1A	\$1,556,322
1B	\$35,979
1D	\$25,210
1E	\$16,764
Totals	\$1,634,275

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

Appendix B – Management Response

145 Lund LP
2191 Market Street, Suite A
San Francisco, CA 94114

June 5, 2026

Ms. Kristen Ekmalian, Senior Auditor
U.S. Department of Housing and Urban Development - Office of the Inspector General
20 Church Street, 10th Floor
Hartford, CT 06103
KEkmalian@hudoig.gov

SUBJECT: Response to OIG Report - Solis Garden Apartments Was Not Property Managed in Accordance with HUD Requirements or Its Regulatory Agreement

Dear Ms. Ekmalian,

On behalf of the ownership of Solis Garden Apartments, thank you for the opportunity to review and respond to the audit findings. We appreciate the time and assistance your office has provided throughout this process and value the collaborative approach taken to ensure compliance with HUD requirements and program standards.

The following responses address the findings and recommendations identified in the report and provide additional information, ownership's position, and planned corrective actions where applicable.

The Owner Made Ineligible Cash Distributions

OIG Recommendation 1A - Reimburse the property \$1,556,322 from non-property funds for the ineligible distributions into the owner-controlled account.

Response: Ownership respectfully disagrees with the characterization that the \$1,556,322 represents ineligible distributions.

As part of the property's cash management structure, rent collections are deposited into an operating account maintained by the management agent (Account A), which is used to pay routine operating expenses including utilities, payroll, vendor payments, management fees, and other day-to-day costs. At the end of each month, remaining operating funds in Account A are

transferred to the owner-controlled operating account (Account B), which is used to pay additional project-related obligations including debt service and capital expenditures.

The \$1,556,322 identified as ineligible distributions represents the total funds transferred from Account A to Account B during the audit period. Although Account B is owner-controlled, both accounts function as components of the property's operating cash structure and are used exclusively for project obligations. All financial activity related to both accounts is reported to HUD as part of the required annual audit process.

Article I, Section 1(g) of the regulatory agreement defines a "distribution" as any disbursement, conveyance, or transfer of any portion of the mortgaged property, including the segregation of cash or assets for subsequent withdrawal as surplus cash, other than in payment of reasonable operating expenses or other authorized transfers under the agreement. Ownership maintains that the \$1,556,322 transferred from Account A to Account B does not constitute a distribution, as these funds remained within the property's operating cash structure and were used for property-related obligations.

For these reasons, ownership does not agree that reimbursement of \$1,556,322 is warranted.

The Owner Improperly Managed Its Reserve for Replacement Funds

OIG Recommendation 1B - Reimburse the property account \$35,979 from non-property funds for the ineligible deposits into the owner-controlled account from reserve for replacement disbursements.

Response: As described in the response to Recommendation 1A, the property utilizes two operating accounts, both of which are used for property expenses, including expenditures eligible for reimbursement from the reserve for replacement account. The owner-controlled account was established with our loan servicer as the default account for receipt of reimbursement payments, however, we recognize the benefit of maintaining a clear and consistent audit trail between reserve for replacement expenditures and related reimbursements.

Going forward, ownership will track the specific operating account from which eligible expenditures are paid and ensure that reserve for replacement reimbursements are deposited into the same account.

OIG Recommendation 1C. - Provide documentation to support the \$12,226 in unsupported reserve for replacement disbursements or reimburse the reserve for replacement account.

Response: Of the \$12,226 in questioned costs, \$5,540 relates to duplicate invoices that were inadvertently submitted, and \$3,211 relates to expenditures that were incorrectly classified as capital repairs rather than routine maintenance. Ownership acknowledges these issues and will reimburse the property \$8,751 from non-project funds to address these unsupported disbursements.

Regarding the remaining \$3,475 in expenditures lacking adequate support, ownership will work with HUD to ensure all necessary support documentation is provided.

The Owner Accrued Improper Asset Management Fees

OIG Recommendation 1D. - Reverse the asset management fee accruals by \$40,476 for the net over accrual from 2023 and 2024.

Response: Ownership agrees that the accrued asset management fees reported in the annual audits supplied to HUD for 2023 and 2024 were overstated.

The over-accrual was primarily due to incorrect fee calculations being provided to our CPA for 2024, which was subsequently submitted to HUD. Ownership acknowledges this error and will implement internal protocols to ensure management fees are accurately applied and verified prior to submission of future annual audits.

Additionally, the asset management fee for the project was inaccurately reported as 5% of EGI by our CPA in our 2023 and 2024 annual audits. Per the project’s operating agreement, the asset management fee is 5.5% of EGI. Our CPA acknowledges this error and has corrected their records to reflect the correct fee structure.

We will reduce the accrued asset management fees for 2023 and 2024 by \$25,211, based on the corrected management fees calculated in the table below. This reversal will be reflected in our 2026 annual audit.

Year	EGI	Maximum Allowed Fee (3% of EGI)	Accrued Fees Reported in Annual Audit	Over Accrual / (Under Accrual)
2023	\$1,491,323	\$44,740	\$35,480	-\$9,259
2024	\$1,561,769	\$46,853	\$81,323	\$34,470
Totals	\$3,053,092	\$91,593	\$116,804	\$25,211

The Owner Improperly Charged and Recorded Property Management Fees

OIG Recommendation 1E. - Reimburse the property account \$16,764 for the excess property management fees paid.

Response: Ownership agrees that the property management fees paid from the project exceeded the rate permitted under the HUD-approved management agreement, which stipulated a management fee of 2.5% of EGI. Ownership will reimburse the property's operating account \$16,764 from non-project funds.

The excess management fees resulted from circumstances that arose in January 2023, when the property's management agent issued a 30-day termination notice covering this property and seven other properties within the portfolio. To avoid operational disruption and ensure continuity of resident services, ownership elected to retain the existing management agent by agreeing to an increased management rate of 4% of EGI or a \$65/unit per month minimum.

As of December 1, 2025, a new management agent has been engaged to oversee the property. The current management agreement and management fee structure have been approved by HUD, and ownership will ensure that future management fee payments comply with the approved agreement. In addition, ownership will ensure that any future modifications to the management fee structure are submitted to HUD for review and approval before implementation.

The Owner Failed to Maintain Complete and Accurate Accounting Records

OIG Recommendation 1F. - Consolidate accounting records and maintain a single general ledger reflecting all property financial activity.

Response: We respectfully disagree with this recommendation, as ownership maintains a consolidated set of financial records, including a general ledger, that captures all financial activity related to the property.

As indicated in the report, certain transactions, including mortgage activity, notes payable, interest expense, owner advances, affiliate loans, and reserve for replacement reimbursement activity, are not reflected in the financial reports maintained by the management agent. Ownership agrees with this observation, however, these transactions are recorded within the ownership-level general ledger and related financial records.

All financial activity maintained by the management agent is reported to ownership and subsequently incorporated into the ownership-level accounting records. As a result, ownership

maintains a single consolidated set of financial records that includes all property financial activity, including transactions recorded by both the management agent and ownership. Further, the consolidated financial records, together with the management agent's financial reports, are provided annually to an independent CPA as part of the HUD-required audit. Since the property's refinance in 2019, the same CPA firm has performed the annual audits and has not identified any issues reconciling the property-level financial statements to the consolidated ownership records.

While maintaining accounting activity across multiple operating accounts may create additional complexity, ownership maintains that all property financial activity is appropriately captured, consolidated, and reported. We also remain willing to work with HUD to address any specific concerns regarding the presentation or organization of these records and to ensure continued compliance with applicable HUD requirements and the regulatory agreement.

OIG Recommendation 1G. - Establish and implement stronger oversight procedures and update accounting policies to ensure ongoing compliance with HUD, regulatory agreement, and the applicable operating agreement requirements, to include monitoring management fee payments and accruals to prevent overcharges, ensuring cash transfers align with regulatory provisions, and verifying that reserve for replacement reimbursements are properly deposited into the operating account with required documentation.

Response: Ownership respectfully maintains that its accounting policies are generally consistent with applicable HUD requirements and the property's governing agreements. However, ownership agrees with the recommendation to strengthen oversight procedures and internal review processes related to management fee payments, asset management fee accruals, cash transfers, and reserve for replacement reimbursement activity.

Ownership will implement additional review controls to verify that management fees and asset management fees are calculated, accrued, and paid in accordance with the applicable agreements. Ownership will also strengthen internal procedures related to reserve for replacement reimbursements by ensuring that reimbursement requests are supported by adequate documentation and that reimbursements are deposited into the appropriate operating account.

In closing, ownership of Solis Garden Apartments remains committed to compliance with HUD requirements and to maintaining sound financial oversight and operational management of the property. We recognize the importance of effective internal controls, accurate documentation,

and transparent accounting practices and will continue to strengthen procedures and oversight where appropriate to support ongoing compliance.

We appreciate the opportunity to respond to the audit findings and value our working relationship with your office. We remain available to provide any additional information or documentation requested and will continue to cooperate fully throughout the audit resolution process.

Sincerely,



Maybelline Luz
Asset Manager
Solis Garden Apartments