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DEPT. OF REAL ESTATE

By John Aguil

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BEFORE THE DEPARTMENT OF REAL ESTATE
STATE OF CALIFORNIA

In the Matter of the Accusation of)
PAUL E. BRONSTEIN,)
Respondent.)
No. H-41717 LA
ACCUSATION

The Complainant, Maria Suarez, a Supervising Special Investigator for the Department of Real Estate ("Department" or "DRE") of the State of California, for cause of Accusation against PAUL E. BRONSTEIN ("BRONSTEIN") ("Respondent"), alleges as follows:

1. The Complainant, Maria Suarez, acting in her official capacity as a Supervising Special Investigator, makes this Accusation against Respondent.

2. All references to the "Code" are to the California Business and Professions Code and all references to "Regulations" are to Title 10, Chapter 6, California Code of Regulations.

LICENSE HISTORY

3. Respondent BRONSTEIN has been licensed by the Department as a real estate broker, License ID 00784809, from on or about January 29, 2001, through the present, with BRONSTEIN's license scheduled to expire on January 28, 2021, unless renewed. BRONSTEIN was previously licensed as a real estate salesperson from on or about May 20, 1980 to on or about January 28, 2001. According to Department records as of August 20, 2019, BRONSTEIN employed one salesperson and did not maintain any branch offices. Also according to Department

1 records as of August 20, 2019 and currently, the fictitious business name "K & B Property
2 Management" ("KBPM") is licensed to BRONSTEIN.

3 **BROKERAGE: BRONSTEIN**

4 4. At all times mentioned, in the County of Los Angeles, BRONSTEIN acted as a real
5 estate broker, conducting licensed activities within the meaning of Code Section 10131(b): leasing
6 or renting, offering to lease or rent, or collecting rents from real property for others.

7 **COMPLAINT**

8 5. On or about October 5, 2018, the DRE received a complaint from C.M.^{1/} against
9 BRONSTEIN and K & B Property Management, alleging that KBPM had provided property
10 management services for over 10 years under a contract with the N. Trust, owner of the properties
11 located at 5309 and 5319 Whitsett Avenue, Los Angeles, CA 91607 ("Whitsett Properties"). C.M.
12 alleged that in early 2018 C.M. became the successor trustee of the N. Trust. In April 2018, C.M.
13 requested banking information about the Whitsett Properties and thereafter learned that there were
14 over \$275,000 in excess funds in the bank accounts for the Whitsett Properties. C.M. made multiple
15 requests to KBPM for disbursement of the excess funds to the N. Trust and information, but KBPM
16 only disbursed the funds after C.M. retained an attorney for the trust and after delays. KBPM
17 provided minimal information. C.M. alleged that after requesting further information and backup
18 on expenses for the properties, KBPM terminated the contract with the N. Trust.

19 6. C.M. alleged that she discovered in managing the Whitsett Properties, KBPM:
20 charged sub-market rent; provided insufficient receipts for monthly expenses; failed to reference
21 the N. Trust or trustee on the three bank accounts for the properties; and kept trust funds as a
22 savings account for the trustee. C.M. also alleged that KBPM caused the N. Trust to deplete assets
23 by C.M.'s having to retain an attorney for the N. Trust to engage with KBPM, and that
24 BRONSTEIN retained his own attorney using trust funds from the N. Trust.

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28 ^{1/} Initials of first and last names are used in place of an individual's full name to protect their privacy. Documents containing the individual's full name will be provided during the discovery phase of this case to Respondents and/or their attorney(s), after service of a timely and proper request for discovery on Complainant's counsel.

AUDIT OF BRONSTEIN: AUDIT NO. LA180117

7. On September 20, 2019, the Department completed an audit examination of the books and records of BRONSTEIN's real estate activities that require a real estate broker license under Code Section 10131. The audit examination, LA180117, covered the time period from July 1, 2016 to June 30, 2019 ("audit period") and was limited to BRONSTEIN's property management activities.

8. The purpose of the audit examination was to determine whether BRONSTEIN conducted his real estate activities and handled and accounted for trust funds in accordance with the Real Estate Law and the Regulations.

9. Based on discussions between the Department's auditor and BRONSTEIN, and review of documents, the ownership structure of BRONSTEIN's property management business, KBPM, as of July 17, 2019 was as follows:

<u>Name</u>	<u>Title</u>	<u>License</u>	<u>Ownership %</u>
BRONSTEIN	Owner/VP	00966808 (REB)	50%
Steven Kelman ("Kelman")	Owner/President	Non-licensee	50%

10. BRONSTEIN's property management activity was conducted under BRONSTEIN's individual broker license. BRONSTEIN managed approximately 72 properties for 74 property owners during the audit period and collected approximately \$14.4 million in trust funds annually. BRONSTEIN also charged various management fees ranging from 3% to 6% of collected rents, or flat fees ranging from \$100 to \$350 depending on the size of the properties managed.

11. BRONSTEIN maintained 57 active single beneficiary bank accounts and 7 inactive single beneficiary bank accounts for handling trust funds during the audit period. Audit Report LA180117 identified violations in the following seven bank accounts:

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1 **a. Trust Account 1 ("TA1")**

2 Bank: Bank of America
3 Account Name: K & B Property Management Trust (Bagley Apts)
4 Account #: XXXXXXXXX5228
5 Signatories: BRONSTEIN
 Kelman
6 Signatures required: One (1) signature
7 Description: TA1 was opened in January 1993 and was maintained for handling
 of property management trust funds for Bagley Apts (3112 Bagley
 Ave, Los Angeles, CA 90034)

8 **b. Trust Account 2 ("TA2")**

9 Bank: Bank of America
10 Account Name: K & B Property Management (D.F. Trust Account)
11 Account #: XXXXXXXXX7576
12 Signatories: BRONSTEIN
 Kelman
13 Signatures required: One (1) signature
14 Description: TA2 was opened in February 2009 and was maintained for
 handling trust funds for D.F. (1 building, different addresses: 401-
 401½ N Oakhurst Dr and 9157-9163 Alden Dr, Beverly Hills, CA
 90210)

15 **c. Bank Account 1 ("BA1")**

16 Bank: Bank of America
17 Account Name: K and B Property (Valle Vista Apts)
18 Account #: XXXXXXXXX5516
19 Signatories: BRONSTEIN
 Kelman
20 Signatures required: One (1) signature
21 Description: BA1 was opened in January 2017 and was maintained for
 handling trust funds for Valle Vista Apts (11840 Chandler Blvd,
 Valley Village, CA 91607)

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1 g. **Bank Account 5 ("BA5")**

2 Bank: Bank of America
3 Account Name: K and B Property
4 Account #: XXXXXXXX8369
5 Signatories: BRONSTEIN
 Kelman
6 Signatures required: One (1) signature
7 Description: BA5 was the second of two savings accounts for the N. Trust
 opened in February 2017 and closed in June 2018. BA5 was
 maintained for handling trust funds for P.N. (5309-5315 Whitsett
 Ave, Valley Village, CA 91607)

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9 **Audit Violations in Audit No. LA180117**

10 12. The Complainant realleges and incorporates by reference all of the allegations
11 contained in paragraphs 1 through 11 above, with the same force and effect as though fully set forth
12 herein.

13 13. The audit examination revealed violations of the Code and the Regulations, as set
14 forth in the following paragraphs, and more fully discussed in Audit No. LA180117 and the
15 exhibits and work papers attached to the audit report:

16 **Issue One (1). Code Section 10145 and Regulation 2832: Trust Fund Handling**

17 14. BRONSTEIN used the bank accounts BA1, BA2, BA3, BA4, and BA5 for handling
18 receipts and disbursements of trust funds in connection with BRONSTEIN's property management
19 activities. Based on an examination of the bank signature cards and bank verification letter for
20 BA1, BA2, BA3, BA4, and BA5, none of these accounts were designated as trust accounts in
21 BRONSTEIN's or KBPM's name as trustee.

22 15. BRONSTEIN's failure to designate BA1, BA2, BA3, BA4, and BA5 as trust
23 accounts in his or KBPM's name **violated Code Section 10145 and Regulation 2832.**

24 **Issue Two (2). Code Section 10145 and Regulation 2834: Trust Fund Handling; Trust**
25 **Account Withdrawals**

26 16. The fidelity bond for Kelman, a non-licensee and 50% owner of KBPM who is also
27 an authorized signer for TA1, TA2, BA1, BA2, BA3, BA4, and BA5, was not sufficient to cover an
28 amount at least equal to the maximum amount of the trust funds to which the employee has access

1 at any time. Based on an examination of records, KBPM is the named insured on a crime bond
2 from Hartford Fire Insurance Company that covers up to \$250,000 and has no deductible. KBPM
3 is also the named insured on a fidelity bond from Scottsdale Insurance Company that covers loss up
4 to \$1,000,000 and has a deductible of \$25,000 per claim. According to BRONSTEIN in his
5 interview on July 17, 2019, he collected approximately \$1.2 million of trust funds on a monthly
6 basis.

7 17. BRONSTEIN's failure to obtain a fidelity bond for Kelman sufficient to cover an
8 amount at least equal to the maximum amount of the trust funds to which the employee has access
9 at any time **violated Code Section 10145 and Regulation 2834.**

10 **Issue Three (3). Code Section 10176(g): Secret Profits**

11 18. Based on an examination of records for TA1, TA2, BA1, and BA3, the disbursement
12 records for these accounts, and discussion between the Department's auditor and BRONSTEIN,
13 BRONSTEIN charged property owners a 10% markup on the hourly rates that BRONSTEIN paid
14 to his handymen for repair and maintenance. For example, for repair and maintenance work
15 performed by four of BRONSTEIN's handymen at the Whitsett Properties, BRONSTEIN paid
16 them hourly rates of \$14.30, \$19.25, \$26.48, and \$27.77. However, BRONSTEIN charged the N.
17 Trust hourly rates that were 10% more than what he paid: \$15.73, \$21.17, \$29.12, and \$30.54.

18 19. Based on an examination of records, BRONSTEIN did not disclose in writing to the
19 property owners that he charged them a 10% mark-up for property maintenance in connection with
20 his property management activities **in violation of Code Section 10176(g).**

21 **INVESTIGATION AND ENFORCEMENT COSTS**

22 20. Code Section 10106 provides that in any order issued in resolution of a disciplinary
23 proceeding before the Department of Real Estate, the Commissioner may request the administrative
24 law judge to direct a licensee found to have committed a violation of this part to pay a sum not to
25 exceed the reasonable costs of the investigation and enforcement of the case.

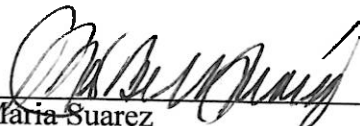
26 **AUDIT COSTS**

27 21. Code Section 10148(b) provides, in pertinent part, the Commissioner shall charge a
28 real estate broker for the cost of any audit, if the Commissioner has found in a final decision

1 following a disciplinary hearing that the broker has violated Code Section 10145 or a regulation or
2 rule of the Commissioner interpreting said section.

3 . WHEREFORE, Complainant prays that a hearing be conducted on the allegations of
4 this Accusation and that upon proof thereof, a decision be rendered imposing disciplinary action
5 against all the licenses and license rights of PAUL E. BRONSTEIN under the Real Estate Law, for
6 the costs of investigation and enforcement, and audit as permitted by law, and for such other and
7 further relief as may be proper under other applicable provisions of law, and for costs of audit.

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9 Dated at Los Angeles, California this 7th day of July, 2020.

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13 Maria Suarez
Supervising Special Investigator

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15 cc: PAUL E. BRONSTEIN
16 Maria Suarez
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