
AUDIT REPORT



CITIWEST NEW ENGLAND, INC.

HARTFORD, CONNECTICUT

00-BO-222-1005

SEPTEMBER 29, 2000

OFFICE OF AUDIT, NEW ENGLAND
BOSTON, MASSACHUSETTS



Issue Date September 29, 2000
Audit Case Number 00-BO-222-1005

TO: Engram Lloyd, Director, Homeownership Center, 3AHH

A handwritten signature in black ink that reads 'Stephen D. King'.

FROM: Stephen D. King, Acting District Inspector General, Office of Audit, 1AGA

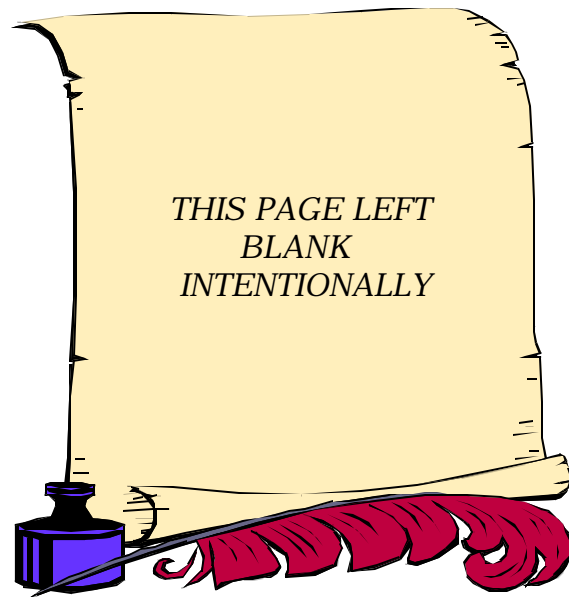
SUBJECT: CitiWest New England, Inc.
Management and Marketing Contractor
Hartford, Connecticut

We performed an audit of HUD's Management and Marketing Contractor, CitiWest New England, Inc. (CitiWest). The objective of our audit was to determine whether CitiWest is managing HUD single family properties in compliance with HUD policies, procedures, and regulations and with the terms and conditions of CitiWest's Management & Marketing (M&M) Contract.

The report contains two findings. We found that CitiWest is not properly inspecting and maintaining HUD's property inventory and that CitiWest is not complying with case management processing requirements cited in their M&M Contract.

Within 60 days, please provide us a status report on: (1) the corrective action taken; (2) the proposed corrective action and the date to be completed; or (3) why action is not considered necessary. Also, please furnish us with copies of any correspondence or directives issued as a result of this audit.

Should you have any questions, please contact our office at (617) 565-5259.



Executive Summary

We performed an audit of the M&M Contractor, CitiWest New England, Inc. (CitiWest). The primary purpose of our audit was to determine whether CitiWest is managing HUD single family properties in compliance with HUD policies, procedures, and regulations and with the terms and conditions of its M&M Contract (Contract). This included assessing whether CitiWest's: (a) operations are effective, efficient, and economical, and (b) management controls are adequate to effectively identify and address operational deficiencies and noncompliance with requirements.

Audit Results

On March 29, 1999, CitiWest began to manage and market HUD single family properties located in the six New England states. Since July 1999, CitiWest reduced HUD's property inventory from a high of 1,336 to a low of 832 as of July 25, 2000. However, HUD's Performance Assessment Reports indicated a concern with CitiWest's capacity to perform the Contract requirements for its inventory. Our review confirmed that CitiWest needs to improve its procedures to ensure HUD properties in its inventory are properly inspected and maintained, and that managing and marketing requirements are fulfilled.

Specifically, our audit disclosed that CitiWest did not: 1) perform initial property inspections within 24 hours; 2) always identify imminent hazards through routine property inspections; 3) correct imminent hazards and other deficiencies when identified through routine property inspections; 4) effectively identify defective paint; and 5) properly secure its inventory of properties.

CitiWest is also not complying with other contract requirements. For example, properties are held off market for unreasonable periods of time; case management processing is not timely; sales closing responsibilities are not followed; and unallowable costs are charged to HUD.

As a result, HUD's Property Disposition Program in New England may not be operating efficiently, effectively and economically. Poor property conditions may contribute to performance problems such as decreased marketability, increased costs, and possible conditions that threaten the health and safety of neighbors and potential homebuyers.

Recommendations

We are recommending that you: 1) instruct CitiWest to establish procedures to ensure timely initial property inspections; 2) ensure CitiWest monitors its property inspection subcontractors through quality control reviews and discontinues its use of poor performing subcontractors; and 3) ensure imminent hazards and other deficiencies are corrected and defective paint is properly identified and treated. We are further recommending that you require CitiWest to process held off market properties in a reasonable time to reduce applicable holding costs and increased costs to HUD, require CitiWest to accurately review settlement statements and submit weekly reports of closing agent noncompliance, and conduct thorough reviews of all monthly pass through vouchers to ensure late fees, interest and penalties are not included.

Findings and
Recommendations
Discussed

We discussed the findings in this report with CitiWest staff during the course of the audit. On August 11, 2000, we provided CitiWest a copy of the draft audit report for comment. We received CitiWest's written response on September 5, 2000. Appropriate revisions were made where deemed necessary. We included CitiWest's pertinent comments in the Findings section of this report. CitiWest's full response is included in Appendix B.

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Abbreviations

CitiWest	CitiWest New England, Inc.
Contract	Management and Marketing Contract
FHA	Federal Housing Administration
GTR	Government Technical Representative
HOC	Homeownership Center
HUD	Department of Housing and Urban Development
M&M	Management and Marketing
PAR	Performance Assessment Report
SAMS	Single Family Accounting Management System
SPI	Special Property Inspection Contractor

Introduction

FHA's Single Family Mortgage Insurance Program helps low and moderate income families become homeowners by reducing downpayments and limiting lender fees. Every year, however, thousands of borrowers default on their FHA-insured loans. When they default, FHA encourages lenders to work with them to bring their payments current. When they cannot do this, their homes may be sold to third parties, voluntarily conveyed to the lenders, or surrendered to lenders through foreclosure. Once lenders obtain the properties, they generally convey title to the Secretary of the U.S. Department of Housing and Urban Development (HUD) in exchange for payment of their insurance claim.

HUD disposes of properties through its Property Disposition Program, administered by the Office of Single Family Housing Real Estate Owned Division. Its mission is to reduce the property inventory in a manner that expands homeownership opportunities, strengthens neighborhoods and communities, and ensures a maximum return to the mortgage insurance fund. The National Housing Act (Act) of 1934 confers on the Secretary the authority to manage, rehabilitate, rent, and dispose of any property acquired under the program. Section 204(g) of the Act governs the management and disposition of single family properties acquired by FHA. Title 24, Code of Federal Regulations (CFR), part 291 implements this statutory authority. Handbook 4310.5 REV-2, dated May 17, 1994, *Property Disposition Handbook - One to Four Family Properties*, supplements the regulations.

In February 1993, HUD initiated a reinvention effort to streamline operations and reduce costs. HUD began reducing program staff and consolidating its mortgage insurance processing, claims, and property disposition activities from the field office into four Homeownership Centers (HOC) located in Santa Ana, California; Denver, Colorado; Atlanta, Georgia; and Philadelphia, Pennsylvania.

Effective March 1999, HUD contracted out for the management and marketing of properties which are owned by, or in the custody of, HUD. Seven contractors were awarded a total of 16 Management and Marketing (M&M) contracts nationwide to manage and market HUD properties as part of a nationwide restructuring of HUD's Single Family Property Division. The M&M contractors assumed full responsibility for the management and marketing functions.

CitiWest New England, Inc. (CitiWest), owned by Remi Geahel, was awarded the M&M contract (Contract) for the Philadelphia HOC Area-1, which consists of properties located in the six New England states. Its main office is located at 330 Main Street, Hartford, Connecticut. CitiWest's Contract is for one year with 4, one-year renewal options. The total estimated value of the Contract, including options, is \$41.5 million.

During the audit period, CitiWest was responsible for managing and marketing an average inventory of over 1,100 properties. As of July 25, 2000, CitiWest was managing and marketing 832 properties across the New England area: 423 - Connecticut; 167- Massachusetts; 110 - Maine; 95 - Rhode Island; 19 - Vermont; and 18 - New Hampshire. CitiWest successfully sold 976 properties from January 1, 2000 to June 30, 2000.

Audit Objectives

The primary objective of the audit was to determine whether CitiWest is managing HUD single family properties in compliance with HUD policies, procedures, and regulations and with the terms and conditions of CitiWest's Contract. This included assessing whether CitiWest's: (a) operations are effective, efficient, and economical, and (b) management controls are adequate to effectively identify and address operational deficiencies and noncompliance with requirements.

Audit Scope and Methodology

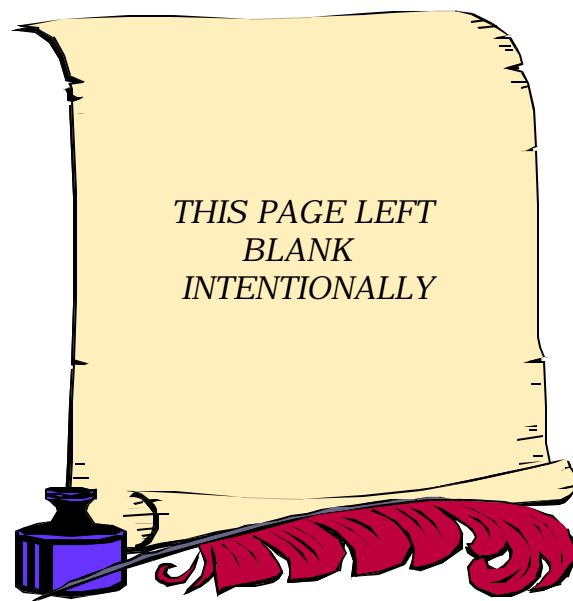
To accomplish our audit objectives, we performed the following:

- Reviewed Federal requirements including 24 CFR Part 291, HUD Handbook 4310.5 REV-2, *Property Disposition Handbook - One to Four Families*, the *Monitoring Manual - Management Controls for the Single-Family REO M&M Contracts*, and CitiWest's Contract with HUD.
- Reviewed Performance Assessment Reports and third party contractors' monitoring reports and any related correspondence, provided by the Philadelphia HOC, for indications of problems with CitiWest's performance.
- Reviewed CitiWest's internal controls by interviewing staff and testing transactions where possible, and performed a cursory review of personnel issues to assess whether CitiWest employees appear to be qualified to carry out the Contract.
- Randomly selected a sample of 30 active cases; 15 - Waterbury, Connecticut and 15 New Haven Connecticut, which consisted of 23 newly assigned properties and 7 initially assigned properties, for review of the property case files.
- Performed property inspections of the 30 active cases to determine whether CitiWest maintains properties according to requirements.

- Compared CitiWest's most recent inspections for the 30 properties with OIG inspections for any discrepancies.
- Judgmentally selected 15 closed cases from different cities throughout the 6 New England states, for review of the property case files to determine if CitiWest is meeting case processing requirements.
- Judgmentally selected and reviewed 10 held-off market cases (greater than 6 months) to determine CitiWest's overall handling of the properties.
- Judgmentally selected and reviewed four vouchers, one fixed voucher for the month of November 1999 and three "pass through costs" vouchers dated February 1, 2000, February 2, 2000, and March 2, 2000 to determine if CitiWest followed proper procedures for payment of services.
- Reviewed CitiWest's subcontracting procedures.
- Conducted interviews with responsible CitiWest and Philadelphia HOC staff and management as necessary.

The audit was conducted between April 2000 and July 2000 and generally covered the period between March 29, 1999 and June 30, 2000. Where appropriate, the audit was extended to include other periods.

Our audit was conducted in accordance with generally accepted government auditing standards.



Property Inspections and Maintenance Require Improvement

As one of HUD's Management and Marketing (M&M) Contractors, CitiWest New England, Inc. (CitiWest) must routinely inspect and take all actions necessary to preserve, protect, and maintain each property in its inventory in a presentable condition at all times. Our review disclosed the following deficiencies in CitiWest's performance and administration of both property inspections and property maintenance:

- Initial property inspections not performed within 24 hours as required;
- Imminent hazards not always identified through routine property inspections;
- Hazards and other deficiencies, when identified by CitiWest inspections, not always corrected;
- Defective paint not effectively identified; and
- Properties left unsecured.

Poor property conditions contribute to performance problems such as decreased marketability, increased costs, possible decreased value of surrounding homes, and possible conditions that threaten the health and safety of neighbors and potential buyers. CitiWest needs to improve its property inspection and maintenance process to reduce the risk of undetected hazards and deficiencies, and to maximize the marketability of its property inventory to produce the highest net return to HUD.

Initial Property Inspections Not Performed Timely

On average, 139 properties are assigned to CitiWest on a monthly basis. Upon assignment of a property from a mortgagee and/or HUD, CitiWest is required to perform an initial property inspection within 24 hours per Section C-2 (V)(B)(3A) of their Management and Marketing Contract (Contract). The initial property inspection is required to determine the property condition, occupancy status, whether personal property remains on the premises, mortgagee performance, and whether imminent health or safety hazards exist (HUD Handbook 4310.5 REV-2 (Property Disposition Handbook), Chapter 3, Paragraph 3-14 (A)).

CitiWest did not perform initial property inspections within 24 hours for 100 percent of the 23 newly assigned properties in our sample. We noted 15 properties in which the inspections were performed one to five days late; 4 properties in which the inspections were performed six to ten days late; 2 properties in which the inspections were performed eleven to fifteen days late; and 2 properties in which the inspections were performed sixteen to twenty days late.

CitiWest's Senior Realty Specialist advised that inspections are not performed within 24 hours as a result of both the inspectors and CitiWest staff. The CitiWest inspectors, at times, have difficulty in locating the properties and CitiWest staff are not always diligent in ordering the property inspections in a timely manner.

Delays in performing the initial property inspections lead to delays in the ordering and conducting of property appraisals, delaying the overall case processing of these properties, as outlined in Finding 2. This may result in increased costs and property deterioration. The possibility of identifying mortgagee neglect is also reduced with each passing day beyond the initial 24 hour period, which may lead to repair costs passed through to HUD.

OIG Inspections Identify
Imminent Hazards

Section C-2 (V)(B)(5) of the Contract requires CitiWest to correct ANY condition that presents a health or safety hazard (imminent hazard) to the public or to the property within 24 hours of discovery. We found that CitiWest property inspections were either not identifying imminent hazards or, when identified, CitiWest was not taking action within the required 24 hours. On average, CitiWest performs routine property inspections every 15 days.

Of the 30 properties inspected, we found 20% (6 of 30) with imminent hazards. Examples are as follows:



FHA Case No. 061-152960 - Improperly covered pool



FHA Case No. 061-068871 - Decayed front Step



FHA Case No. 061-069390, Health hazard - Drug paraphernalia

CitiWest inspections of the same properties, performed shortly before or after our inspections, identified only 1 imminent hazard, property 061-152960 - uncovered pool. Although a CitiWest property inspection noted the uncovered pool hazard on May 14, 2000 (four days after our inspection) and again on May 25, 2000, CitiWest failed to issue a corrective work order for the hazard until June 6, 2000. The unsigned work order indicated that the hazard was corrected on June 9, 2000, well beyond the 24 hour requirement.

In another instance, three consecutive CitiWest inspections on property 061-167193 between October 6, 1999 and November 10, 1999, reported a hazard of dead tree branches hanging over the adjacent property's driveway. CitiWest issued a work order on October 13, 1999 instructing that the tree be removed. The work order was signed and dated as completed as of October 19, 1999, well beyond the 24 hour requirement. However, the hazard remained an issue on the November 10, 1999 CitiWest property inspection report, which is indicative that the hazard was either not corrected or not corrected adequately. Further, an April 13, 2000 CitiWest

property inspection for the same property indicates “large dead branch hangs over the curb - hazard”.

The importance of correcting hazards posing a health or safety threat to the public or to the property itself cannot be overstated. Without proper identification and correction, these hazards may cause severe injury and/or death, or deterioration of the property.

Identified Deficiencies Not
Always Corrected

Section C-2 (V)(B)(5) of the Contract requires CitiWest to routinely inspect and take all actions necessary to preserve, protect, and maintain each property in a presentable condition at all times. This includes, but is not limited to the removal and proper disposal of all interior and exterior debris both after property assignment and on a continual basis, and lawn, shrubbery and tree maintenance consistent with neighborhood standards.

Our inspections of 30 properties found 71% (20 of 28) of the properties had uncut lawns. Two of the thirty properties were located in condominium complexes and the lawn maintenance was not a CitiWest responsibility.

Just as our own property inspections indicated a severe problem in the area of lawn maintenance, CitiWest’s property inspections often cited uncut lawns in consecutive reports. The fee inspector wrote such statements as; “front cut by neighbor, not cut by Contractor this year - property 061-144252”, and “not cut this year - property 061-092079”. CitiWest was not responsive to these deficiencies. An example follows:



FHA Case No. 061-134647 - Overgrown grass and Shrubbery

We further found that 30% (9 of 30) of the properties had interior and/or exterior debris. Successive CitiWest inspection reports identified numerous instances of the presence of debris indicating that CitiWest was not responsive to addressing these deficiencies. During a span of five consecutive CitiWest inspections of property 061-096618, covering the period of March 20, 2000 through May 13, 2000, the fee inspector indicated that the yard and debris needed to be cleaned up and referred to the prior inspection reports noting the same deficiency. In a similar instance, during a span of four consecutive CitiWest inspections of property 061-076836, covering the period of April 2, 2000 through May 16, 2000, the fee inspector again indicated that the yard and debris needed to be cleaned.

Defective Paint Not Effectively Identified

Exhibit 15, paragraph 15-1 of the Contract defines a defective paint surface as cracking, scaling, chipping, peeling or loose paint on all interior and exterior surfaces of a residential structure. Exhibit 15, paragraph 15-4 of the Contract states that treatment necessary to eliminate the immediate hazards must, at a minimum, consist of the covering or removal of the defective paint surfaces.

Of the 30 properties inspected, we found 89% of the properties (25 of 28) had defective paint on their interiors (one property was a vacant lot and access was not gained to another property) and 41% of the properties (11 of 27) had defective paint on their exterior (one property was a vacant lot and two properties were located within condominium complexes where the exterior paint was not CitiWest's responsibility). The following are examples of defective paint:



FHA Case No. 061-070356 - Defective paint, water in light fixture



FHA Case No. 061-071714 - Defective paint

Although Exhibit 15, paragraph 15-6 of the contract states that defective paint may be treated prior to offering properties for sale or at any reasonable time prior to the closing of a sale, CitiWest property inspections shortly before or after our inspections identified only 32% of the properties with defective interior paint (9 of 28) and only 30% of the properties with defective exterior paint (8 of 27). To receive treatment, defective paint must first be identified. When Citiwest identifies defective paint, treatment takes place. During follow up visits to the properties, visual examination revealed that CitiWest had addressed the defective paint to some degree. Generally, paint that was defective upon our initial inspection was scraped and treated on the exterior and scraped on the interior of the properties.

CitiWest needs to improve its effectiveness in identifying defective paint so that it may be treated.. During our initial inspections defective paint was identified in a high percentage of properties, which was not identified by routine CitiWest inspections. Without proper identification of defective paint, the defective areas may be left untreated and detract from the overall marketability of the property resulting in a lower net return to HUD.

Properties Not Always Secured

Section C-2 (V)(B)(5) of the Contract states, in part, that CitiWest must secure the property to prevent unauthorized entry. Our inspection of 30 properties found that 55% of the properties (16 of 29) were not properly secured (one property was a vacant lot). There were numerous instances of insecure windows and/or entry ways, including missing window latches, broken and un-boarded windows, and unlocked windows and entryways.

Of the 16 properties we noted as unsecured, CitiWest routine property inspections shortly before or after our inspections identified only 19% (3 of 16) as unsecured. Failure to properly secure properties can lead to trespassing, vandalism, and possible deterioration. CitiWest staff indicated that there are numerous individuals who have access to the properties, including inspectors, appraisers, and numerous real estate brokers, who do not always re-secure the property upon departure.

HUD Performance Assessment Reports Cite Similar Deficiencies

As part of HUD's monitoring of its M&M Contractors, a monthly Performance Assessment Report (PAR) is prepared by a Government Technical Representative (GTR) assigned to the specific Contractor. The PAR consists of a narrative description of the GTR's observations in ten contractual areas: Claim Review, Property Maintenance, Appraisals, Listings, Sales Procedures, Sales Closings, Single Family Acquired Asset Management System (SAMS) Updates, Rentals, Occupied Conveyance, and Defective Paint. The PAR also includes a detailed spreadsheet of property inspections performed by HUD's Special Property Inspection (SPI) Contractor - a 3rd party contractor hired by HUD to inspect a sample of each M&M Contractor's property inventory.

A review of the PARs, prepared by CitiWest's GTR, identified similar deficiencies to the ones noted above, including consistent findings of poor property maintenance and defective paint. A September 1999 Letter of Concern, issued by the GTR, stated in part,

"In my monthly monitoring letters to you, I have outlined an overall assessment of your performance as an M&M Contractor. These reports have consistently indicated a failure to properly maintain the physical

Finding 1

condition of the HUD homes in your inventory...Proper maintenance of the properties in your inventory is a vital component of your contract duties and my office is becoming increasingly concerned about your continued poor performance in this area.”

In response, CitiWest indicated that their plan of action to improve maintenance performance included, in part, increased quality control inspections, hiring and training an additional in-house property manager, educating field inspectors, and conducting monthly meetings with subcontractors.

The GTR, in the narrative portion of both the January 2000 and April 2000 PARs, indicated an improvement by CitiWest in the areas of property maintenance and defective paint. The GTR indicated that, “Defective paint treatment is clearly taking place and there is documentation including work orders, photographs, etc, in the files. There continue to be some findings concerning the lack of defective paint and the Contractor will be sent a follow up list of homes requiring additional action”. The GTR also indicated ongoing improvement in property maintenance, with the exception of completing initial property inspections within 24 hours.

However, a review of both PARs attached spreadsheet, detailing the inspections performed by the SPI Contractor, indicated there were numerous deficiencies in the areas of property maintenance and defective paint. The instances of unsecured properties were less profound than during our inspections. The number of properties inspected and the deficiencies noted in these three areas for the months of January 2000 and April 2000 were:

Report Month	Properties Inspected	Properties With Poor Maintenance	Properties With Defective Paint	Properties Not Secured
January 2000	148	57 (39%)	88 (59%)	15 (10%)
April 2000	150	79 (53%)	56 (37%)	10 (7%)
Total	298	136 (46%)	144 (48%)	25 (8%)

As shown above, CitiWest continues to struggle with its property maintenance and identification of defective paint. CitiWest needs to increase its efforts on improving its performance.

CitiWest Needs to Improve
its Inspection and
Maintenance Process

Poor property conditions contribute to performance problems such as decreased marketability, increased holding costs, possible decreased value of surrounding homes, and possible conditions that threaten the health and safety of neighbors and potential buyers. By neglecting the upkeep of its property inventory, CitiWest is not meeting one of its primary objectives of protecting and preserving, properly managing, evaluating, and marketing its properties in a manner which produces the highest possible return to HUD's mortgage insurance fund. CitiWest needs to improve its property inspection and maintenance process to reduce the risk of undetected hazards and deficiencies, and to maximize the marketability of its property inventory to produce the highest net return to HUD.

Auditee Comments

CitiWest suggested that the OIG should take into account two major elements before reaching any conclusions; Case File Sampling and CitiWest's Overall Performance. CitiWest objected to the OIG's random sampling of properties located in the cities of New Haven and Waterbury, Connecticut because they felt the two cities were not representative of their entire property inventory covering the six New England states. CitiWest contends that the OIG specifically requested identification of the two municipalities which were the hardest to manage and market. CitiWest expressed its objection to the OIG's "random sampling" of 30 properties in what the auditee considers its two worst cities as far as ongoing breaking and entering, vandalism, and drug neighborhoods, and then basing the findings of those "very depressed" properties as representative of the auditee's entire inventory.

CitiWest also contends that it has improved the return to the FHA fund, reduced its inventory size, and adhered to HUD's mission. CitiWest specifically indicated that they increased the average sales price of properties and, as a result, increased the average overall return to the FHA fund. Additionally, CitiWest showed a decrease of property inventory from August 1999 - 1,332 through July 2000 - 819.

CitiWest also offered its comments and clarifications with the conclusions reached on the following three areas: Property Maintenance, Defective Paint, and Unsecured Properties. Specifically, CitiWest acknowledged that the GTR expressed

serious concern over property maintenance in a September 16, 1999 letter. However, CitiWest expressed its concern that the OIG did not recognize that, as early as November 1999, the GTR indicated improvement in property maintenance. CitiWest further stated that initial property inspections are completed timely by inspectors, but the actual paperwork may be delayed in arriving at CitiWest due to weekends, holidays, etc. Additionally, CitiWest stated that poor performing subcontractors are terminated as evidenced by termination notices provided to the OIG.

CitiWest stated that the GTR noted that it is evident that CitiWest is treating areas of defective paint as it is found. However, CitiWest stated that in the New England geographic location, defective paint can keep reoccurring almost as quickly as it is treated. Additionally, CitiWest stated that real estate brokers holding Open Houses leave windows or sliding doors unlatched leaving the property unsecured. This security problem is ongoing and CitiWest stated it covers this topic at its outreach meetings for brokers.

OIG Evaluation of
Auditee Comments

With regard to Case File Sampling, we disagree with CitiWest's comments. We asked CitiWest's key personnel which two cities had the most number of properties under their management and marketing responsibility. We confirmed through data analysis that the cities of New Haven and Waterbury, Connecticut were the two largest cities under CitiWest's management and marketing responsibility in terms of the number of properties in each city. From these two cities, utilizing a random number table, we selected 30 properties (15 + 15) for our sample. We did not choose these cities because we were advised or we presupposed that these two cities would be the hardest to manage and market because of their "socio-economical conditions."

We recognize and commend CitiWest for reducing its property inventory from a high of 1,336 in July 1999 to a low of 819 in July 2000. We are not so optimistic regarding CitiWest's claim of increasing the average sales price and, as a result, the overall return to the FHA fund. Although the average sales price increased under Citiwest's management and marketing, so did the average appraised value of the properties. While there is an

increase in the overall return to the FHA fund, it is not a direct result of CitiWest's efforts alone.

We recognize Citiwest's efforts to perform under its contract terms, but we also recognize that there is a need for improvement in the areas outlined. Our report included the GTR's statements that CitiWest is improving in property maintenance. However, we also presented further analysis of the PARs for the months of January and April 2000 which indicated, contrary to the GTR's statements, that numerous deficiencies in the areas of property maintenance and defective paint existed. Additionally, although the GTR cited an improvement in property maintenance, he also pointed out that initial property inspections are not being performed within the 24 hour requirement.

We agree that the CitiWest is addressing defective paint when discovered. We do not believe that CitiWest is effective in identifying all instances of defective paint, as evidenced by the PARs which consistently indicated a high number of properties with defective paint. As recommended, HUD needs to communicate to CitiWest the definition of defective paint so that there is consistency amongst all property inspectors.

Recommendations

We recommend that you:

- 1A. Instruct CitiWest to establish procedures to ensure that initial property inspections are performed within 24 hours of property assignment.
- 1B. Require and ensure CitiWest monitors its property inspection subcontractors through documented quality control reviews to ensure all imminent hazards and other deficiencies are identified.
- 1C. Require CitiWest to discontinue their use of poor performing property inspection contractors.
- 1D. Monitor CitiWest to ensure imminent hazards and other deficiencies are corrected when noted by routine

property inspections and enforce available sanctions for poor performance.

- 1E. Advise CitiWest on the HOC's definition of defective paint to ensure consistency among CitiWest and HUD inspectors in identifying defective paint in all properties inspected.
- 1F. Ensure CitiWest identifies defective paint during its property inspections and continues its treatment efforts, once clarification of defective paint is established.
- 1G. Continue monitoring CitiWest's efforts to properly secure the properties in its inventory.

Management and Marketing Requirements Not Fulfilled

CitiWest New England, Inc. (CitiWest) is not complying with case management processing requirements in accordance with their Management and Marketing (M&M) Contract. As a result, HUD's Property Disposition Program may not be operating efficiently, effectively and economically. HUD needs to ensure that CitiWest complies with their contractual agreement in efforts to achieve its mission to expand homeownership opportunities and maximize the return to the mortgage insurance fund.

Contractor's Primary Objectives

The primary objectives of CitiWest, as stated in Section C-2(I) of their M&M Contract include:

- HUD owned properties are protected and preserved, properly managed, evaluated, and marketed in a manner which produces the highest possible return to HUD's mortgage insurance fund;
- Under contract properties are promptly closed and, if not, they are returned to the sales market at an early date;
- HUD's net sales proceeds are promptly wired to its Treasury account; and
- Average losses on sales and the average time properties remain in inventory are reduced.

CitiWest does not comply with their primary objectives. Specifically, properties are held off market for unreasonable periods of time; case management processing is not timely; sales closing responsibilities are not followed; and unallowable costs are charged to HUD. Consequently, CitiWest does not properly manage and market HUD owned properties in a manner which is both beneficial and advantageous to HUD.

HUD Permits Held Off Market Properties

Under certain circumstances, HUD permits "held off market properties", which are properties that HUD has determined not to offer for sale. Properties may be held off market at any point after assignment to the Contractor, as illustrated by HUD's

Properties Held Off
Market Longer Than
Necessary

Single Family Accounting Management System's (SAMS) User Guide. At May 30, 2000, CitiWest had a total of 62 held off market properties, in which 17 properties were held off market greater than six months. In a sample of 10, we identified 4 properties (40 percent) which we believe were held off market for unreasonable periods of time.

We believe CitiWest did not take the appropriate steps to clear the problems associated with 2 of the 4 properties in efforts to dispose of the properties as soon as possible. For example, problems existed with a property's title and therefore the property was held off market on June 12, 1999. However, the situation was not resolved by CitiWest until April 14, 2000, and the property remained held off market at May 30, 2000. Further, another property had reported fire damage on May 20, 1999. However, CitiWest did not take action to remedy the situation until November 1, 1999 and the property remained held off market at May 30, 2000. For the remaining 2 properties, we determined that they should not have been held off market at all, in accordance with the SAMS' User Guide.

In retaining held off market properties for unreasonable periods of time, CitiWest is not effectively achieving its Contract objective to reduce the average time properties remain in inventory. CitiWest also has an objective to reduce the average losses on sales, however maintaining these held off market properties is costing HUD, as well as CitiWest money. We determined that as of May 30, 2000 the 4 properties remained held off market for a period ranging from 305 days to 537 days. The latest actual average daily holding cost for properties is \$32.04 per day, resulting in an estimated expense for CitiWest of \$48,060 on these 4 properties. Further, HUD incurs costs as well in the form of additional monthly taxes and fees, utilities, repairs and deterioration of the property possibly reducing the net return to HUD's mortgage insurance fund. We believe that if CitiWest took the appropriate steps to remove these properties from held off market status in a timely manner, their inventory and cost would be reduced.

**Case Management
Processing**

CitiWest is responsible to HUD to protect and preserve, properly manage, evaluate and market HUD owned properties in a manner which produces the highest possible return to HUD's mortgage insurance fund. However, we determined that CitiWest does not effectively fulfill its responsibilities. CitiWest on a monthly basis averaged 1,112 properties in their case inventory for the period, June 1999 through May 2000. In review of a sample of 30 property case files, we determined that CitiWest does not comply with case processing requirements when obtaining property appraisals; approving title evidence; meeting sales closing time frames; and following HUD's standard processing steps.

**Property Appraisals Not
Timely Obtained**

Section C-2(IV) of the Contract provides the Contractor is to order and receive a property appraisal within ten business days of a newly assigned property. In a sample of 23 newly assigned cases, we identified 14 (61 percent) where CitiWest did not obtain a property appraisal within the prescribed time frame. We identified properties in which the appraisal was obtained as much as sixteen to twenty days late. CitiWest staff advised that they do not always order appraisals in a timely manner and the appraisers do not always appraise the property and submit results to CitiWest in a timely manner.

Further, we identified CitiWest did not approve the disposition program within three days of receipt of the appraisal as required, for 46 percent (13 of 28) of the applicable cases; ranging from one day late to ten days late. We were advised by CitiWest that their Realty Specialists are not always diligent in performing the disposition analysis and submitting it for approval in a timely manner.

**Title Evidence Not Timely
Approved**

Mortgagees are required to submit evidence of good and marketable title. As required by Exhibit 11, paragraph 11-1 of the Contract, CitiWest is responsible to review and approve or reject such title evidence within ten calendar days of receipt from the mortgagee. For 20 applicable cases, CitiWest did not approve title evidence within the prescribed time frame for 8 (40 percent), and there was no documented extensions granted. We identified two extreme cases in which the properties had approval 60 days and 157 days late. CitiWest staff advised that they were not aware of the time frame requirement.

Sales Closing Time Frames
Not Met

Exhibit 8, paragraph 8-2 of the Contract provides the Contractor must establish a closing time frame within the range of 30 to 60 calendar days after acceptance of the sales contract. We identified 4 of 13 applicable properties where CitiWest did not meet the time frame on the sales contract. The time frame was not met as a result of expiring contract extensions. Upon expiring contract extensions, sales contracts should be canceled or another extension granted. When the contract is canceled, the property should be re-listed for sale in accordance with the Contract. CitiWest staff advised that their Realty Specialists are not always diligent in completing the extension forms in a timely manner.

Unreasonable Management
Processing steps

SAMS is HUD's automated system that provides data for management, processing, and monitoring of acquired and custodial single family properties. SAMS tracks ten case management processing steps, beginning with the acquisition of a property and ending with the reconciliation of funds from the final sale or disposal of the property. The case management tasks are monitored and tracked by HUD in accordance with standard processing times, including standard processing time for each step. See Appendix A.

We identified 6 of 30 cases (20 percent) where the property's current management processing step was not reasonable; meaning HUD's standard processing time was not met. For 2 cases, the property was in the current processing step longer than the time prescribed; exceeding the standard processing time by 8 days and 11 days. For the remaining 4 cases, the property remained in the accepted sales offer phase although the contract extension expired; ranging from an expiration of 9 days to 71 days.

It is essential for CitiWest to process cases timely in efforts to meet their objectives to properly manage, evaluate and market properties, and to maximize the highest possible return to HUD's mortgage insurance fund. HUD needs to ensure that CitiWest complies with Contract requirements, including HUD's standard processing times.

Sales Closing
Responsibilities

CitiWest is responsible to ensure that properties under sales contract are promptly closed and that HUD's net sales proceeds are promptly wired to its Treasury account.

However, we determined that CitiWest is not fulfilling their responsibilities in processing closed property cases. Specifically, in review of a sample 15 property case files we identified instances where inappropriate cost were charged to HUD, and problems with closing agents, including the delay in wire transfers, were not reported to HUD as required.

Possible Inappropriate Cost

Exhibit 8, paragraph 8-4B of the Contract provides the Contractor must ensure the accuracy of all closing documentation and assure that all costs charged to HUD are appropriate. We determined that CitiWest does not ensure that all cost charged to HUD are appropriate. In review of 15 closed cases, we determined that CitiWest is not resolving outstanding balances of taxes, water and/or sewer, including interest and penalties prior to sales closing. These cost should be paid by the lender prior to conveyance to HUD. However, we identified instances where the cost are included on the HUD 1 settlement statement as an expense to HUD. CitiWest has the responsibility to ensure that only allowable cost are charged to HUD, whereas they need to take the appropriate action to exclude all inappropriate cost.

Deficiencies With Closing Agents Not Transmitted

Exhibit 8, paragraph 8-7D of the Contract provides the Contractor shall notify HUD in instances where the closing agent has failed to timely submit the final sales closing package, including instances where the closing agent has failed to comply with the wire transfer procedures specified in the closing agent's contract. This is to ensure that the closing agent is assessed the proper liquidated damages for late delivery. The Contractor is required to submit weekly reports illustrating areas of the closing agent's noncompliance.

By letter dated April 13, 2000, CitiWest transmitted a quality control report to their HUD Government Technical Representative, analyzing 31 closing packages received during a 2-3 week period ending February 18, 2000,. The report identified several deficiencies with sales closing packages submitted by the closing agents; including late wire transfers, late receipt of closing package, closing agents signing HUD 1 settlement statement as seller, and overcharging HUD for closing costs. Although this quality control report was transmitted to HUD, the Contract requires CitiWest to prepare and submit weekly reports disclosing instances of

noncompliance by closing agents. This reporting mechanism is required because liquidated damages are assessed for noncompliance. CitiWest does not prepare and submit weekly reports, in adherence with Contract requirements.

The importance of these reports become even more apparent with the identification of closing agent noncompliance. During our review we identified two instances of the closing agents' noncompliance, similar to what CitiWest reported in the quality control report. We identified 8 in a sample of 10 applicable closed cases (80 percent) where property sale proceeds were not wire transferred to the Department of Treasury on the following business day as required. We identified the transfers ranged from one to three days late. We also identified an instance where prepaid interest and up-front mortgage insurance was charged to HUD. These cost should have been paid by the buyer, not charged to HUD.

HUD needs to ensure that CitiWest complies with Contract requirements and submits weekly reports of closing agent noncompliance. HUD further needs to ensure that CitiWest takes appropriate action with closing agents to ensure compliance with their contractual obligation. In efforts to ensure compliance, HUD will increase the likelihood of a successful Property Disposition Program.

Late Fees, Interest and Penalties are Prohibited

CitiWest is allowed full compensation for their contract services and reimbursement for actual expenses specifically identified by the Contract as a pass through cost. However, Section C-4(III)(C) of the Contract provides, "Payments made by the Contractor for penalties, fees or interest incurred by the Contractor due to late payment to other parties are unallowable cost". As a result, these type of expenses are prohibited to be requisitioned from HUD in monthly pass through vouchers unless the GTR grants prior approval.

CitiWest is requisitioning reimbursement for penalties, fees and interest incurred due to late payment on condo fees and utilities. CitiWest advised that condo late fees result from not receiving bills promptly, and outstanding utility costs are inherited upon receiving the property. We were advised that these cost did not result from a late or non payment by CitiWest.

Although the cost were determined to be minor, based upon a review of 3 pass through vouchers, CitiWest should not be requisitioning these types of penalties, fees and interest from HUD. It is CitiWest's responsibility to ensure that bills are received promptly. Condo fees are at a consistent monthly amount, and CitiWest should make every attempt to initially determine the amount, make timely payment, and not wait for a bill. If an actual bill is preferred, CitiWest should actively pursue the issue with the Condo Association.

Outstanding utility costs should not be inherited by CitiWest subsequent to property transfer. CitiWest should be receiving properties clean of any past encumbrances whereas the lender should pay any outstanding utility costs prior to conveyance to HUD. If not, it is CitiWest responsibility to actively pursue payment of the bills with the lender, and not include such costs in pass through vouchers. CitiWest should consider working with HUD in efforts to reduce the lender's claim by the amount due.

Objectives Are Not Met

CitiWest is not successfully achieving their objectives, nor complying with Contract requirements. Properties are held off market for unreasonable periods of time. Property case management processing is not timely. Instances of closing agent noncompliance is not reported to HUD, and there are no assurances that all closing documents are accurate and that only appropriate costs are charged to HUD. Finally, reimbursement for late fees, interest and penalties is requisitioned by CitiWest although it is prohibited by their Contract. HUD needs to ensure contractual agreements are followed and objectives are met to ensure the Property Disposition Program achieves its mission efficiently, effectively and economically.

Auditee Comments

CitiWest offered its comments and clarifications with the conclusions reached on the following six areas: Case Management Processing, Held-Off-Market Properties, Title Approval, Closing Extensions, Taxes and Utility Bill Processing, and Closing Agent Issues. Specifically, CitiWest believes the comments of unreasonable management processing steps is unfair because SAMS report CMEPSD01, which is used by HUD to measure contractor performance in timely case

movement, was not correctly reflecting exceeding dates for approximately the first 15 months of the contract. HUD has recently corrected the report.

CitiWest stated that the OIG held many conversations to discuss specific reasons why properties were held off the market, and that the case files are documented to reflect these actions. Additionally, CitiWest stated that they are in regular contact with the GTR, as the remedy to these situations regularly falls outside of the decisions CitiWest can make without HUD's permission.

CitiWest also stated that it was their efforts that resulted in the foreclosing agents finally forwarding the title packages to them. Further, CitiWest stated that their staff is aware of the time limitations to approve title and received training from the HOC with regard to such.

It is the responsibility of the real estate agents to maintain the sales contract in force and request an extension through the closing agent, which is then approved. CitiWest stated that no contracts are closed without valid extensions when required.

CitiWest does not agree with the OIG's concern re- payment of late fees and penalties when reimbursed by HUD. CitiWest cited its contract which provides that payment of unpaid taxes, water, sewer, or other assessments is the responsibility of the Contractor. It goes without saying that if you have an unpaid tax or other bill that there will be penalties and interest. With regard to pre-conveyance bills, CitiWest stated they inherit these bills on a daily basis and the case moves to a closing stage relatively quickly. In all such cases, the GTR is contacted and the circumstances explained. In each case, the GTR directs CitiWest to either pay the outstanding amount or instruct that the amount be paid out of settlement at closing.

Finally, CitiWest constantly reports issues and concerns relating to closing agents timely performance and accuracy to the HOC. All extraordinary conditions are directly reported to the GTR for guidance.



OIG Evaluation of Auditee Comments

We recognize CitiWest's efforts to perform under its contract terms, but we also recognize that there is a need for improvement in the areas outlined.

We did not utilize SAMS report CMEPSD01 in determining CitiWest's effectiveness in case management processing. We used the "Standard Processing Steps" (see Appendix A) to determine whether a property remained in a case management processing step for an unreasonable amount of time. Additionally, we did not find adequate documentation in the case files for the held off market properties considered to have management deficiencies. The files did not delineate the reason that a property was held off market or that CitiWest was working to market the property as soon as possible. We considered OIG properties, but concluded that these properties were not held off market for an unreasonable amount of time.

With regard to title evidence approval, we concluded that these time frames were not met in eight of twenty applicable cases. Adequate staff training is not a guarantee of performance.

We agree that real estate agents are responsible for maintaining the sales contract in force and requesting extensions through the closing agents. However, when extensions are not requested, it is CitiWest's responsibility to take action to either cancel the contract or determine if a request for an extension is forthcoming. We found that CitiWest staff would complete contract extensions retroactively upon discovery that one was needed prior to closing or upon our inquiry. As a result, we concluded sales closing time frames were not met due to expired contracts with no approved extensions.

Outstanding balances of taxes and utilities, including late fees and penalties, should be paid by the lender prior to conveyance to HUD. We found instances where these costs are included on the HUD 1 settlement statement as an expense to HUD. Although we recognize payment of these items is required to proceed with the property closing, our concern is that CitiWest is not taking the necessary actions to notify HUD of these instances and minimize future occurrences.

CitiWest is required to submit weekly reports illustrating areas of the closing agent's noncompliance. We were provided one such report dated April 13, 2000.

Recommendations

We recommend that you:

- 2A. Ensure that CitiWest processes held off market properties in reasonable time to reduce any applicable holding cost to CitiWest, and additional cost to HUD.
- 2B. Require CitiWest to develop a system of control which would enable timely case management processing to comply with Contract requirements and HUD's standard processing time.
- 2C. Require CitiWest to accurately review HUD 1 settlement statements and exclude unallowable cost charged to HUD in accordance with Contract requirements.
- 2D. Require CitiWest to prepare and submit weekly reports of closing agent noncompliance in accordance with Contract requirements.
- 2E. Require CitiWest to immediately suspend requisition of late fees, interest and penalties in accordance with Contract requirements.
- 2F. Conduct thorough reviews of all monthly pass through vouchers to ensure that late fees, interest and penalties are no longer included.

Management Controls

In planning and performing our audit, we considered management controls of Management and Marketing Contractor for New England, CitiWest New England, Inc.(CitiWest), specifically as related to its responsibility for the ongoing management and marketing of HUD single-family properties in New England, in order to determine our auditing procedures and not to provide assurance on management controls.

Management controls consist of a plan of organization and methods and procedures adopted by management to ensure that resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data is obtained, maintained, and fairly disclosed in reports.

Relevant Management Controls

We determined the following management controls were relevant to our audit objectives:

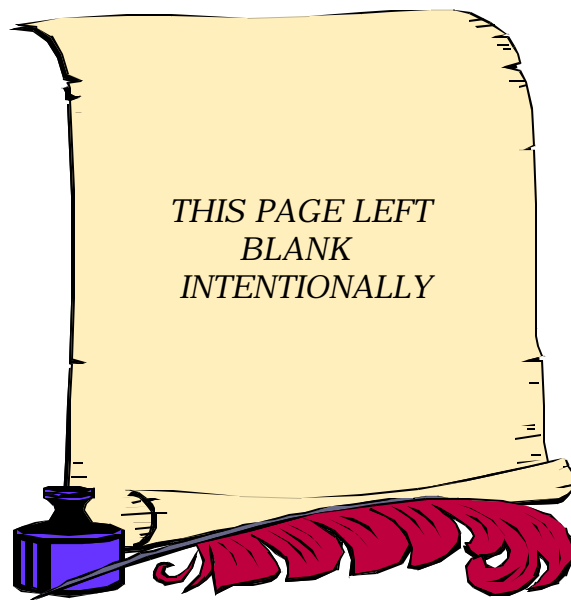
- Overall Case Processing
- Property Maintenance
- Quality Control
- Marketing
- Data Entry

Assessment Results

A significant weakness exists if management controls do not give reasonable assurance that resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data is obtained, maintained, and fairly disclosed in financial statements and reports.

Significant Weaknesses

Our review identified significant weaknesses over CitiWest's ability to properly administer its case processing, property maintenance, and quality control responsibilities. Specific weaknesses were identified in the management control areas disclosed above, with exception to Marketing and Data Entry. These weaknesses are described in the Findings section of this report.



Standard Processing Steps

Step	Description	Days (Allowed)
1	Add property to inventory - acquisition	17
2	Record appraisal of property	3
3	Determine method to dispose of property	3
4	Identify and approve repairs to property - optional	20
5	Identify properties that are ready to list for sale	10
6	List property for sale	30
7	Accept preliminary offer for property	7
8	Accept sales offer/contract	60
9	Record sales or settlement of property	7
10	Close/archive property	-
Total Processing Days		157

Step 1 - The recording of information from Form-27011, Single Family Application for Insurance Benefits, or through other means of acquisition as indicated in the contract.

Step 2 - The recording of initial data from the appraisal.

Step 3 - The design and approval of a Disposition Program.

Step 4 - The approved Disposition Program requires repairs and it is not specified as a property that is "ready to list".

Step 5 - Properties with an approved Disposition Program, not Held Off Market, and Ready to List. Required repairs must be completed beforehand.

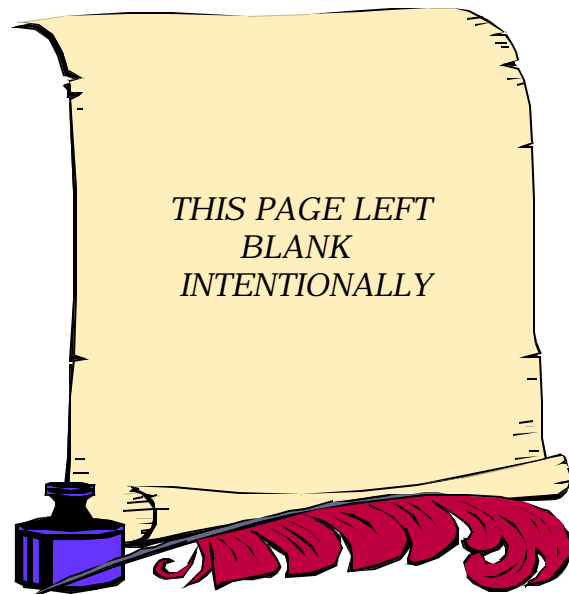
Step 6 - The property is advertised for sale.

Step 7 - A preliminary offer is received and recorded in SAMS.

Step 8 - Recording the accepted sales offer.

Step 9 - The closing or settlement package is received and the Form HUD-1, Settlement Statement is entered into SAMS.

Step 10 - Reconciliation of the HUD-1 data with the funds received by Treasury and the financial accounts associated with the case.



Auditee Comments

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August 31, 2000

Mr. Stephen D. King
Acting District Inspector General for Audit
Office of the Inspector General
U.S. Department of Housing and Urban Development
Tip O'Neill Federal Building
10 Causeway Street
Boston, MA 02222

Subject: Comments on OIG's August 2000 Preliminary Audit Report

Dear Mr. King,

CitiWest New England, Inc. has reviewed OIG's Preliminary Audit Report and would like to respectfully bring the following comments and clarification.

There are two major elements that the IG should take into account before reaching any conclusion:

1. Case File Sampling,
2. And CitiWest's Overall Performance.

1. Case File Sampling:

The IG has not sampled the inventory randomly.

The IG asked CitiWest's key personnel which two municipalities were the hardest to manage and market. CitiWest informed the IG that the towns of Waterbury and New Heaven were the hardest because of their socio-economical condition. The IG proceeded to request 30 case files from those two municipalities (15+15).

CitiWest objects to the IG's "random sampling" of 30 properties in the two very worst cities as far as ongoing breaking and entering, vandalism, drug neighborhoods, and then basing the findings of these very depressed properties as representative of the entire inventory. The majority of these homes are not suitable for a family to purchase and move into – they are of a type an investor would buy, so the entire selection is not representative of what HUD's mission is.

We are respectfully requesting that the IG clearly states the above in its final report, especially on page 2 in the last two paragraphs.

Mr. Stephen D. King, IG
 August 31, 2000
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2. CitiWest's Overall Performance:

2.1. Improved Return to the FHA Fund:

Since the start-up of the M&M contract, CitiWest has improved:

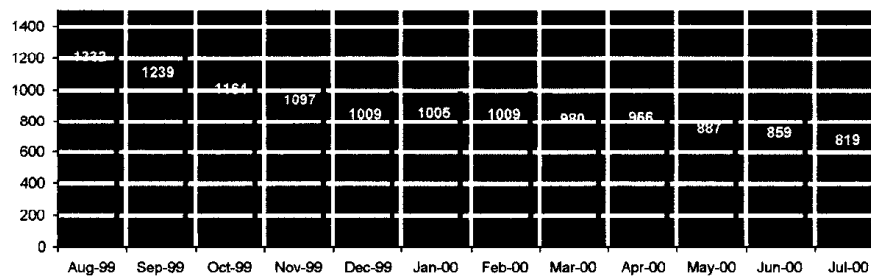
- Sales Price by: \$16,448 per property 32.86% increase
- The overall return to the FHA Fund by: \$14,557 per property 24.08%

		Claim Amount	Appraisal Amount	Sales Price	Acquisition Cost	Loss % of Claim
HUD	4/98 thru 9/98	\$98,619	\$56,745	\$50,050	\$60,520	61.36%
CitiWest	4/99 thru 9/99	\$98,262	\$65,114	\$64,756	\$45,544	46.34%
CitiWest	8/99 thru 7/00	\$99,172	\$69,862	\$66,498	\$45,943	46.32%

Source: HUD's SAMS System, July 2000 Case management Profit and Loss Report

2.2. Inventory Size:

The HUD New England Inventory has been constantly decreasing since CitiWest took over the Marketing and Management of the six States to record low of 819 properties at the end of July 2000.



Source: HUD's SAMS system, July 2000 MEAP Report

2.3. Adhering to HUD's Mission:

CitiWest has devoted more than adequate resources to properly market the HUD homes and for community outreach purposes resulting in above than national average in Insured and Owner Occupant sales:

% of All Sales	Total	Owner Occupant	Non-Profit Co-op	Investor
Insured Sales	38.96%	75.00%	21.67%	3.33%
Uninsured Sales	61.04%	69.15%	7.45%	23.40%
Total	100%	71.43%	12.99%	15.58%

Source: HUD's SAMS System, July 2000 MEAP Report

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Finding I

Page Five contains language that would lead to the incorrect assumption that CitiWest owns the properties in the P1 inventory. "Upon conveyance of a property from a mortgagee and/or HUD, CitiWest...." The correct language should be that CitiWest is assigned those properties after conveyance to HUD.

Property Maintenance: Although it is of record that the contract GTR expressed serious concern over property maintenance issues in a letter to CitiWest dated 9/16/99, the IG does not mention in these findings that as soon as November, 1999, the GTR's monitoring letter indicated that an improvement was noted in property conditions, and that each month thereafter the same language is used. CitiWest also notes that although the office complied with the request of the IG to provide certain monthly monitoring letters from HUD as well as our response to their findings, the CitiWest response to the findings are not noted in this report, which is biased and unfair.

Page Six suggests that delays in performing initial inspections may lead to property deterioration. The IG is not taking into consideration that prior to conveyance to HUD, the mortgagee is charged with the preservation and protection of the property with guidelines as strict as those imposed on CitiWest. In addition, Section C-2 (II) of the M&M contract states that "additional HUD-owned Properties shall be assigned directly to the Contractor by Mortgagees via Form HUD-27011, or upon other notification by the Mortgagee such as by electronic mail or by fax. When M&M is required to request proper 27011 documentation from mortgagee, it can take from 1-4 days to receive it, thus impeding the time to initially inspect the property. In many instances, as it was explained to the IG while in the CitiWest offices, inspections are completed timely by the inspectors, however the actual paperwork may be delayed in arriving to CitiWest due to weekends, holidays, etc.

Page Seven shows a photograph of a dead rodent in the yard of a HUD vacant property. CitiWest has stated when questioned by the IG that periodic routine inspections are performed, that at times, things happen to the properties, such as vandalism, broken windows, a dead animal being brought into the yard perhaps by a dog or cat that may have killed it, things unexpected, but handled by CitiWest when identified through inspection or reported by a third party. In any event, CitiWest staff and inspectors accompanied IG representative to each property on the list visited and tried to identify exactly what the IG inspector was referring to in their report. In many cases, CitiWest could not identify the hazard referred to.

The IG report cited as direct examples of properties with deficiencies in upkeep several Waterbury, CT properties. CitiWest recognizes that there were problems with the sub-contractor maintaining this area and has terminated the services of this sub-contractor. Please note that your staff was given a copy of this termination notice by CitiWest as well as other similar notices were CitiWest terminated contractors who failed to keep properties up to contract specifications.

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Defective Paint: per CitiWest's statement of work, treatment of defective paint can take place up until the time a property closes. The IG report, as well as the monitoring reports received from the contract GTR do note that it is evident that CitiWest is treating areas of defective paint as it is found. It should be noted too that especially in very old properties and in a geographic location that is noted for damp, rainy weather, defective paint can keep reoccurring almost as quickly as it is treated. CitiWest has found that in New England, these conditions are commonplace and treatment in some properties is ongoing. When CitiWest visited numerous properties with the IG, CitiWest noted that defective paint (as identified by the statement of work) was not present in many properties. For example, nail holes would not be considered areas of defective paint.

Unsecured Properties: It was explained to the IG and noted during property inspections that there are Open Houses held at the properties and sometimes the real estate brokers holding the Open House leave windows or sliding doors unlatched when they leave. This problem is ongoing and CitiWest covers this topic at its outreach meetings for brokers.

Finding II

Case Management Processing: The comment of unreasonable management processing steps is unfair. The CMEPSD01 report, used by HUD to measure contractor performance in timely case movement was not correctly reflecting exceeding dates for approximately the first 15 months of the contract, thereby causing difficulty in accurately tracking cases exceeding. HUD has recently corrected the report.

Held-Off-Market Properties in Step 3: The IG had many conversations with CitiWest staff to explain specific reasons why properties are held off the market, also the case files are documented to reflect these actions. CitiWest stays in constant contact with the contract GTR/GTM in all of the cases that have problems, as the remedy to these situations regularly falls outside of the decisions CitiWest can make without HUD's permission. CitiWest would also like to point out that IG properties (safe house program) are in Step 3 and may stay in this step for several months or years.

HUD's contract requirement that utilities must be turned-on when at all possible prior to appraisal has a serious impact on the timeliness of meeting the 10-day deadline for obtaining appraisals. CitiWest has been directed by the HOC on many occasions to initiate repairs to properties to enable utility activation. Then, too many of the homes in the New England inventory are older and the heating systems are fired by oil. CitiWest property managers work with numerous small utility companies daily to get utilities turned on. All of these procedures takes time, and frequently properties remain in Step 1 longer than is allowed per HUD guidelines, but it was explained to the IG during interviews and will be reiterated here that the HOC is aware of every such case in the P1 inventory and CitiWest continues this process with GTR approval.

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Title Approval: Upon inception of the contract, CitiWest discovered that title packages were not even being sent to CitiWest, but to the HUD closing agents. It was only after our insistence on numerous occasions that this situation was corrected, and the foreclosure attorneys directed the title packages to CitiWest. The IG mentions in the report that CitiWest staff stated that they were not aware of the time limitations to approve title. The staff that processes title approval has been trained to meet the time frames set out by HUD. In fact, Mr. Albert Aladjem of the HOC conducted training sessions with CitiWest staff, and when title approval is denied, an extension is not automatically granted, but must be requested.

Closing Extensions: CitiWest establishes a closing timeframe on each offer prior to acceptance. It is the responsibility of the real estate agent to maintain the contract in force and request an extension through the closing agent, which is then approved by CitiWest. CitiWest aggressively reminds brokers to extend their contracts by calling ten (10) days in advance of the contract expiration date. No contracts are closed without valid extensions where needed.

The timely processing of cases is indeed vital to reducing marketing and holding costs to HUD. It is not abnormal for there to be a high number of cases that remain in a step longer than prescribed by HUD. CitiWest, during IG interviews and by careful documentation of each case file, has explained the reason for the deviation and in most cases, examination of the file will reveal direction from the GTR/GTM supporting or directing the decision.

Taxes and Utility Bill Processing: The IG cites on page 21 that in matters of outstanding balances of taxes and utilities which include late fees and penalties, that these items should be paid by the lender prior to conveyance to HUD. CitiWest is then criticized for failure to resolve these pre-conveyance issues. In a related section, the IG is critical of CitiWest's payment of late fees and penalties when reimbursed by HUD when on Page C-87 of the contract statement of work it is stated that payment of unpaid taxes, water sewer or other assessments is the responsibility of the Contractor (CitiWest). It goes without saying that if you have an unpaid tax or other bill that there will be penalties and interest. The IG's finding of CitiWest is not reasonable.

In a related matter, CitiWest is censured for not making regular payments to HOAs to prevent the accrual of late fees. CitiWest would respond that its bookkeeping system was originally set up to make regular payments off of HOA ledger cards. However, CitiWest was directed by the HOC not to do this any longer, that reimbursement could only come to CitiWest upon submission of an actual invoice from each HOA. CitiWest is in the process of restructuring their HOA payment system to accommodate this mandate.

While the IG notes that CitiWest should not be inheriting outstanding pre-conveyance bills, it is a daily occurrence. The IG is of the opinion that when such a situation is uncovered, that rather than pay the assessment, CitiWest should go back to the lender for payment. In a small percentage of cases, this is possibly a reasonable solution. However,

Mr. Stephen D. King, IG
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in a majority of the cases, there can be a lien or assessment against the property that is not known until HUD's closing agent performs a title search after the property goes under contract. In this situation, time is obviously of the essence and the main objective is to save the sale, thereby saving HUD thousands of dollars that would be expended if the property does not close. In all such situations, CitiWest contacts the GTR and explains the circumstances. In each case, the GTR directs CitiWest to either pay the outstanding amount or instructs that it be paid out of settlement at closing. Again, all such directives are documented in the file.

Closing Agent Issues: CitiWest has been constantly reporting issues and concerns relating to closing agents timely performance and accuracy. CitiWest actively monitors the reception of HUD-1 packages and are aware that the wire transfer dates are automatically recorded in the SAMS closing agent performance report that is available for the HOC or HUD staff to obtain. CitiWest regularly reports all extraordinary conditions directly to the GTR for guidance for specific cases.

In a final note, we would like to mention that we are constantly updating our internal procedures and our quality control measures in light of HUD's monthly assessments and now the IG preliminary Audit Report. As proof, please see our Overall Performance on page 2 of this letter.

We sincerely hope that the IG will take our comments and clarifications into consideration in its final report.

Respectfully Submitted,

Remi Geahel
President

cc: Mr. Todd Hebert

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