



Issue Date	October 19, 1999
Audit Case Number	00-CH-229-1001

TO: Fred Douglas, Acting Director, Philadelphia Homeownership Center

FROM: Dale L. Chouteau, District Inspector General for Audit, Midwest

SUBJECT: Great Lakes Housing, Inc.
Section 203(k) Mortgage Insurance Program, and
Partners For Affordable Homeownership Program
Wyoming, Michigan

We completed an audit of the books and records of Great Lakes Housing, Inc., a private non-profit organization. We selected Great Lakes Housing, Inc. for audit because of the large number of properties which it rehabilitated under the Section 203(k) Loan Insurance Program. Between January 1, 1997 and July 31, 1998, Great Lakes Housing obtained 47 Section 203(k) loans. It purchased the properties from HUD at a negotiated discount which exceeded the 30 percent discount available under the Partners for Affordable Home Ownership Program. The audit objective was to determine whether Great Lakes Housing, Inc. followed HUD requirements for the Section 203(k) loans and for the properties it purchased from HUD at the discounted rates.

Our audit concluded that Great Lakes Housing, Inc. did not comply with HUD requirements. It inappropriately obtained \$79,125 of funds under the Section 203(k) Program for rehabilitation work by requesting funds in excess of actual costs and either did not perform the repair work or did not properly complete the repair work. As a result, HUD may have insured loans for excessive amounts and assumed unnecessary risks.

Within 60 days, please provide us, for each recommendation made in this report, 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 considered unnecessary. Also please furnish us copies of any correspondence or directives issued because of the audit.

Should you or your staff have any questions, please contact me at (312) 353-7832.

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Executive Summary

We completed an audit of the books and records of Great Lakes Housing, Inc., a private non-profit organization. We selected Great Lakes Housing, Inc. for audit because of the large number of properties which it rehabilitated under the Section 203(k) Loan Insurance Program. Between January 1, 1997 and July 31, 1998, Great Lakes Housing obtained 47 Section 203(k) loans. It purchased the properties from HUD at a negotiated discount which exceeded the 30 percent discount normally available under the Partners for Affordable Home Ownership Program. The audit objective was to determine whether Great Lakes Housing, Inc. followed HUD requirements for the Section 203(k) loans and for the properties it purchased from HUD at the discounted rates.

We concluded that Great Lakes Housing, Inc. did not comply with HUD's program objectives and requirements.

Great Lakes Housing Obtained Excessive Funds For Rehabilitation Work

Great Lakes Housing, a private non-profit organization, obtained excessive funds for rehabilitation work done with loans from the Section 203(k) Mortgage Insurance Program. Specifically, Great Lakes Housing, operating as a general contractor, obtained funds of \$79,125 over actual cost for rehabilitation work. It also paid its sub-contractors for rehabilitation work which was either not done or was done improperly because the consultant/inspector prepared inadequate specifications and performed inadequate inspections. Great Lakes Housing performed little oversight of the consultant/inspector's work. As a result, Great Lakes Housing failed to meet HUD's objective to restore and preserve existing housing in an effective, efficient, and economical manner.

We recommend that the Director, Philadelphia Home Ownership Center: (1) require Great Lakes Housing, Inc. to either (a) reimburse the respective homebuyers' mortgages for the work not performed according to the specifications and cost estimates for the property, or (b) complete all work items in the specifications plus any work items required to meet minimum property standards as required by the local government; and (2) take appropriate administrative actions against Great Lakes Housing, Inc. and its Officers from if the recommendations are not resolved.

We presented our draft finding and narrative case presentations to Great Lakes Housing, Inc. We held an exit conference with Great Lakes Housing, Inc. on May 14, 1999. Great Lakes Housing provided written comments to our finding and some of the narrative case presentations prior to the exit conference. Subsequent to the

exit conference, Great Lakes Housing provided additional written comments and documentation. We included excerpts from the comments with the findings and in Appendix B along with our evaluation of these comments. Appendix C contains the complete text of Great Lake's comments on the findings. Most of the exhibits provided by Great Lakes were not included in Appendix C due to their voluminous nature. The complete text of Great Lake's response and all exhibits were provided separately to the Director of the Philadelphia Homeownership Center.

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Introduction

Great Lakes Housing, Inc. was incorporated on April 17, 1996 and obtained its non-profit status from the Internal Revenue Service in 1996. Great Lakes Housing was formed by five individuals to create affordable housing for families. It intended to purchase and repair foreclosed properties in disrepair from HUD using HUD's 203(k) Mortgage Insurance Program, then resell the properties to homebuyers once the properties conformed with State and local codes. The Grand Rapids HUD Office approved the nonprofit as a housing provider in August 1996 on a limited basis until two years of housing experience was obtained. Great Lakes Housing purchased 49 properties at negotiated discounts from HUD using HUD's Partners for Affordable Home Ownership Program available to qualified nonprofit organizations. Great Lakes Housing financed the purchase and rehabilitation of most of these properties using the 203(k) Mortgage Insurance Program.

The Section 203(k) Mortgage Insurance Program allows borrowers to combine, in a single mortgage package, the money needed to purchase a home and make home improvements. The Program allows a borrower to finance both the acquisition and rehabilitation of a property with one loan.

Under the Partners For Affordable Home Ownership Program, HUD allows nonprofit organizations to purchase homes from the HUD inventory at a 10 percent or 30 percent discount from HUD's appraised value. The homes purchased at a 30 percent discount are located in a HUD designated revitalization area. HUD restricts the sales price the nonprofit agency can charge the home buyers for homes purchased at a 30 percent discount. The sales price is restricted to the net development costs plus ten percent of the net development costs. There are no restrictions on the sales price for homes purchased at a 10 percent discount.

Great Lakes Housing purchased HUD properties at prices ranging from \$500 to \$46,800. Although the actual discounts received by Great Lakes Housing, Inc. were between 32 and 99 percent of HUD's usual list price, the sales contracts executed between HUD and Great Lakes Housing, Inc. stated that the discounts involved were no more than 10 percent. After determining the discount percentage, HUD further reduced the sales price by the estimated cost of repairs. Because of the discounts cited in the contracts and because of the procedures followed by HUD, we do not believe Great Lakes Housing, Inc. could be held to the resale restrictions applicable to 30 percent properties. Our initial draft report included a finding regarding Great Lakes Housing's non-adherence to the 30 percent resale limits. However for the reasons cited, we deleted the finding from the final report.

Great Lakes Housing's books and records are located at 2897 Taft, Suite C, Wyoming, Michigan. Jack Brown is the President of Great Lakes Housing, Inc. Great Lakes Housing acted as a general contractor for all rehabilitation work through its President. Great Lakes Housing also acted as a real estate broker through its President who is a member of the local board of realtors. These actions were taken to reduce its rehabilitation and selling costs.

Audit Objectives

Our audit objectives was to determine whether Great Lakes Housing, Inc., a nonprofit agency, complied with HUD's program objectives and requirements relating to HUD's Section 203(k) Mortgage Insurance Program and the Partners for Affordable Home Ownership Program.

Audit Scope and Methodology

We identified 49 properties purchased from the Grand Rapids HUD Office under the Partners for Affordable Home Ownership Program between January 1997 and July 1998 with actual sales prices ranging from 32 to 99 percent off HUD's usual list price. Great Lakes Housing obtained Section 203(k) mortgage insurance to finance the purchase and rehabilitation of 47 of these properties. We reviewed the nonprofit organization's records related to these properties. These records included: settlement statements, property appraisals, contractors' invoices, utility bills, cancelled checks, sales agreements and its job activity report. We reviewed these records to assess Great Lakes Housing's compliance with HUD's requirements.

We selected ten 203(k) properties for detailed file reviews. We reviewed the rehabilitation specifications (work write ups), cost estimates, draw requests, change orders, and the mortgagee's loan origination files, rehabilitation escrow accounts, and property inspection reports.

A HUD OIG Construction Analyst inspected eight recently sold properties with available work specifications financed using the 203(k) Program to determine whether all the rehabilitation work which was certified to be done was actually done and the completed work was done in a workmanlike manner. The HUD OIG Construction Analyst also inspected the eight properties to estimate the cost of work identified in the work specifications prepared by a HUD approved 203(k) consultant, and determined whether the eight properties met HUD's minimum property standards.

We contacted the Grand Rapids Building Inspection Department for the eight properties located in the City. We confirmed with the Inspection Department that permits were required for six of the eight properties but the permits were not obtained by Great Lakes Housing or its subcontractors.

We interviewed HUD staff, Great Lakes Housing staff, and employees of the mortgagee, DMR Financial Services, to determine how the non-profit operated. We also interviewed the homebuyers of the inspected properties.

Our audit covered the period January 1997 through July 1998. We extended the period when necessary. We conducted the field work of Great Lakes Housing between September 1998 and March 1999.

The audit was conducted in accordance with generally accepted government auditing standards. We provided a copy of the audit report to the President of Great Lakes Housing.

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Great Lakes Housing, Inc. Misused The Section 203(k) Loan Program

Great Lakes Housing, Inc., a private non-profit organization, misused \$79,125 of the funds received from the Section 203(k) Loan Program. Contrary to the Program requirements, Great Lakes Housing: (1) received funds of \$57,203 from the rehabilitation loan escrow account that were in excess of the actual costs of repairs; and (2) did not assure that \$21,922 in repair work was properly completed. The Section 203(k) consultant/inspector prepared inadequate specifications (work write ups) and did not adequately inspect the completed work. Great Lakes Housing performed little oversight of the consultant/inspector's work. As a result, Great Lakes Housing failed to meet HUD's objective to restore and preserve existing housing in an effective, efficient, and economical manner. Also, the low or moderate income persons who purchased the properties may have paid for rehabilitation work not completed or improperly completed.

HUD Requirements

Mortgagee Letter 94-11 states that the Section 203(k) Program is the Department's primary program for the rehabilitation and repair of single family properties. As such, it is an important tool for community and neighborhood revitalization and expanding home ownership opportunities. The Program allows non-profit borrowers to purchase and rehabilitate properties by obtaining a single mortgage to finance both the acquisition and the rehabilitation of the properties at a long term (or adjustable) interest rate.

HUD Handbook 4240.4 REV-2, 203(k) Rehabilitation Home Mortgage Insurance Handbook, Chapter 5, requires a lender who controls the Rehabilitation Escrow Account to release funds to a borrower only after the lender has received a properly executed draw request and inspection report from the 203(k) inspector. The borrower must also obtain all licenses and permits which are required by local governmental agencies. Chapter 3 states that specifications and improvements must include HUD's Minimum Property Standards and all local codes and ordinances.

The Rehabilitation Loan Agreement is an agreement between the borrower and lender that is a part of the initial Section 203(k) mortgage package. The Agreement states that the borrower can only request reimbursement for completed work on the draw request for the actual cost of rehabilitation. It also

states that the borrower will cause all improvements to be made in a workmanlike manner and will obtain all licenses and permits required by the local authorities.

Draw Request For
Rehabilitation funds Contained
A Warning

Great Lakes Housing, Inc., the borrower, certified on draw requests for rehabilitation funds that the money withdrawn for the rehabilitation work was for the actual costs of rehabilitation. Great Lakes Housing, Inc., as the borrower and the general contractor, and the Section 203(k) consultant/inspector also certified that all completed work had been done in a workmanlike manner and in accordance with the specifications (work write ups). The draw requests contained a warning that HUD will prosecute false claims and statements under 18 U. S. C. 1001, 1010, 1012, and 31 U. S. C. 3729, 3802, and conviction may result in criminal and/or civil penalties.

Section 203(k)
Consultants/Inspectors
Did Not Do An Adequate Job

The Section 203(k) consultant/inspector hired by Great Lakes did not prepare adequate specifications (work write ups). The specifications did not always include HUD's minimum property standards and local code violations, as required by HUD. The 203(k) consultant also overestimated the cost of repairs in the specifications. As a result, seven of the eight properties inspected contained minimum property standard or local code violations. As the General Contractor and the 203(k) consultant/inspector's employer, Great Lakes Housing performed little oversight monitoring of the consultant/inspector's work because he was a HUD approved consultant/inspector. Great Lakes Housing did not review the work required to be completed by the specifications with the 203(k) consultant/inspector. Great Lakes Housing also did not verify with the 203(k) consultant/inspector if the specifications met all of HUD's minimum property standards and local code requirements. For example, for the property at 2123 Darwin: the kitchen did not have any three prong grounded outlets for the stove and refrigerator; and there were no heating vents in the kitchen and bathroom.

An OIG Appraiser/Construction Specialist determined that the Section 203(k) consultant/inspector overestimated the cost of repairs when he prepared the specifications for seven of the eight properties we inspected. For example, for the property at 1957 Paris, Grand Rapids, the Section 203(k) consultant/inspector estimated the cost of repairs to be

\$16,454. The OIG Specialist determined the estimated cost should have been \$11,191. Great Lakes actually paid \$12,025 for the repairs.

The Section 203(k) inspector also certified on the draw requests that certain work was completed when it was not done. The lender approved the disbursements from the rehabilitation escrow draw accounts based on the inspectors certifications that all work was done as required by the specifications.

Great Lakes Misused The Section 203(k) Program

Between January 1, 1997 and July 31, 1998, Great Lakes Housing, Inc. used the Section 203(k) Mortgage Loan Program to purchase and rehabilitate 47 properties from HUD's Single Family Asset Management Division. All of the loans were underwritten by DMR Financial Services. Great Lakes, as the borrower also acted as its own general contractor and used subcontractors to repair the properties.

We selected eight recently sold properties to determine the actual costs of repairs. We found that contrary to Section 203(k) Program requirements, Great Lakes Housing, Inc. received \$57,203 in excess of the actual costs of rehabilitation for the eight properties. It received \$210,607 from the rehabilitation escrow account when it only paid \$153,404 to do the actual work.

The following table shows the excessive amounts paid to Great Lakes Housing, Inc. Appendices B-1 through B-8 contain the detail explanations. (We adjusted our original table to reflect additional documentation provided by the Great Lakes in their comments.)

Property Address	Amount Received From Escrow Account	Actual Amount Paid For Repairs	Amount Received In Excess Of Actual Costs	Amount Paid For Work Not Done or for Work Done Unsatisfactory	Total Excessive Amount
215 Warren	\$ 28,520	\$ 17,119	\$11,401	\$ 8,893	\$ 20,294
1957 Paris	18,922	12,025	6,897	2,430	9,327
1213 Third	24,108	18,099	6,009	1,205	7,214
2123 Darwin	35,526	24,794	10,732	600	11,332
843 Hancock	23,372	16,271	7,101	3,613	10,714
328 Brown	33,760	23,233	10,527	2,430	12,957
1123 Noble	29,886	27,437	2,449	2,539	4,988
1244 Aurora	16,513	14,426	2,087	212	2,299

Finding 1

Totals	\$ 210,607	\$153,404	\$57,203	\$21,922	\$ 79,125
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Repairs Were Not Adequately Done

Great Lakes Housing, Inc., as the borrower and the general contractor, did not assure that all repairs were completed in accordance with the specifications or approved change orders and that all HUD’s minimum property standards and local code violations were corrected.

An OIG Appraiser/Construction Specialist inspected these eight properties in November 1998. The OIG Appraiser/Construction Specialist’s inspections showed that Great Lakes Housing failed to do some of the required repairs per the work specifications and made unsatisfactory repairs. The major deficiencies were in the areas of: (1) electrical and plumbing work; (2) interior and exterior painting; and (3) obtaining the required city inspection permits.

Electrical Work

The specifications for all eight properties required at least some electrical work. The work ranged from installation of smoke detectors and replacing a few light fixtures or outlets to the installation of 100 amp service. However, our inspection revealed that many of the older homes had inadequate electrical outlets in the kitchen and bathrooms. Only two prong outlets existed when three prong (grounded) or new ground fault circuit interrupt (GFCI) electrical outlets were needed. In some cases, homeowners had to use adapters and extension cords to operate their stoves and refrigerators. For example:

- The specifications for 843 Hancock, Grand Rapids required the installation of GFCI electrical outlets in the kitchen and bathroom. Our inspection showed there were no grounded or GFCI outlets in the kitchen for the stove and refrigerator.
- The bedrooms at 1957 Paris, Grand Rapids did not have wall switches. The Section 203(k) consultant/inspector did not include the wall switches in the specifications. Therefore, the property did not meet HUD’s minimum property standards.

- A junction box in the basement at 1123 Noble, Grand Rapids was not covered. The specifications did not identify this problem as a work item to be corrected.

Interior and exterior painting

The specifications for all eight properties required painting after properly preparing the surfaces by scraping, priming, and removing lead based paint. Although the draw requests approved by Great Lakes Housing and the Section 203(k) inspector indicated that the work was properly completed, our inspections showed that the surfaces at three properties were not properly scraped and primed. For example:

- The specifications for 1957 Paris, Grand Rapids required the painting of exterior wood soffit, fascias, windows, and trim for \$1,800 after properly preparing the surfaces. Our inspections showed that the exterior painting was not performed. Rotted fascia boards were not replaced. Windows were not painted as required. Also, defective window sashes, wood siding, and chipped and peeling paint on the garage was observed.
- The specifications for 843 Hancock, Grand Rapids required replacing the missing glazing putty for three specific windows. However, it did not address the chipped and peeling paint on the window frames noted during our inspection.

Plumbing

The specifications for six of the eight properties required some plumbing work, such as the installation of new plumbing lines, hot water heaters, sinks, faucets and toilets; and the relocation, removal, and capping of plumbing lines. Numerous conditions of poor workmanship were found. For example:

- The specifications for 1123 Noble, Grand Rapids required the installation of a new kitchen sink and faucets. Our inspection showed that there was a serious leak under the kitchen sink that was recently repaired by the homeowner.

- The specifications for 843 Hancock, Grand Rapids required new flooring in the bathroom, replacing a claw foot tub, tearing out all plumbing fixtures, and capping the toilet lines in the basement. Our inspection revealed that the claw foot tub was not replaced as required. Instead, the tub was enclosed in ceramic tile. Ceramic tile was installed on the bathroom floor but the sink drain pipe was not secured and sealed to the floor. The plumbing fixtures in the basement were removed but the lines were not capped, as required.

City Permits

According to a letter from the City of Grand Rapids' Building Inspection Department, Great Lakes Housing did not obtain the required city permits for work done on six properties. HUD requires that local permits be obtained where required. The City reviewed the work specifications and determined that permits were required for the heating system and plumbing repair work. The Inspection Department confirmed that Great Lakes Housing or its subcontractors did not obtain these city permits.

Miscellaneous items

The specifications for the eight properties included one or more of the following: exterior siding repairs, storm window replacement or repairs, crown trim for dining room, new kitchen cabinets, new furnaces and new duct work, the replacement or repair of basement stairs, and the removal of debris. Although the draw requests approved by Great Lakes Housing, Inc. indicated that the work was completed according to the specifications, our inspections found that the work was not performed or was not completed in a satisfactory manner and the cost estimates for the work were excessive.

For example:

- The specifications for 843 Hancock required that broken vinyl siding at the southeast corner of the house and loose siding be repaired. Our inspection showed that the work was not done as required. The specifications required that the storm window for a bedroom be replaced. Our

inspection disclosed that the window was replaced but it did not properly fit the opening. It was short by about two inches.

Auditee's Comments

[Excerpts from Great Lakes Housing's comments on our draft finding follow. Appendix C contains the complete text of the comments. Great Lakes Housing provided many exhibits as part of its comments which were too numerous to include in Appendix C. The complete response was provided to the Director of the Philadelphia Homeownership Center separately.]

Great Lakes Housing did not "hire" the Section 203(k) consultant/inspector that prepared the work write-ups on the properties in question. His name was given to Great Lakes Housing by the HUD local office and Van Dyke Mortgage who had previous experience with him. He was the only inspector available in the area and Great Lakes Housing was left with little or no choice but to utilize him.

**OIG Evaluation of
Auditee's Comments**

We disagree. Great Lakes Housing hired the 203(k) consultant/inspector whose fee was paid out of the proceeds of the 203(k) loans approved by the mortgage company. Further, we obtained a copy of the Grand Rapids Office Handbook for the 203(k) Program issued in 1995. The Handbook included a list of several HUD approved 203(k) consultants for the Grand Rapids area that Great Lakes Housing could have used.

Auditee's Comments

If the 203(k) consultant/inspector had properly done his job, Great Lakes Housing would not be faced with recommendation 1B(b) which recommends that it complete all the work items in the specifications plus additional work items required to meet minimum property standards and local codes. Further, we believe that it would be unfair to place this burden on Great Lakes Housing given the fact that many of the alleged code violations and other deficiencies could have been caused by the owners of the property since the time they began occupancy.

**OIG Evaluation of
Auditee's Comments**

We agree that had the 203(k) consultant/inspector did his job, we would not be recommending that Great Lakes Housing complete the additional work items to meet HUD's minimum

property standards. We disagree that Great Lakes Housing would have an unfair burden to correct these deficiencies. We made a distinction between work items noted in the specifications and additional work items needed to correct code violations which were not in the specifications. As the General Contractor, it is Great Lakes Housing's responsibility to perform the specified repairs in a complete and workmanlike manner. It is also Great Lakes responsibility to review the specifications prepared by the 203(k) consultant/inspector and verify that the specifications contain HUD's minimum property standards and local code requirements. Our Case Narratives provide the details of work which was not done or unsatisfactorily done. We found no evidence that the property owners caused the problems we cited. None of the items cited by our inspector as not completed or improperly completed involved the owners.

Auditee's Comments

It should be noted that the inspection which was done by the OIG Appraiser/Construction Specialist on these properties occurred in November of 1998, several months, and in some cases over one year, after many of the homes became occupied and Great Lakes Housing had completed its repairs."

OIG Evaluation of
Auditee's Comments

We selected eight recently sold properties, as of September 30, 1998, for our review of rehabilitation work. The fact that some work was done several months previous is irrelevant because the homes were not occupied until the home buyers purchased the properties. The properties were only recently sold to new home buyers in 1998. Great Lakes Housing is responsible for completing the rehabilitation work which meets HUD's minimum property standards. The 203(k) consultant/inspector and Great Lakes Housing provided certifications to the mortgagee and HUD that the work specifications met all local city codes. Also, Great Lakes Housing, as the general contractor, should have verified that all repair work was properly completed by its subcontractors before certifying that all repairs were done in a workmanlike manner.

Auditee's Comments

The draft finding also states that there were some \$62,000 in amounts received for repairs in excess of the actual cost. Great Lakes Housing needed to make approximately 20 percent on the rehabilitation costs in order to meet its operating expenses as the general contractor. Mortgagee Letter 92-33 allows for a 10 percent hold-back to be paid to the general contractor and, where the mortgagor is acting as a general contractor, the mortgagor can receive the hold-back and request an additional 10 percent for the cost of administering the rehabilitation of the property. As a result, it is Great Lakes Housing's position that they did not receive any excess of amounts over the actual cost.

OIG Evaluation of Auditee Comments

Great Lakes Housing misunderstood the content of Mortgagee Letter 92-33. Mortgagee Letter 92-33 allows mortgagees in administering 203(k) rehabilitation draws to hold back 10 percent of the draw requests based on actual costs from the general contractor. After returning the hold back funds, Mortgagee Letter 92-33 also allows an additional 10 percent for the cost of administering the rehabilitation. This does not approximate 20 percent of the rehabilitation costs. This is still the actual costs plus 10 percent of actual costs. The additional 10 percent above actual costs is consistent with HUD Notice 94-74 which allows non-profit organizations 10 percent of total development costs to cover its overhead expenses.

Auditee's Comments

With regards to permits, the draft finding alleges that Great Lakes Housing did not obtain the required permits for any work done on the eight properties (Draft Finding, page 6). This is simply not true. Great Lakes Housing does not have copies of the permits, but believes that all of the required permits were taken out either in the name of the subcontractors who did the work, or Great Lakes Housing, Inc. If the City building official conducted the search under the name of Great Lakes Housing, then it is understandable why several of the permits were not found. The contract entered into between Great Lakes Housing and its general contractor require that the contractor pay for all necessary permits and licenses and, as a result, either the contractor or one of the subcontractors would usually take out the appropriate permit. The Grand Rapids building official indicated that there was not an electrical permit taken out for the property at 328 Brown. Attached is a copy of Permit No.

28111 which was taken out on March 3, 1998, by the Vice President of Great Lakes Housing. This permit was not located by the Grand Rapids building official who reported to the OIG that none of the required permits were taken out. Great Lakes Housing believes that all of the other permits which allegedly were not taken out in this matter were likely taken out by its contractors, or Great Lakes Housing officials. Great Lakes Housing will need additional time within which to verify this information since it does not have copies of the permits for these properties in its files.

OIG Evaluation of
Auditee Comments

We confirmed the existence of the electrical permit Great Lakes provided to the City. The electrical permit provided by Great Lakes was missed by the City. However, this one permit is not sufficient evidence to question the overall finding by that required permits were not obtained from the City. The City does not need to know the name of the contractor in order to determine if any permits were obtained. The City has the ability to search for permits by property address.

Auditee's Comments

Great Lakes Housing is willing to correct any and all deficiencies which exist due to the poor workmanship of its contractors or those items simply not completed. Great Lakes Housing believes, however, that several of the items referenced in Finding 1 could have been caused after Great Lakes Housing completed its repairs of the property and prior to the OIG inspection. There is no way for the OIG inspector to know what was done and the condition that the repairs were in on the day Great Lakes Housing completed its repairs so the OIG inspector has nothing to compare the results of his inspection to. While Great Lakes Housing has photographs of some of the completed repairs, they do not have photographs of all of the properties referenced in the finding. As a result, Great Lakes Housing would have to rely upon the memory and recollection of its officers, contractors and subcontractors who had direct involvement with these properties.

OIG Evaluation of
Auditee Comments

We disagree that several of the items cited in Finding 1 happened after Great Lakes Housing completed its repairs.

Most of the items cited in our case narratives referred to the work items in the specifications prepared for the properties which were not done. Some poor workmanship was also included. Great Lakes Housing claimed that several items referenced in Finding 1 occurred after its work was completed. However, no specific items were cited by Great Lakes Housing to support its statement. We also disagree with the statement that there is no way for the OIG inspector to know what was done and the condition of the repairs when Great Lakes Housing completed its repairs. A physical inspection of the property within the first year after completion is a common method for assessing the condition of the repair work. Further, we have photographs for most of the cited deficiencies. Copies of the photographs were provided to Great Lakes Housing on March 11, 1999. These photographs are better evidence of the quality of the work performed than the memory of Great Lakes Housing's officers and contractors.

Auditee's Comments

With regard to Recommendation 1 (B), the OIG is recommending that (a) Great Lakes Housing reimburse the respective home buyers over \$85,000 for the work allegedly not performed according to the specifications and within the cost estimates for the property, or that (b) Great Lakes Housing complete all work items and specifications, plus any work items required to meet minimum property standards and local codes.

Great Lakes Housing is concerned that by simply throwing money at the respective home buyers under Recommendation 1(B) (a), the code violations and minimum property standards would not be addressed. It is the belief of Great Lakes Housing that proceeding in this manner would not meet the goals of both it and the program to provide housing which does not violate safety and health concerns. It would also be unfair and unreasonable to require Great Lakes Housing to reimburse the respective home buyers for work that has been completed.

**OIG Evaluation of
Auditee Comments**

We agree that Recommendation 1(B) was poorly worded. We believe the reimbursements should be used to pay off or pay down the mortgagees to reduce HUD's risks. We have revised the recommendation accordingly.

Auditee's Comments

Requiring Great Lakes Housing to complete all of the work items in the specifications would put a huge financial burden on Great Lakes Housing and effectively put it out of business. This would have the effect of requiring Great Lakes Housing to go back and perform all of the additional work cited by the OIG inspector without compensation. Great Lakes Housing believes that this is unfair because, had these items been included in the original write-up by the HUD trained and approved inspector, those amounts could have been included in the repair costs for the property and Great Lakes Housing would not have to suffer further out-of-pocket losses.

OIG Evaluation of Auditee Comments

Our recommendation does not require Great Lakes Housing to complete all work items cited in this report. Rather it recommends that Great Lakes complete all work included in the specifications which was not completed or improperly completed, and any work items required to meet minimum property standards. As the General Contractor, Great Lakes is responsible for assuring the work it and its subordinates performed were properly completed. Great Lakes Housing received the 203(k) funds for these work items. The 203(k) consultant and Great Lakes Housing provided the mortgagee a certification that the specifications met local code requirements. By certifying to the mortgagee and HUD that the specifications met local code, Great Lakes Housing should be held liable for preparing inadequate work specifications.

Auditee's Comments

Since the true goal of the program is to provide safe, healthy, and affordable housing, Great Lakes Housing would inquire as to whether or not a remedy can be fashioned whereby Great Lakes Housing would go back and do this work and receive compensation for it through the program given the fact that it was the fault of the HUD approved (203(k) consultant that these items did not make it into the work write-ups.

OIG Evaluation of Auditee Comments

In our opinion, the remedy offered by Great Lakes Housing is not realistic. Great Lakes Housing has received the 203(k) funds from the mortgagee to make repairs. Great Lakes hired

the 203(k) consultant/inspector, and as such, the consultant/inspector acted as an agent for Great Lakes Housing. As the General Contractor, Great Lakes is responsible to make sure that it and its subordinate contractors perform and properly complete all required work to meet minimum property standards.

Auditee Comments

The amount paid by Great Lakes Housing for repairs for all of the properties listed in the table of Finding 1 are inaccurate. Great Lakes Housing has uncovered additional receipts for each of these properties that were not available to the OIG auditor when he conducted his inspection. Great Lakes Housing paid \$160,756 rather than \$148,338, for repairs on these properties. (See Great Lake’s Exhibit 1)

OIG Evaluation of Auditee Comments

According to Great Lakes Housing’s summary schedule for the eight properties we inspected (Great Lake’s Exhibit 1), it claimed \$160,756 for repairs and provided us copies of receipts and invoices to support some more rehabilitation costs. After reviewing all of the documents provided to us, we adjusted our finding for receipts and invoices which documented expenses for specific properties. Thus, we revised the total actual rehabilitation costs from \$148,338 to \$153,415.

However, many of the documents did not identify a specific property. Great Lakes Housing staff needs to satisfactorily explain to HUD how it identified receipts with a specific property when no address was indicated on the receipts.

The differences between our revised amount of \$153,404 and the Great Lake’s calculation of \$160,756 are summarized as follows:

<u>Property Address</u> <u>Address</u>	<u>Revised</u> <u>Amount</u>	<u>Great Lake’s</u> <u>Calculation</u>	<u>Difference</u>	<u>Photo</u> <u>Fee</u>	<u>Support</u> <u>Missing or</u> <u>Improper</u>	<u>Support</u> <u>with no</u>
215 Warren	\$ 17,119	\$ 21,087 \$ 3,968	\$11	\$ 515	\$ 3,442	
1957 Paris	\$ 12,025	\$ 12,049 \$ 24	\$11		\$ 13	
1213 Third	\$ 18,099	\$ 18,110 \$ 11	\$11			
2123 Darwin	\$ 24,794	\$ 25,277 \$ 483	\$11		\$ 472	
843 Hancock	\$ 16,271	\$ 16,842 \$ 571	\$11	\$ 500	60	

Finding 1

328 Brown	\$ 23,233	\$ 25,429	\$ 2,196	\$11	\$ 2,185	
1123 Noble	\$ 27,437	\$ 27,525	\$ 88	\$11		\$ 77
1244 Aurora	\$ 14,426	\$ 14,437	\$ 11	\$11		
Total	<u>\$153,404</u>	<u>\$160,756</u>	<u>\$ 7,352</u>	<u>\$88</u>	<u>\$ 3,200</u>	<u>\$ 4,064</u>

The total difference of \$7,352 consisted of \$88 for photograph fees for eight properties, \$3,200 for unsupported costs or support which included amounts for another address, and \$4,064 in cash receipts with no reference to a specific property. Our case narrative presentations were changed to reflect the revised amounts.

Auditee’s Comments

The draft finding states that Great Lakes Housing did not pull the permits necessary for the work done on the property. The President of Great Lakes Housing met with the City of Grand Rapids Building Official to discuss which permits were required. The building official informed the President of Great Lakes Housing that the only permits required were those for the furnace and that they should have been pulled by the contractor, C.J. Heating & Cooling. Great Lakes Housing will see to it that these permits are pulled. The building official informed Great Lakes Housing’s President that it will not be necessary for any of the remaining permits to be pulled.

OIG Evaluation of Auditee’s Comments

We acknowledged a copy of the letter from the City of Grand Rapids regarding the required permits. The City official changed his position regarding the required permits. Consequently, we have revised our draft finding based on the City official’s latest decision. However, Great Lakes Housing inaccurately stated that permits were required only for the furnace work. One of the six required permits was for plumbing.

Recommendations

We recommend that the Director, Philadelphia Homeownership Center:

- 1A. Require Great Lakes Housing, Inc. to either: (a) reimburse the respective homebuyers’ mortgages for the work not performed according to the specifications and cost estimates for the property, or (b) complete all work items

in the specifications, plus any work items required to meet minimum property standards as required by the local government, at no additional cost to the homebuyers; and

- 1B. Take appropriate administration actions against Great Lakes Housing, Inc. and its Officers if recommendation 1A is not resolved.

Management Controls

In planning and performing our audit, we considered the management controls relating to Great Lakes Housing, Inc. in order to determine our auditing procedures, not to provide assurance on the controls. Management controls include the plan of organization, methods and procedures adopted by management to ensure that its goals are met. Management controls include the processes for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

Relevant Management Controls

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

- Program Operations - Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Validity and Reliability of Data - Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.
- Compliance with Laws and Regulations - Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.
- Safeguarding Resources - Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.

We assessed all of the relevant controls identified above.

It is a significant weakness if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet an organization's objectives.

Significant Weaknesses

Based on our review, we believe the following items are significant weaknesses:

Compliance with Laws and Regulations: Great Lakes Housing did not comply with HUD regulations. It obtained excessive funds of \$79,125 for rehabilitation work using the Section 203(k) Mortgage Insurance Program (Finding 1).

Follow Up On Prior Audits

This is the first OIG audit of Great Lakes Housing, Inc.

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Management Controls

Schedule of Questioned Costs

<u>Recommendation Number</u>	<u>Type of Questioned Costs Ineligible <u>1/</u></u>
1A	\$ 79,125

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

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Introduction to Narrative Case Presentations

Appendices B-1 through B-8 represent eight case-by-case narrative discussions summarizing and detailing the deficiencies cited in the Finding, and showing the amounts paid for incomplete work.

FHA Case Number: 263-2818378

Property Address: 215 Warren SE., Grand Rapids, Michigan 49506

Rehabilitation Funds Received: \$28,520

Contrary to the Section 203(k) Program requirements, Great Lakes Housing received \$11,401 in excess of the actual costs of rehabilitation. HUD regulations state that the borrower can only request reimbursement for the actual cost of repairs. Great Lakes received \$28,520 as the owner and the general contractor from the rehabilitation escrow funds but it only paid \$17,119 for the work.

An OIG Appraiser/Construction Specialist inspected the property on November 19, 1998 and found that some repairs that were certified as completed were not done. The OIG Appraiser/Construction Specialist also noted that the Section 203(k) consultant did not prepare adequate work specifications to repair the property. The specifications did not address all city code violations as required to meet HUD's minimum property standards. For example: there were no handrails for the attic and basement stairs; the electrical system was not updated with grounded outlets for major appliances; and windows had inoperable locks.

The borrower and general contractor, Great Lakes Housing, Inc., and the Section 203(k) inspector signed the draw request for the release of funds from the Rehabilitation Escrow Account and stated that all completed work had been done in a workmanlike manner. We determined that the following work was not done or was unsatisfactorily done.

Items	Amount Paid For Work Item
Tuck point foundation	\$ 500
Siding not repaired at breezeway	30
Replace concrete steps @ north side door	600
Windows were not properly scrape, primed and painted	3,586
Replace cracked/ broken glass in windows	100
Replace missing glazing putty in windows	500
Scrape, prime & paint rear stairway	500
Tear up floor, replace subfloor and framing at breezeway	1,200
Remove debris from attic and basement	800
Second floor kitchen countertop was not installed properly	152
First floor base kitchen cabinets and countertops not installed	900
Latching hardware not installed on second floor kitchen door	25
Total	<u>8,893</u> \$ 8,893

Auditee's Comments

ADDRESSING WORK PAID FOR BUT ALLEGEDLY NOT DONE.

PLEASE NOTE: OIG INSPECTION AND PICTURES TAKEN, IN MOST CASES, WERE NOT THAT OF AREAS WHERE REPAIRS WERE MADE. THIS IS MOST LIKELY BECAUSE OIG INSPECTOR DID NOT SEE HOUSE PRIOR TO WORK BEING PERFORMED. WRITE UP SPECIFICATIONS WERE NOT SPECIFIC ENOUGH FOR OIG INSPECTOR TO FOLLOW. ALSO TO BE NOTED, CHANGE ORDERS WERE INITIATED MOST OFTEN AFTER ITEMS HAD ALREADY BEEN COMPLETED, OR NO CHANGE ORDERS AT ALL WERE FILED BY HUD CONSULTANT.

#1 TUCK POINT FOUNDATION - COMPLETED ALONG NORTH AND SOUTH SIDE OF HOUSE.

CHANGE ORDER (C/O) SIDING REPAIR - TEAR DOWN OF ATTACHED GARAGE AT NW SIDE OF HOUSE. ADDED NEW VINYL SIDING AT ENTRY AND DELETED FLOOR.

#7 & CHANGE ORDER REPLACE CONCRETE STEPS AT NORTH SERVICE DOOR - COMPLETELY REMOVED WITH GARAGE.

#9 SCRAPE, PRIME, AND PAINT WINDOWS - COMPLETED WITH CUSTOM TRIM PAINT AS SEEN IN PHOTO.

#13 REPLACE CRACKED /BROKEN GLASS IN WINDOWS - 4 WINDOW PANES REPLACED AND REGLAZED. (FRONT, REAR, AND SOUTH SIDE OF HOUSE)

#13 REPLACE MISSING GLAZING PUTTY IN WINDOWS - DONE PRIOR TO PAINTING ON TEN WINDOWS ALL OVER HOUSE.

#13 & CHANGE ORDER INSTALL COMBINATION STORM WINDOWS - CHANGE ORDER DELETING, AS NOTED BY OIG INSPECTOR.

SCRAPE, PRIME AND PAINT REAR STAIRWAYS - NOT IN WRITE-UP AS NOTED BY OIG INSPECTOR. THIS WAS A REAR ENTRY TO HOUSE NOT INSIDE THE DWELLING. NOTHING WAS DONE WITH IT.

#23 REPLACE SUBFLOOR AT BREEZEWAY. CHANGE ORDER ADDED NEW FRONT DECK AND STAIRS.

#34 REMOVE DEBRIS FROM ATTIC AND BASEMENT. REMOVE ORIGINAL DEBRIS. ANYTHING ELSE MAY BE FROM NEW OWNERS. WRITE-UP DOES NOT STATE LOCATION OF REMOVAL. THE LOCAL HUD OFFICE GENERALLY IS RESPONSIBLE FOR REMOVAL OF PREVIOUS OWNER'S DEBRI.

#35 NO EVIDENCE OF ANY TREES WERE REMOVED. ALL SHRUBS AND PINE TREE AT FRONT CORNER OF HOUSE REMOVED AS WELL AS TWO TREES AT BACK OF HOUSE. SEE PHOTOS.

#31 INSTALL BASE KITCHEN CABINETS FOR FIRST FLOOR - FIRST FLOOR KITCHEN SINK BASE CABINET TORN OUT AND REPLACED. UPSTAIRS HAD ALL NEW BASE CABINETS AND COUNTER TOPS. C/O STATES TO INSTALL NEW BASE CABINETS AND TOPS AT BOTH KITCHENS 18 LF @ \$100/LF, NOT JUST AT THE FIRST FLOOR.

#15 INSTALL LATCHING HARDWARE ON A DOOR - INSTALLED NEW LOCK SETS ON ALL NEW DOORS 6 TOTAL. WRITE-UP DOES

NOT STATE THIS. #15 SAYS "INSTALL NEW LOCKSETS." THERE WAS NO C/O FOR ADDITIONAL DOOR ADDED.

OIG Evaluation of Auditee's Comments

According to our inspector, no evidence of any foundation work was found. If Great Lakes Housing has evidence that this work was performed, it should be provided to the Pennsylvania Homeownership Service Center.

We addressed the change order for the siding repair because the siding in the rear where it meets the house was not repaired and painted.

Regarding the replacement of concrete steps at the north service door, Great Lakes Housing identified a change order which deleted this work item. Our inspector had this change order and did not consider it as pertaining to this location. The work specification had a cost estimate of \$600 for replacing concrete steps at the north service door. The first item in the change order dated April 13, 1998 deducted \$400 to reform/replace a top step in lieu of installing new steps and the last item in the change order deducted \$800 for a repair to the side entry door floor system in lieu of replacing and repairing the floor and foundation. Neither change order work item was specific as to the location of the work.

Great Lakes Housing said it scraped, primed, and painted windows as shown in a photograph. However, when we inspected the property, the siding and window trim were not properly scraped and prepped before Great Lakes painted the siding and window trim.

Great Lakes Housing said that four window panes were replaced and reglazed and missing glazing putty was provided for other windows. Our inspection of the property clearly identified two broken window panes, one upstairs and one in the basement. We also found some windows were not reglazed. Based on our inspector's report, the two window panes were broken and some windows were not reglazed when the home owner moved in.

We agree with the Great Lake's comments about the storm windows and we have deleted this item from the chart.

Great Lakes Housing said that the 203(k) consultant did not include scraping, priming, and painting the rear stairway in his write-up. This may be true. It is also possible that the 203(k) consultant overlooked the rear entry to the upstairs unit. Therefore, by leaving this area untouched, Great Lakes Housing contributed to the problem and is still responsible for the condition of the property.

Great Lakes Housing said that a new front deck and stairs were added in lieu of the subfloor at the breezeway by a change order. No change order for this change was found.

Great Lakes Housing said that it removed the original debris from the attic and basement. We disagree completely with Great Lakes comments that the debris we found in the attic and basement came from the new owners. In fact, the new owners pointed out this problem to us during our inspection. According to our inspector, the debris observed in the attic and in the basement had been there prior to the new owners occupying the property. So we have considered the debris in the attic and the basement to be Great Lake's responsibility.

We disagree with Great Lake's comments about the kitchen cabinets. Our inspections showed that the first floor kitchen base cabinets and counter tops were not replaced. The second floor kitchen counter tops and cabinets were installed but the counter tops were not laminated at the end of the counter to prevent moisture absorption.

We also disagree with Great Lakes Housing that new lock sets were installed on six doors even though the write-up did not state this. Further, the Great Lakes stated that there was no change order for additional doors added. Our inspection of the property on November 19, 1998 found that an interior door to the second floor kitchen was missing the latching hardware. Further, on change order #2 dated December 22, 1997, the third work item states "replace four interior doors at \$80 each". So Great Lake's comments are incorrect.

Auditee's Comments

The OIG Appraiser/Construction Specialist determined for 215 Warren that there was no evidence that any trees were removed from the property and, in Appendix B-1, placed a

value of \$1,000 on this work. Attached are “before and after” pictures of the property clearly showing that the trees were removed. As stated in our initial response, Great Lakes Housing is concerned that there may be many other items (which translate into several thousand dollars) which were, in fact, completed despite what was stated by the OIG Appraiser/Construction Specialist. Further, Great Lakes Housing paid \$21,087 for the repair work done on the property, not \$14,301 as stated in Finding 1.

OIG Evaluation of
Auditee’s Comments

Contrary to Great Lakes Housing’s comments, the OIG Appraiser/Construction Specialist did not place a value of \$1,000 on the tree removal work. The \$1,000 figure came from the work specifications, item 35 Miscellaneous, which stated “remove any trees against house, including large ones”. The pictures provided by Great Lakes Housing shows that the trees in the front of the house were removed. As a result we have deleted this item from our chart in Appendix B-1 of unsatisfactory work items.

In Exhibit 1 provided by Great Lakes Housing, Great Lakes Housing claimed that it paid \$21,087 in repair costs for 215 Warren SE, while we had originally calculated \$14,301. The difference of \$6,786 was additional carpeting costs of \$2,082, furnace costs of \$345, electrical costs of \$170, siding & cabinets costs of \$736, a photograph fee of \$11 and extra paint supplies and miscellaneous receipts totaling \$3,442. Extra carpeting costs of \$2,082 and the siding and cabinet costs of \$736 were supported. However, the extra furnace costs of \$345 and the extra electrical costs of \$170 were not supported for this property. The photograph fee of \$11 and the extra paint supplies and miscellaneous receipts of \$3,443 were not adequately supported. The receipts did not specify any property address and no information was given to explain how the receipts were identified with the property. Thus, we calculated \$17,119 in rehabilitation costs as follows:

Original rehabilitation costs	\$14,301
Extra carpeting costs	2,082
Extra siding & cabinet costs	<u>736</u>
Revised rehabilitation costs	<u>\$17,119</u>

Auditee's Comments

Using Warren Street as an example, the procedure was as follows. The 203(k) consultant inspector would prepare the initial write-up which would indicate the repairs which were needed to be made. In the Warren Street case, Great Lakes Housing received \$28,520 from the escrow account. Great Lakes Housing would then try to get this work done at a lower cost and would utilize the excess to pay for the day-to-day administrative costs of running the company. In this case, Great Lakes Housing was able to get the work done for the sum of \$21,087 which created an excess over and above the amount received from the escrow account of \$7,433. Great Lakes Housing determined from the inception of the company that it needed to retain 20 percent over the cost of repairs to be able to pay for its administrative expenses and operate its day-to-day affairs. Twenty percent of the actual amount paid for repairs totaled \$4,217 as shown in Great Lakes Housing's Exhibit 1. As it relates to the Warren Street property, then, Great Lakes Housing only received an excess amount totaling \$3,215. Applying this formula to each property would allow Great Lakes Housing to retain \$32,151 in addition to the cost of repairs which would ultimately reduce its excess amount received to \$17,699. If Great Lakes Housing did not receive this administrative expense amount, it would not be able to operate on a daily basis.

**OIG Evaluation of
Auditee's Comments**

Great Lakes Housing made a decision at inception that it needed to retain 20 percent over the cost of repairs to pay its administrative expenses. However, HUD Notice 94-74 which was given to Great Lakes by the local HUD office to review only allows 10 percent of total development costs for overhead expenses on deep discounted properties. Total development costs includes more than just rehabilitation costs. It also includes acquisition, holding and selling costs. The Acting Chief Real Estate Asset Manager of HUD's Grand Rapids Office explained the information in HUD Notice 94-74 to Great Lakes. He also told the President of Great Lakes Housing that he was available to answer any questions regarding the type of discount provided on each property and the resale restrictions that apply. If Great Lakes Housing was confused about the resale restrictions they should have contacted the Acting Chief Real Estate Asset Manager.

FHA Case Number: 263-2818349

Property Address: 1957 Paris SE, Grand Rapids, Michigan 49505

Rehabilitation Funds Received: \$18,922

Contrary to the Section 203(k) Program requirements, Great Lakes Housing received \$6,897 in excess of the actual costs of rehabilitation. HUD regulations state that the borrower can only request reimbursement for the actual cost of repairs. Great Lakes received \$18,922 as the owner and the general contractor from the rehabilitation escrow funds when it only paid the subcontractors \$12,025 to do the actual work.

An OIG Appraiser/Construction Specialist inspected the property on November 17, 1998 and found that some repairs that were certified as completed were not done. The OIG Appraiser/Construction Specialist also noted that the Section 203(k) consultant did not prepare adequate work specifications to repair the property. The specifications did not address all code violations as required to meet HUD's minimum property standards. For example: the bathroom did not have an operating window or vent fan; window pulls or finger lifts were missing on all windows; and peeling paint on the garage was not corrected.

The borrower and general contractor, Great Lakes Housing, Inc., and the Section 203(k) inspector signed the draw request for the release of funds from the Rehabilitation Escrow Account and stated that all completed work had been done in a workmanlike manner. The OIG Appraiser determined that following work was not done or was unsatisfactorily done.

Items	Amount Paid For Work Item
Replace damaged fascia boards at front of house	\$ 280
Install combination storm door at front	200
Scrap, prime and paint windows, window sills plus stucco at front porch	1,800
Lighting fixture for bathroom not installed	40
Edging for kitchen countertops not properly glued	30
Kitchen countertop backsplash boards not recaulked properly	80
Total	\$2,430

Auditee's Comments

ADDRESSING WORK PAID FOR BUT ALLEGEDLY NOT DONE.

PLEASE NOTE: OIG INSPECTION AND PICTURES TAKEN, IN MOST CASES, WERE NOT THAT OF AREAS WHERE REPAIRS WERE MADE. THIS IS MOST LIKELY BECAUSE OIG INSPECTOR DID NOT SEE HOUSE PRIOR TO WORK BEING PERFORMED. WRITE UP SPECIFICATION WERE NOT SPECIFIC ENOUGH FOR OIG INSPECTOR TO FOLLOW. ALSO TO BE NOTED, CHANGE ORDERS WERE INITIATED MOST OFTEN AFTER ITEMS HAD ALREADY BEEN COMPLETED, OR NO CHANGE ORDERS AT ALL WERE FILED BY HUD CONSULTANT.

#4 REPLACE DAMAGED SOFFIT BOARDS AT FRONT OF HOUSE SPECIFICATIONS DO NOT INDICATE IF THIS IS THE HOUSE OR GARAGE. HOUSE DOES NOT HAVE SOFFIT. ALSO NOTED ON OIG REPORT - DRAW REQUEST ALSO SHOW THAT THIS WAS NEVER PULLED NOR PAID OUT.

#15 INSTALL COMBINATION STORM DOOR AT FRONT - STORM DOOR NOT INSTALLED.

#9 SCRAPE, PRIME AND PAINT WINDOWS, WINDOW SILLS PLUS STUCCO AT FRONT PORCH. DRAW REQUEST SHOWS NOT PAID OUT. ALSO AT THE TIME THE WEATHER DID NOT PERMIT US TO PAINT. BUYER BOUGHT HOUSE BEFORE WEATHER BROKE AND WOULD DO THEMSELVES.

#28 INSTALL LIGHTING FIXTURE ALL LIGHT FIXTURES INSTALLED. 10 IN TOTAL. ½ BATH, DINING ROOM, 3 BEDROOMS, FULL BATH (2 - LIGHT BAR CHANGED TO 2 FIXTURES) HALLWAY, EXTERIOR, BASEMENT AND KITCHEN.

#31 INSTALL NEW EDGING ON KITCHEN COUNTER TOPS. NEW EDGING WAS INSTALLED. NEW OWNERS MAY HAVE REMOVED.

#31 RETRIM AND RECAULK BACKSPLASH BOARDS WRITE UP STATES RETRIM AND OR RECAULK BACKSPLASHES. BACKSPLASHES WERE RECAULKED.

OIG Evaluation of Auditee's Comments

It is true that the house does not have a soffit. We should have said "rotted fascia boards" Our detailed inspection results provided to Great Lakes Housing earlier clearly labeled this condition as part of the house. We have corrected the wording in the chart.

Great Lakes Housing agreed that it failed to install a storm door at the front of the house.

Great Lakes Housing claimed that the buyer bought the house before the weather broke and the buyer would do the painting work on the windows and window sills and stucco the front porch themselves. We disagree with this comment. The mortgagee should have required that the estimated cost of the unfinished work be put into escrow at the time of the closing. It is not proper to allow the new home owner to complete the unfinished work without permission from the mortgagee. Further, we know that the mortgagee paid Great Lakes Housing \$ 4,671 in September 1998 which included the amount for painting the front porch.

Great Lakes Housing said that the light bar fixture was changed to two fixtures. If the work was changed, a change order should have been required from the 203(k) consultant. It is the responsibility of Great Lakes Housing to obtain this documentation.

Great Lakes Housing said they installed new kitchen counter top edging and that the new owners may have removed the edging. Our inspection of the kitchen counter tops clearly showed that the new edging was not removed by the new owners. It was not properly glued. Also, according to our inspector, the backsplash boards were not properly rechaulked.

Auditee's Comments

The draft finding claimed that there were no wall switches in the bedroom for 1957 Paris because the 203(k) consultant inspector did not include them in his inspection. It was also claimed that soffit boards, fascia, etc. which were rotted had not been replaced and that the windows were not painted. This property was sold during the winter months and the weather did not permit the soffit, fascia, and windows from being replaced and painted at that time. The buyers wanted to move into the home and the home was sold to the new buyers on a conventional loan which did not require this work to be done. Great Lakes Housing was not paid for this work. With regard to the wall switches for the light fixtures, these items were not included on the initial write-up and Great Lakes Housing relied on the 203(k) consultant to prepare an accurate and complete write-up.

OIG Evaluation of Auditee's Comments

Great Lakes Housing believes that when a home is sold to new homeowners on a conventional loan that it can ignore the completion of rehabilitation requirements under the 203(k) Mortgage Insurance Program. Great Lakes Housing submitted a certification of completion to the mortgagee that the rehabilitation work was completed. The 203(k) Mortgage Insurance Program requires that sufficient funds to complete unfinished work due to weather conditions be escrowed by Great Lakes Housing's mortgagee at the time of the closing. The mortgagee was in error for allowing the closing to take place without the required escrowed funds for uncompleted work.

Further, Great Lakes Housing said that it was not paid for the unfinished painting related work. We disagree. According to the mortgagee's records, the mortgagee paid the balance of \$4,923 in undisbursed 203(k) loan funds on September 30, 1998 after receiving a certification of completion from Great Lakes Housing. Further, Great Lakes Housing said that it was not responsible for adding wall switches for the light fixtures in the bedrooms because it relied on the consultant/inspector to prepare accurate and complete work specifications. We disagree. As stated earlier, Great Lakes Housing is still responsible for assuring that the rehabilitation work is satisfactory completed. Great Lakes Housing provided the mortgagor's certification of completion stating that the rehabilitation work was completed which met HUD's minimum property standards. Also, as the general contractor, Great Lakes is responsible for monitoring the work of its sub-contractors.

FHA Case Number: 263-2818378

Property Address: 1213 Third NW, Grand Rapids, Michigan 49504

Rehabilitation Funds Received: \$24,108

Contrary to the Section 203(k) Program requirements, Great Lakes Housing received \$6,009 in excess of the actual costs of rehabilitation. HUD regulations state that the borrower can only request reimbursement for the actual cost of repairs. Great Lakes received \$24,108 as the owner and the general contractor from the rehabilitation escrow funds when it only paid the subcontractors \$18,099 to do the actual work.

An OIG Appraiser/Construction Specialist inspected the property on November 20, 1998 and found that the some repairs that were certified as completed were either not completed or unsatisfactorily completed. The OIG Appraiser/Construction Specialist also noted that the Section 203(k) consultant did not prepare adequate work specifications. The specifications did not address all the city code violations for the property to meet the HUD's minimum property standards. For example: many windows did not operate properly; sash cords were defective and did not lock; smoke detectors were missing in the basement and on the first floor; and there was no grounded outlet in the kitchen for the refrigerator.

The borrower and general contractor, Great Lakes Housing, Inc., and the Section 203(k) inspector signed the draw request for the release of funds from the Rehabilitation Escrow Account and stated that all completed work had been done in a workmanlike manner. The OIG Appraiser/Construction Specialist determined that following was not done or was unsatisfactory done.

Items	Amount Paid For Work Item
Install six new basement windows or reframe existing windows	\$ 800
Smoke detectors for first floor and basement not installed	30
No evidence of removal of cast iron tub in basement	75
Install additional 5 handrails	180
Improperly sistered cracked floor joist in basement	60
Install one J box cover	5
Install GFCI outlet in kitchen	30
Cut and fill leaking old downspout tile by front porch	25
Total	<u>\$ 1,205</u>

Auditee's Comments
ADDRESSING WORK PAID FOR BUT ALLEGEDLY NOT DONE.

PLEASE NOTE: OIG INSPECTION AND PICTURES TAKEN, IN MOST CASES, WERE NOT THAT OF AREAS WHERE REPAIRS WERE MADE. THIS IS MOST LIKELY BECAUSE OIG INSPECTOR DID NOT SEE HOUSE PRIOR TO WORK BEING PERFORMED. WRITE UP SPECIFICATION WERE NOT SPECIFIC ENOUGH FOR OIG INSPECTOR TO FOLLOW. ALSO TO BE NOTED, CHANGE ORDERS WERE INITIATED MOST OFTEN AFTER ITEMS HAD ALREADY BEEN COMPLETED, OR NO CHANGE ORDERS AT ALL WERE FILED BY HUD CONSULTANT.

#13 INSTALL SIX NEW BASEMENT WINDOWS OR REFRAME EXISTING WINDOWS. CHANGE ORDER.- ONLY WINDOWS THAT NEEDED NEW SILLS AND RAILS AND ALSO ADDED STORM WINDOWS.

#1 AND #28 INSTALL SMOKE DETECTORS ON FIRST FLOOR AND BASEMENT. SMOKE DETECTORS INSTALLED AT FIRST FLOOR SPECIFICATIONS DO NOT SPECIFY ANY LOCATIONS.

REMOVE CASE IRON TUB IN BASEMENT - NOT ADDRESSED BY WRITE UP OR CHANGE ORDERS. NO IDEA.

#CHANGE ORDER INSTALL ADDITIONAL FIVE HANDRAILS INSTALLED PER NEW OWNER.

#CHANGE ORDER REPAIR CRACKED FLOOR JOIST AT BASEMENT CHANGE ORDER STATES THAT IT COULD BE REPAIRED OR SISTERED. THE CRACKED FLOOR JOIST WAS SISTERED, A BETTER SOLUTION THAN A SIMPLE REPAIR.

CHANGE ORDER INSTALL BOX COVER INSTALLED 3 JUNCTION BOX COVERS.

CHANGE ORDER INSTALL GROUND FAULT OUTLET TWO GROUND FAULT CIRCUIT) WERE INSTALLED IN KITCHEN AND BATH.

#CHANGE ORDER CUT AND FILL LEAKING OLD DOWNSPOUT TILE AT REAR OF HOUSE OLD DOWN SPOUT WAS CUT AND TILE WAS FIXED. DRAIN TILE WAS NOT REMOVED.

OIG Evaluation of Auditee's Comments

Great Lakes Housing said that only the basement windows that needed new sills and rails were installed per a change order. We were not provided any change order deleting the scope of work for the basement windows.

For the smoke detectors, Great Lakes Housing said that smoke detectors were installed on the first floor and the basement. We disagree. The specifications specified three smoke detectors. All three smoke detectors of the same type were found on the second floor in the three bedrooms. Even though the specifications did not specify specific locations for the three smoke detectors, HUD's minimum property standards require the installation of at least one smoke detector per floor.

The specifications for the basement cited the removal of a cast iron tub in the basement as a work item. However, our inspection found no evidence of any place where a cast iron tub existed.

Great Lakes Housing said five handrails were installed per a change order. We are puzzled by this statement and a fifth work item on change order #1 dated February 6, 1998 which stated "INSTALL ADDITIONAL (5) HANDRAILS (PER NEW OWNER). The new owners signed the new purchase agreement on February 16, 1998 and closed on the house on April 13, 1998. The new owners are not responsible for doing any of the rehabilitation work.

Great Lakes Housing said a change order allowed them to either repair or sister a cracked floor joist in the basement and they chose to sister the floor joist. Our inspection found the sister floor joist repair was not effective because it did not run from the foundation wall to the center beam. We used the term "repair" instead of "sistered" because most readers are not familiar with the term "sistered". We provided Great Lakes Housing our prior draft of the case narratives which used the more descriptive term "sister" because this is the term used in the specifications. We also provided Great Lakes Housing detailed results of our inspection of the sistered joint repair which shows that the repair was ineffective.

Great Lakes Housing said that three junction covers were installed. Based on our inspector's report, one junction box cover was still missing in the basement.

As shown in our inspection results we provided to the Great Lakes Housing, an old downspout tile in the front of the house

still exists and was not removed. We did not find an old downspout in the rear of the house as indicated in the change order. Considering the problems noted with the consultant's work, he may have indicated the wrong location of the old downspout.

FHA Case Number: 263-28295457

Property Address: 2123 Darwin SW., Grand Rapids, Michigan 49507

Rehabilitation Funds Received: \$35,526

Contrary to the Section 203(k) Program requirements, Great Lakes Housing, Inc. received \$10,732 in excess of the actual costs of rehabilitation. HUD regulations state that the borrower can only request reimbursement for the actual cost of repairs. Great Lakes received \$35,526 as the owner and the general contractor from the rehabilitation escrow funds when it only paid the subcontractors \$24,794 to do the actual work.

An OIG Appraiser/Construction Specialist inspected the property on November 17, 1998 and found that repairs of \$600 that were certified to have been completed were not done. This included tearing out plaster, and hanging and finishing drywall in the first floor front room.

The OIG Appraiser/Construction Specialist also noted that the Section 203(k) consultant did not prepare adequate work specifications to repair the property. The specifications did not address all code violations as required to meet HUD's minimum property standards. For example: the kitchen did not have any three prong grounded outlets for the stove and refrigerator; there were no heating vents in the kitchen, bathroom, and the dining room in the back of the house; and an exterior power cord was not secured to the house.

Auditee's Comments

The OIG Appraiser/Construction Specialist stated that \$600 worth of drywall work in the "first floor room" for 2123 Darwin, S.W. was not done. Great Lakes Housing is unsure as to whether or not the inspector was looking in the correct room since no specific room is referred to. It is difficult for Great Lakes Housing to respond to this allegation without knowing this information. Also, due to the vagueness of the write-ups prepared by the 203(k) consultant, it is easy to see how this confusion could result.

**OIG Evaluation of
Auditee's Comments**

We disagree. The OIG Appraiser/Construction Specialist had a copy of the work specifications. There was only one reference in the specifications regarding drywall work for \$600. The 203(k) consultant inspector had identified the work in the work specifications as for the front first floor room. There is only one front room. This room was being used by the

homeowner as a bedroom. Great Lakes Housing did not offer any information as to where the drywall work was performed.

Auditee's Comments

Great Lakes Housing did receive \$35,526 from the rehabilitation escrow funds for 2123 Darwin. Its rehabilitation costs were \$25,277 rather than \$24,794. As a result, Great Lakes Housing received \$10,249 over and above the actual costs of rehabilitation. Again, it is the position of Great Lakes Housing that it was entitled to 20 percent of the rehabilitation costs, or \$5,055, for administration. As a result, Great Lakes Housing received excessive amounts totaling \$5,193 with regard to this property. (See Great Lakes Housing Exhibit 1).

Additional pictures with regard to the repair work completed on the Darwin property were located and are attached. Appendix B-4 also states that the 203(k) consultant inspector did not prepare adequate work specifications and failed to address all code violations to meet the minimum property standards. Again, it is the position of Great Lakes Housing that it had a right to rely upon the 203(k) consultant and his expertise given the fact that he was a HUD trained inspector and was essentially the only person in this area with the ability to conduct these inspections

OIG Evaluation of Auditee's Comments

Great Lakes Housing said that the actual costs for 2123 Darwin S.W. was \$25,277 while we identified \$24,794. The difference was \$483 and consisted of a photograph fee of \$11 and cash receipts of \$472 in the summary chart of developments costs for Great Lake's Exhibit 1. However, no receipts were provided for the photograph fee of \$11 and the cash receipts for \$472 did not identify the property address. It consisted of material purchases of \$ 443 and a disposal fee of \$29. An explanation is needed on how Great Lakes Housing was able to identify these receipts with this property. Consequently, we can not adjust the actual costs for 2123 Darwin until a satisfactory explanation is provided.

FHA Case Number: 263-2833194

Property Address: 843 Hancock SE, Grand Rapids, Michigan 49442

Rehabilitation Funds Received: \$23,372

Contrary to the Section 203(k) Program requirements, Great Lakes Housing, Inc. received \$7,101 in excess of the actual costs of rehabilitation. HUD regulations state that the borrower can only request reimbursement for the actual cost of repairs. Great Lakes received \$23,372 as the owner and the general contractor from the rehabilitation escrow funds when it only paid the subcontractors \$16,271 to do the actual work.

An OIG Appraiser/Construction Specialist inspected the property on November 18, 1998 and found that the some repairs that were certified as completed were either not completed or unsatisfactorily completed. The OIG Appraiser/Construction Specialist also noted that the Section 203(k) consultant did not include all city code violations for the property to meet minimum property standards, as required by HUD. For example: the electrical system was not updated with a sufficient number of grounded outlets to operate the stove, refrigerator, and other appliances; many windows were inoperable. Sash cords were missing or defective; and there were no smoke detectors on the first floor.

The borrower and general contractor, Great Lakes Housing, Inc., and its inspector signed the draw request for the release of funds from the Rehabilitation Escrow Account and stated that all completed work had been done in a workmanlike manner. The OIG Appraiser/Construction Specialist determined that the following work was either not done or was unsatisfactorily done.

Items	Amount Paid For Work Item
Replace broken siding at the southeast corner of the house	\$ 120
All old ductwork for furnace not replaced	800
Storm window for bedroom is too short by 2"	100
Cap toilet line at basement	20
Replace crawl foot bathtub and fixture	700
Repair to drain pipe for sink in bathroom not secured to floor	500
Smoke detector on first floor not installed	45
Tearout of plumbing fixtures in the basement was incomplete	800
Rewiring of basement ceiling was incomplete	300
Install GFCI electrical outlet in kitchen	60
Install crown trim at dining room ceiling joint	<u>168</u>
Total	<u>\$3,613</u>

Auditee's Comments

A review of the 843 Hancock property also calls into question the report of the OIG inspector. Specifically, the OIG inspector states that broken siding at the southeast corner of the house was not replaced. Photographs show that this work was done. The ductwork for the furnace was torn out and replaced and the basement ceiling was rewired (although we have no current pictures of that work). The crown trim in the dining room was installed (50 linear feet). With regard to the claw-foot tub and fixture replacement, this should have been change ordered by the 203(k) consultant. Rather than replacing the tub, Great Lakes Housing reglazed the tub, built a kneewall around the tub and tiled the kneewall around the tub. This was done at a cost greater than the \$700.00 that it would have taken to just replace the tub. Three smoke detectors were installed; one each in the dining room, basement and stairway to the second floor. We also repaired the upstairs supply line to the tub and the drain in kitchen and upstairs bath floor. The photographs in support of Great Lakes Housing's position on the Hancock property are attached. One ground fault circuit interrupt outlet (GFCI) was installed in the kitchen and in the bath. In some cases, a GFCI breaker was installed at the panel instead of at the source.

**OIG Evaluation of
Auditee's Comments**

We disagree that the broken siding was replaced. Great Lake's photographs did not show the southeast corner of the house. The photograph identified by Great Lakes Housing is the north side of the house. The house faces south. The back of the house faces north. Our inspection findings for this property provided to Great Lakes Housing on March 11, 1999 included the damaged siding located on the southeast corner of the house by the front porch. Therefore, Great Lake's information is incorrect.

Regarding the ductwork for the furnace and the basement wiring, the Great Lake's photographs did show much improvement in the condition of the basement. The subcontractor did remove some furnace ductwork and a lot of wiring from the basement. However, our inspection of the property found that the work was still incomplete.

Great Lake's photograph of the crown trim is incorrect. Great Lake's photograph did not show any crown trim at the ceiling

joint. The only trim is around the window openings. The specifications from change order #3 stated

“install crown trim @ D/R ceiling joint. 48 LF @ \$3.50/LF”

Regarding the bathtub, the specifications and change orders did not identify saving the “claw foot”: tub by reglazing it, building a kneewall and tiling the kneewall around the tub. So, it would be important to locate the missing change order for this work to see what the cost difference would be.

Great Lakes Housing said that three smoke detectors were installed in the locations it specified. We disagree. Our inspection found all three smoke detectors located on the second floor, one per bedroom rather than one smoke detector per floor. The specifications required the installation of three smoke detectors. However, it did not specify the locations. HUD’s minimum property standards require at least one smoke detector per floor. It appeared that the subcontractor misunderstood where to install the smoke detectors.

The supply line to the tub and drain pipe for the kitchen and upstairs bathroom had poor workmanship because the drain pipe for the upstairs bathroom was not secured to the floor. We provided Great Lakes Housing with our inspection results showing the problem. We have revised the chart in this Appendix to better describe the problem.

Specifications change order #1 for the ground fault circuit interrupt outlet (GFCI) outlets required installation of the GFCI outlets at the kitchen and bathroom not at the electric panel. While a GFCI outlet was found in the upstairs bathroom, no GFCI outlet was found in the kitchen. In fact the kitchen did not have any three prong outlets to plug in the refrigerator, stove, and microwave oven. Our inspection results of these problems were provided to Great Lakes Housing.

Auditee’s Comments

The draft letter for 843 Hancock stated that the 203(k) consultant inspector did not include the peeling paint on the window frame and that the storm window in the basement was short by two inches. If the storm window in the bedroom is, in fact, short by two inches, we will replace it. With regard to the peeling paint on the window frames, again we had the right to rely upon the 203(k) consultant to prepare a complete and thorough write-up. To require Great Lakes Housing to go back

and address items which were not included on the initial write-up, without compensation, would be extremely unfair.

**OIG Evaluation of
Auditee's Comments**

Great Lakes Housing agreed to replace the storm window but it is confused as to its location. The storm window is not in the basement. It is in a bedroom on the second level. Again, Great Lakes Housing does not consider itself responsible for faulty work specifications prepared by the 203(k) consultant inspector it hired because it relied on the 203(k) consultant to prepare a complete and thorough work write-up. We disagree and as stated earlier, Great Lakes Housing is the general contractor and is still responsible for assuring that the rehabilitation work meets HUD's requirements. Great Lakes Housing has the responsibility to monitor the quality of the work performed by its sub-contractors.

FHA Case Number: 263-2833209

Property Address: 328 Brown SW., Grand Rapids, Michigan 49507

Rehabilitation Funds Received: \$33,760

Contrary to the Section 203(k) Program requirements, Great Lakes Housing received \$10,527 in excess of the actual costs of rehabilitation. HUD regulations state that the borrower can only request reimbursement for the actual cost of repairs. Great Lakes received \$33,760 as the owner and the general contractor from the rehabilitation escrow funds when it only paid the subcontractors \$23,233 to do the actual work.

An OIG Appraiser/Construction Specialist inspected the property on November 17, 1998 and found that some repairs that were certified as completed were not done. The OIG Appraiser/Construction Specialist also noted that the Section 203(k) consultant did not prepare adequate work specifications to repair the property. The specifications did not address all city code violations as required to meet HUD's minimum property standards. For example: the electrical system was inadequate. No grounded outlets existed for the stove and refrigerator. Also, there was no ground fault circuit interrupt (GFCI) outlet by the kitchen sink.

The borrower and general contractor, Great Lakes Housing, Inc., and the Section 203(k) inspector signed the draw request for the release of funds from the Rehabilitation Escrow Account and stated that all completed work had been done in a workmanlike manner. The OIG Appraiser determined that the following work was not done or was unsatisfactorily done.

Items	Amount Paid For Work Item
Install storm door (Deleted but no credit given)	\$ 180
Missing two of five new interior doors and locksets	180
Removal of bottom section of basement stairs	40
Need for change order for five square feet of roofing at the front porch	1,250
Insulate attic at kneewall	230
No evidence of installation of six additional glass panes	240
Replacement of faulty valve at water meter not done	50
Install outlet for refrigerator	60
Replace corroded bussbar at electric panel	200
Total	<u>\$2,430</u>

Auditee's Comments

With regards to the property identified as 328 Brown, the OIG inspector determined that \$2,430 was paid to Great Lakes

Housing for work not done. Great Lakes Housing would like to call the OIG's attention to the item regarding the additional five square feet of roofing on the front porch

to which the OIG Appraiser/Construction Analyst assessed the sum of \$1,250 for work which was not done. Included is a photo of the roof and, as the OIG can see, that roof is totally complete. Further, the combination storm door at the rear was deleted on change order number 2 and we were not paid for that item as noted in the change order as a deleted item. Regarding the missing two new interior doors and lock sets, as noted on the write-up, a new entry to the bathroom was made off of the dining room. The old entry was at the front bedroom. Doors were installed at the first floor bedroom, new bedroom closet, main stairwell and the north upper bedroom. The bottom section of the basement stairs was completed and the east kneewall in the attic was insulated. The installation of the outlet for the refrigerator was completed as the replacement of the corroded bussbar at the electric panel. The permit for this work was pulled by Great Lakes Housing and inspected by the City of Grand Rapids. This work was completed prior to the rehabilitation starting since we needed power to begin work. Great Lakes Housing does not have a picture of the faulty valve at the water meter but contends that it is possible that the new one could be leaking. If it were faulty, no water would get into the house. With regard to the six additional glass window panes, these could have been broken after Great Lakes Housing completed its repairs.

Regarding attic insulation, per specifications we installed R-13 insulation at attic knee wall "not the entire attic".

Regarding the change order for an outlet for the refrigerator, as shown in photograph, an outlet was installed

OIG Evaluation of Auditee's Comments

We did not intend to question whether the roof over the front porch was completed or not. Our inspector was questioning the need for a change order for five square feet of roofing over the front porch for \$1,250. The front porch was always a part of the house when the specifications were prepared. So we questioned the purpose of the change order for the extra roofing costs.

We knew that change order 2 deleted the combination storm door at the rear. We left out some words in the chart for brevity. However, Great Lakes Housing was provided with a

copy of an earlier version of the case narrative which was more descriptive and should have been used in conjunction with the current draft of the case narrative.

For the two missing new interior doors and lock sets, the specifications required five new interior doors with lock sets. Only three of the five interior doors were new. Thus, there are two missing interior doors and lock sets.

Great Lakes said the bottom section of the basement stairs was completed. However, the specifications cited replacement of the bottom section of the basement stairs. A photograph from our inspection of the basement stairs was provided to Great Lakes Housing earlier. It clearly shows that the bottom section of the basement stairs was never replaced.

As for the corroded buss bar, the specifications referred to replacing the corroded buss bar at the electric panel. Great Lake's photograph of the exterior of the house is not adequate evidence that the work was performed. Also, the electric permit pulled by Great Lakes Housing, Inc. and inspected by the City of Grand Rapids was just for permission for the electric power company to provide power. It is not proof that the electrical work in the specifications were inspected.

Great Lakes Housing said that it replaced a valve on the water meter but that the new valve could be leaking. We disagree with the statement that no water would get into the house if the meter were faulty. A faulty water meter does not stop water from flowing into the house. Further, if the faulty meter was replaced, a record should exist with the City Water Department.

Concerning the six additional glass window panes, the OIG Appraiser/Construction Specialist did not find the six new window panes that the specifications in change order #1 required. We also did not state that six window panes were broken in our chart.

Great Lakes Housing said that it installed R-13 installation at the attic kneewall and not in the entire attic. We agree that the specifications did not require insulation of the entire attic. We did not intend to state the entire attic required the installation of

insulation. We only required the installation of insulation at the kneewall as required by the specifications. Our inspector indicated that the attic insulation at the kneewall was not installed.

An electrical outlet in the kitchen may have been installed for a refrigerator as shown in the Great Lake's photograph. We provided Great Lakes with our inspection results showing that the home owner was using an extension cord to operate his refrigerator and stove because properly located outlets were missing. However, the home owner installed a stove in the location for a refrigerator cited by Great Lakes Housing. A refrigerator was installed at the other end of the kitchen. The home owner had to use an extension cord to operate it because no outlet existed at this end of the kitchen. This problem was due to incomplete specifications prepared by the consultant.

FHA Case Number: 263-2834191

Property Address: 1123 Noble SE., Grand Rapids, Michigan 49507

Rehabilitation Funds Received: \$29,886

Contrary to the Section 203(k) Program requirements, Great Lakes Housing, Inc. received \$2,449 in excess of the actual costs of rehabilitation. HUD regulations state that the borrower can only request reimbursement for the actual cost of repairs. Great Lakes received \$29,886 as the owner and the general contractor from the rehabilitation escrow funds when it only paid its subcontractors \$27,437 to do the actual work.

An OIG Appraiser/Construction Specialist inspected the property on November 16, 1998 and found that some repairs that were certified as completed were not done. The OIG Appraiser/Construction Specialist also noted that the Section 203(k) consultant did not prepare adequate work specifications to repair the property. The specifications did not address all city code violations as required to meet HUD's minimum property standards. For example: chipping and peeling paint at the windows was not removed; a water heater discharge line was missing; windows were not in good operating order; sash rails did not meet for proper locking; sash cords were missing; there was no exterior light fixture for the side door; there was no step for the side door; and wiring through furnace ductwork was not corrected.

The borrower and general contractor, Great Lakes Housing, Inc., and the Section 203(k) inspector signed the draw request for the release of funds from the Rehabilitation Escrow Account and stated that all completed work had been done in a workmanlike manner. The OIG Appraiser determined that the following work was not done or was unsatisfactorily done.

Items	Amount Paid For Work Item
Remove storm windows, scrape and paint windows	\$ 662
Four (4) of 18 new storm windows were not installed	340
One (1) of 3 storm doors was not installed	147
Install 36 inch high guard rail on flat roof	80
Remove all existing wallpaper	400
Replace 12 basement stair treads (Only 8 of 12 exist)	127
Delete existing medicine cabinet & fill hole and replace with medicine cabinet with outlet	240
Scrap, clean and paint walls and floor in the basement	298
Remove old wiring from the basement	245
Total	\$ 2,539

Auditee's Comments

The draft finding states that Great Lakes Housing received \$2,449 in excess of the actual costs of rehabilitation for 1123 Noble, S.E.. The actual cost of rehabilitation was \$27,525. Great Lakes Housing received \$29,886 from the escrow account, \$2,361.05 over actual cost.

**OIG Evaluation of
Auditee's Comments**

Great Lakes Housing said claimed that actual costs for 1123 Noble S.E. was \$27,525 while we identified \$27,437. The difference of \$88 was a photograph fee of \$11 and cash receipts of \$77 in the summary chart of developments costs for Exhibit 1. However, no receipts were provided for 1123 Noble S.E. so no changes can be made.

Auditee's Comments

The OIG Appraiser/Construction Specialist also found that Great Lakes Housing was paid for \$2,539 worth of work which was not done. This is simply untrue. All of the items set forth in the table on Appendix B-7 were completed by Great Lakes Housing. Unfortunately, Great Lakes Housing did not take pictures of this property to prove that the work has been completed.

The draft letter also states that the 203(k) consultant inspector did not include an electrical outlet and pressure relief valve on the hot water heater and that the kitchen sink leaked. Again, we believe that we had the right to rely upon the 203(k) consultant to prepare an adequate and complete write-up. It is also possible that the leak in the kitchen sink could have begun after our work had been completed and through no fault of Great Lakes Housing. If the hot water heater does not have a pressure relief valve, Great Lakes Housing will see to it that this is completed.

**OIG Evaluation of
Auditee's Comments**

We agree with Great Lakes Housing's comments that some of the cited work was done. However, the work was not completed satisfactory. We provided Great Lakes with our inspection findings which should have been used where clarification was needed. Great Lakes Housing said that all items cited in the table totaling \$2,539 were completed but no

evidence was provided by Great Lakes to dispute our inspection results. Our inspection results including photographs we provided to Great Lakes Housing shows a bathroom window with severe chipping and peeling paint, two places where wallpaper was painted over, an old medicine cabinet which was not replaced, old wiring in the basement that was not removed, and a basement wall not properly prepped before painting. Therefore, we must disagree with the Great Lakes comments.

In draft finding 1, we cited 1123 Noble for an electrical outlet in the basement that was not covered, the plumbing leak under the kitchen sink and the water heater was missing the pressure relief valve line. Our inspection results including photographs were provided to Great Lakes Housing showing these problems. Great Lakes Housing has the overall responsibility to correct these deficiencies since it provided a certification to the mortgagee and HUD that the property met HUD's minimum property standards. Also, the President of Great Lakes Housing, as a licensed general contractor, should be familiar with city code requirements for single family homes. Regarding the plumbing leak under the kitchen sink, as the general contractor, any repair work by a licensed general contractor is warranted by the general contractor against defects for a period of one year. We were informed by the President of Great Lakes Housing that this warranty is required by all licensed general contractors in Michigan. Also, according to the Homeowner/Contractor Agreement for the 203(k) Rehabilitation Mortgage Insurance Program, the contractor will provide a one year warranty on all labor and materials used in the rehabilitation of the property. Therefore, Great Lakes Housing is obligated to honor its one year warranty and make the necessary repairs.

Appendix B-8

FHA Case Number: 263-2849419

Property Address: 1244 Aurora, Muskegon, Michigan 49442

Rehabilitation Funds Received: \$16,513

Contrary to the Section 203(k) Program requirements, Great Lakes Housing, Inc. received \$2,087 in excess of the actual costs of rehabilitation. HUD regulations state that the borrower can only request reimbursement for the actual cost of repairs. Great Lakes received \$16,513 from the rehabilitation escrow funds when it paid its subcontractors \$14,426 to do the actual work.

An OIG Appraiser/Construction Specialist inspected the property on November 19, 1998 and found that the subcontractors were paid for some repairs that were not completed or unsatisfactorily completed. The borrower and general contractor, Great Lakes Housing, Inc., or its inspector signed the draw request for the release of funds from the Rehabilitation Escrow Account and stated that all completed work had been done in a workmanlike manner. The OIG Appraiser/Construction Specialist determined that the subcontractors were paid \$192 for unsatisfactory and poor quality work for painting the bathroom and hallway and \$20 for work that was not done, for putting bottom trim on the kitchen cabinet.

Auditee's Comments

Appendix B-8 states that Great Lakes Housing received \$16,513 from the rehabilitation escrow for 1244 Aurora and only paid its subcontractors \$14,319 to do the actual work. Great Lakes Housing paid \$14,437 to its subcontractors. As stated before, Great Lakes Housing believed it was entitled to receive 20 percent for administering the rehabilitation of the property. Since Great Lakes Housing actually paid its subcontractors \$14,437, Great Lakes Housing was entitled to \$2,887. (20 percent X \$14,437), yet it only received \$2,076. Great Lakes Housing does not have pictures of the Aurora property. Great Lakes Housing believes that all the work was completed and it is possible that the trim on the kitchen cabinet may have come off since the new owners took occupancy. With regard to the quality of the painting which was done in the bathroom and hallway and the bottom trim in the kitchen, Great Lakes Housing would certainly be willing to pay to have these items corrected if this problem is attributable to the workmanship of our subcontractors rather than something that the occupants did after moving into the property.

**OIG Evaluation of
Auditee's Comments**

After reviewing the documentation, Great Lakes Housing said that it paid \$14,437 in repair costs for 1244 Aurora, Muskegon while we calculated \$14,319. The difference of \$118 was a photograph fee of \$11 which was not supported and a payment of \$107 to the home owner at closing which was supported by a copy of a cancelled check. We did not classify the \$107 as a rehabilitation cost but we did include it as part of selling expenses.

Great Lakes Housing indicated that it would be willing to fix the kitchen cabinet bottom trim and repaint the bathroom and hallway provided the problem was attributed to poor workmanship.

AUDITEE'S COMMENTS

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April 15, 1999

VIA UPS - OVERNIGHT DELIVERY

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cc: Mr. David Brazier, U.S. Department of Housing & Urban Development
Mr. Jack Brown, Great Lakes Housing, Inc.

Re: Draft Findings Dated March 26, 1999

Dear Mr. Samuelson:

This letter is intended to respond to the statements and recommendations contained in the Draft Findings prepared by the Office of Inspector General (OIG) dated March 26, 1999. It is the intention of Great Lakes Housing, Inc. (GLHI) to cooperate fully with the OIG in regard to this audit and provide the OIG with any additional documentation or information necessary to address the issues raised in the findings. GLHI hopes to come to an acceptable resolution of these issues with the OIG so that the spirit and intent of the program is carried out.

The officers and staff of GLHI and their attorneys have spent several days pouring over records, photos, inspection reports, draw request, change orders, etc., and are taking this matter very seriously despite the fact that it is only a draft finding. Due to the past lack of recordkeeping and poor organization of records on the part of GLHI, we have been somewhat pressed for time and would like an opportunity to follow-up this response with either supplemental documentation and/or a meeting with the appropriate OIG officials to discuss any outstanding issues which remain, or those to which we are unable to provide a definite answer.

While GLHI can initially say that it accepts responsibility for some of the items and findings contained in the draft, we strongly feel that we are not at all responsible for others. We also believe that it is unfair to place the ultimate blame on GLHI due to events which occurred which were out of our control including, but not limited to, the time which has elapsed between completion of the repair work and the inspection by the OIG inspector, the information and direction provided to GLHI by the local HUD office, and the vagueness of the write-ups prepared by Karl Alderink.

BACKGROUND

In August of 1995, after obtaining 501(c)(3) status, GLHI sought from the local Grand Rapids HUD office approval to begin purchasing homes. On August 22, 1995, Terry Hansen from the local HUD office faxed eight (8) pages of documents outlining the nonprofit sales procedure pursuant to our request (*Exhibit A*). At that time, this was all that GLHI had to go on with regard to the procedures to utilize when buying and reselling these homes. While that fax did not include Mortgagee Letter 94-74, it did contain the relevant pages entitled "Resale Restrictions On Properties Sold At 30% Discount." That provision specifically states that where a property is purchased from HUD at a 30% discount, a nonprofit should not realize more than a 6-10% rate of return upon resale unless otherwise authorized by another HUD program.

In 1996, GLHI began purchasing homes through the local Grand Rapids HUD office. GLHI received an approval letter from William G. Falen from the local office dated August 22, 1996, stating that GLHI should familiarize itself with Mortgagee Letters 92-33, 94-11, and 95-40. No reference was made to Mortgagee Letter 94-74. GLHI also received a letter from Mr. Falen dated November 4, 1997, commending GLHI for its progress with the Department's single family programs. Copies of both of those letters are attached as ***Exhibit B***.

Then, on September 8, 1998, David Brazier from the OIG appeared at the doorstep of GLHI informing them that he was there to conduct an audit. On September 11, 1998, GLHI received its first notice that an audit was going to occur ... this is why we were not adequately prepared for his arrival but made every effort to provide Mr. Brazier with all documentation, as he will agree. We had also just moved into this new location. Two months later, OIG inspector Carlos Lopez began inspecting the properties listed in Findings 1 and 2 of the draft letter. Based upon these inspection reports and an exhaustive review of GLHI records, these draft findings were prepared.

U.S. Department of Housing
& Urban Development
April 15, 1999
Page 3

1. FINDING I - GREAT LAKES HOUSING, INC. MISUSED THE SECTION 203(K) LOAN PROGRAM.

As will be set forth below, GLHI does not agree that it misused the Section 203(k) program by receiving funds from the rehabilitation loan escrow account that were in excess of the actual costs of repairs, or by failing to assure that all repair work was properly completed. It is clear that HUD Handbook 4240.4 REV-2 states that the borrower (GLHI) must obtain all licenses and permits required by local governmental agencies. GLHI agrees that the program requires that specifications and improvements must include HUD's Minimum Property Standards (MPS) and comply with all local codes and ordinances. At some point, however, the cost of rehab would 1) exceed the value of the house, 2) make it impossible for a low-moderate income person to purchase it, and 3) render GLHI unable to sell the house.

Finding-The Section 203(k) consultant/inspector hired by GLHI did not do an adequate job (Draft letter, page 2).

GLH I did not "hire" the Section 203(k) consultant/inspector that prepared the work write-ups on the properties in question. This was Karl Alderink whose name was given to GLHI by the HUD local office and Van Dyke Mortgage who had previous experience with him. He was the only inspector available in the area and GLHI was left with little or no choice but to utilize him. GLHI also believes that it had the right to be confident that Mr. Alderink was well aware of all MPS, local codes and the guidelines for estimating the cost of repairs which are required under the program. GLHI relied upon Mr. Alderink to go through these homes and prepare work write-ups which would comply with all of these guidelines.

If Mr. Alderink had identified all of the MPS which were not met and local code violations, that work could have been included in the write-up and would have been made a part of the total mortgage. The problem of pricing the home out of the market and making them affordable for target buyers would still exist. Had Mr. Alderink done his job, GLHI would not be faced with recommendation 1 B(b) which recommends that it complete all the work items in the specifications plus additional work items required to meet MPS and local codes. Further, we believe that it would be unfair to place this burden on GLHI given the fact that many of the alleged code violations and other deficiencies could have been caused by the owners of the property since the time they began occupancy. It should be noted that the inspection which was conducted by Mr. Lopez on these properties occurred in November of 1998, several months, and in some cases over one (1) year, after many of the homes became occupied and GLHI had completed its repairs.

Finding-Great Lakes misused the Section 203(k) program (Draft letter, page 3).

GLHI strongly disagrees with this finding. GLHI and its counsel have gone through and reviewed several of the eight (8) properties listed in the table on page 3 of the finding. With regard to the property identified as 328 Brown, the OIG inspector determined that \$2,430.00 was paid to GLHI for work not done. GLHI has reviewed the photographs that it has of the Brown property and it is clear that the work was completed. GLHI would like to call the OIG's attention to the item regarding the additional five (5) square feet of roofing on the front porch to which Mr. Lopez assessed the sum of \$1,250.00 for work which was not done. Included in *Exhibit C* is a photo of that roof and, as the OIG can see, that roof is totally complete. Further, the combination storm door at the rear was deleted on change order number 2 and we were not paid for that item as noted on the change order as a deleted item. Regarding the missing two (2) new interior doors and lock sets, as noted on the write-up, a new entry to the bathroom was made off of the dining room. The old entry was at the front bedroom. Doors were installed at first floor bedroom, new bedroom closet, main stairwell and north upper bedroom.

The bottom section of the basement stairs was completed and the east kneewall in the attic was insulated. The installation of the outlet for the refrigerator was completed as was the replacement of the corroded bussbar at the electric panel. The permit for this work was pulled by GLHI and inspected by the City of Grand Rapids. This work was completed prior to the rehab starting since we needed power to begin work. GLHI does not have a picture of the faulty valve at the water meter but contends that it is possible that the new one could be leaking. If it were faulty, no water would get into the house. With regard to the six (6) additional glass window panes, these could have been broken after GLHI completed its repairs. The photos supporting GLHI's position regarding the Brown property are attached collectively as ***Exhibit C***.

A review of the 843 Hancock property also calls into question the report of the OIG inspector. Specifically, the OIG inspector states that broken siding at the southeast corner of the house was not replaced. Photos show that this work was done. The ductwork for the furnace was torn out and replaced and the basement ceiling was rewired (although we have no current pictures of that work). The crown trim in the dining room was installed (50 linear feet). With regard to the claw-foot tub and fixture replacement, this should have been change ordered by Mr. Alderink. Rather than replacing the tub, GLHI reglazed the tub, built a kneewall around the tub and tiled the kneewall around the tub. This was done at a cost greater than the \$700.00 that it would have taken to just replace the tub. Three smoke detectors were installed; one each in the dining room, basement and stairway to

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the second floor. We also repaired the upstairs supply line to the tub and the drain in kitchen and upstairs bath floor. The photos in support of GLHI's position on the Hancock property are attached as *Exhibit D*. One GFI outlet was installed in the kitchen and in the bath. In some cases, a GFCI breaker was installed at the panel instead of at the source.

GLHI also believes that, due to the vagueness of the write-up prepared by Mr. Alderink, some of the amounts set forth in the finding may be exaggerated. One of the change orders on the Hancock property lists an estimate of \$300.00 for the rewiring of the basement ceiling. This does not mean a complete rewiring of the basement ceiling which would obviously cost well in excess of \$300.00. What it means is that the miscellaneous wires and cords hanging from the ceiling would be rerouted so as to be out of the way and not left simply dangling from the ceiling as seen in the attached photos. The toilet line in the basement was capped but when Mr. Lopez did his inspection, he made reference to a drain rather than the actual toilet line as set forth in the photos. The specifications called for the fixtures in the basement to be removed, not replaced. It is GLHI's opinion that some of the "Work not performed" items cited by Mr. Lopez are simply a result of his misinterpretation of Mr. Alderink's initial write-up. In all fairness to Mr. Lopez, he was not present when the initial write-up was prepared and has no idea of the conditions of the property prior to repair.

Attached as *Exhibit E* are summaries for the properties located at 1213 Third, 1957 Paris, and 215 Warren. The summaries address each item that the OIG inspector claims was not completed and provides a brief explanation. The summaries are provided in an effort to shorten this response.

The draft letter also states that there were some \$62,000.00 in amounts received for repairs in excess of the actual cost. GLHI needed to make approximately 20% on the rehab costs in order to meet its operating expenses as the general contractor. Mortgagee Letter 92-33 allows for a 10% hold-back to be paid to the general contractor and, where the mortgagor is acting as a general contractor, the mortgagor can receive the hold-back and request an additional 10% for the cost of administering the rehabilitation of the property. As a result, it is GLHI's position that they did not receive any excess of amounts over the actual cost.

Finding-Repairs were not adequately done (Draft letter, page 3).

GLHI does not agree that it did not assure that all repairs were completed in accordance with the specifications or approved change orders and that all MPS and local code violations were corrected. GLHI is not required to second guess the HUD approved

inspector conducting the write-up and make sure every necessary repair was listed. GLHI relied upon the training, experience and expertise of Mr. Alderink in his conducting the several inspections which occurred for each of these properties. GLHI also believes that many of the code violations may have occurred after the work was completed given the fact that the inspection did not occur until months after the owners took occupancy. Also, before the new owners took occupancy, their lender hired a HUD approved appraiser who went through the property prior to their occupancy. From a review of the finding for the various locations (Draft letter, pages 4 and 5), we agree that Mr. Alderink did not include several of the items that needed to be repaired or which constituted code violations.

With regard to permits, the draft letter alleges that GLHI did not obtain the required permits for any work done on the eight (8) properties (Draft letter, page 6). This is simply not true. GLHI does not have copies of the permits, but believes that all of the required permits were taken out either in the name of the subcontractors who did the work, or GLH I. If the City building official conducted a search under the name of GLHI, then it is understandable why several of the permits were not found. The contract entered into between GLHI and its general contractor requires that the contractor pay for all necessary permits and licenses and, as a result, either the contractor or one of the subcontractors would usually take out the appropriate permit. The Grand Rapids building official indicated that there was not an electrical permit taken out for the property at 328 Brown. Attached as **Exhibit F** is a copy of Permit No. 28111 which was taken out on March 3, 1998, by Tim Doctor, Vice-President of GLHI. This permit was not located by the Grand Rapids building official who reported to the OIG that none of the required permits were taken out. GLHI believes that all of the other permits which allegedly were not taken out in this matter were very likely taken out by its contractors, or GLHI officers. GLHI will need additional time within which to verify this information since it does not have copies of the permits for these properties in its files. GLHI further believes that in some of the cases, permits were not even required. Mr. Brazier, we believe, would readily admit that the local building officials have not cooperated in locating these permits after his request and the request of GLHI.

The "Miscellaneous Items" referenced on page 6 of the draft letter focus on specifications for 843 Hancock. Specifically, GLH I has photos (referenced above) showing that the loose siding was repaired. It is possible that the broken siding on the southeast corner of the house may have been broken since the time the repair work was completed and prior to Mr. Lopez's inspection. GLHI does not have photos to refute the statement that the storm window was short by 2" but would certainly be willing to correct this problem if that is the case.

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GLHI is willing to correct any and all deficiencies which exist due to the poor workmanship of its contractors or those items simply not completed. GLHI believes, however, that several of the items referenced in Finding 1 could have been caused after GLHI completed its repairs of the property and prior to the OIG inspection. There is no way for the OIG inspector to know what was done and the condition that the repairs were in on the day GLHI completed its repairs so the OIG inspector has nothing to compare the results of his inspection to. While GLHI has photos of some of the completed repairs, they do not have photos of all of the properties referenced in the finding. As a result, GLHI would have to rely upon the memory and recollection of its officers, contractors and subcontractors who had direct involvement with these properties.

RECOMMENDATIONS

With regard to Recommendation 1 (A), GLHI would defer to the OIG with regard to any administrative sanctions taken against Mr. Alderink.

With regard to Recommendation I(B), the OIG is recommending that (a) GLHI reimburse the respective home buyers over \$85,000.00 for the work allegedly not performed according to the specifications and within the cost estimates for the property, or that (b) GLHI complete all work items and specifications, plus any work items required to meet the MPS and local codes.

GLHI is concerned that by simply throwing money at the respective home buyers under Recommendation I (13)(a), the code violations and MPS would not be addressed. It is the belief of GLHI that proceeding in that manner would not meet the goals of both it and the program to provide housing which does not violate safety and health concerns. It would also be unfair and unreasonable to require GLHI to reimburse the respective home buyers for work that has been completed. GLHI would agree to correct or perform any repairs which can be directly attributed to it and which could not have occurred after the repair work was completed and prior to the OIG inspection.

Requiring GLHI to complete all of the work items in the specifications would place a huge financial burden on GLHI and effectively put it out of business. This would have the effect of requiring GLHI to go back and perform all of the additional work cited by the OIG inspector without compensation. GLHI believes that this is unfair because, had these items been included in the original write-up by the HUD trained and approved inspector, those amounts could have been included in the repair costs for the property and GLHI would not have to suffer further out-of-pocket losses. Again, GLHI believes that requiring that each and every item be corrected would price the home out of the targeted market.

Since the true goal of the program is to provide safe, healthy, and affordable housing, GLHI would inquire as to whether or not a remedy can be fashioned whereby GLHI would go back and do this work and receive compensation for it through the program given the fact that it was the fault of the HUD inspector that these items did not make it into the work write-up.

11. FINDING 11, GREAT LAKES HOUSING, INC. SOLD HUD-PURCHASED PROPERTIES FOR EXCESSIVE AMOUNTS.

As stated above, GLHI utilized the local HUD office and, specifically, Terry Hansen, to answer any questions it had regarding the HUD program. GLHI agrees that HUD Notice 94-74 allowed non-profit organizations to purchase HUD acquired properties at 30% discounts and, further, that upon sale, the owner could only realize a maximum of a 10% profit. GLHI denies that it received discounts from 32-99% from HUD for total discounts of \$1,525,097. While it is the OIG's opinion that the "HUD Grand Rapids office inappropriately allowed Great Lakes Housing to negotiate a reduction in the purchase price after the sales contract was signed," it understands that this is the basis for Finding II in the draft letter. It is also true that Jack Brown, President of GLHI, informed the OIG that he was unaware of HUD's resale restrictions for the properties. This is because Mr. Brown never believed he was getting the 30% deep discount. All of the Sales Contracts stated that either a 10% discount or none at all had been given (*Exhibit G*).

Terry Hansen's interpretation of HUD Notice 94-74 was based upon a discussion that he had at a Region V meeting in Washington, D.C. in 1998. Paragraph E of HUD Notice 94-74 states that:

Upon receipt of the "as repaired value" appraisal and the specification writer's report, the field office will subtract the cost of the MPS-related repairs, as determined by the specification writer, **to arrive at the LIST PRICE** (emphasis added).

It is the position of GLHI, and the position of Mr. Hansen as is evidenced by his letter (*Exhibit H*), that the only way to arrive at the list price is by taking the "as repaired value" appraisal and subtracting the repairs.

Paragraph 1, entitled "Discount Levels," explains the 10 and 30% discounts but does not state what the 10 and 30% discounts are taken from. CFR 24, Part 291.210--Direct Sale Procedures(a)(1) states that:

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Non-profit organizations that have been pre-approved to participate by HUD...may purchase HUD properties at a discount of the list price determined by the secretary to be appropriate, but not less than 10%, for use in HUD and local housing or homeless programs.

As Mr. Hansen states in his letter, Notice 94-74 in its current state provides an explanation on how to calculate the list price and CFR 24, Part 291.210 explains what to subtract the discount from (which is the list price). During the time period in question in this case, Mr. Hansen had been taking the "as repaired value" in the appraisal report, deducting the specification writer's repair costs and, further, deducting the appropriate discount which, in this case, was either 10% or nothing. When the calculation resulted in a negative value (where the total repairs exceeded the "as repaired value"), Mr. Hansen would limit the net sales price to be no less than \$500.00. As you can see from the sales contracts, Mr. Hansen would lower the contract price by the amount of the repairs **to come up with the list price**, initial it, and would in some instances grant GLHI a 10% discount, not 30%.

GLHI has always been under the assumption that it was receiving a 10% discount rather than a 30% deep discount and, as a result, was shocked to learn that it was the position of the OIG that they were only entitled to sell these properties for a 10% profit. All along, GLHI followed the recommendations and advice of the local office and always believed that it was complying with the requirements of the program. Further, up until October, 1998, the local HUD office would see the buyers package for FHA insurance on each property which included the final sale price. For the years in question, the local office never told GLHI the sale prices violated any program rule.

GLHI is now being asked to refund \$360,000.00 due to the fact that the local office inappropriately calculated the list price and discount. In a nutshell, GLHI never believed it was receiving the benefit of the 30% deep discount and does not believe that it would be fair or equitable to require it to reimburse the respective home buyers for the excess proceeds.

GLHI admits that it did not keep a separate record of its net development costs for each property. Even before this audit began, however, GLHI rectified that problem and now keeps separate records of its development costs for all of its properties.

RECOMMENDATIONS

GLHI agrees with Recommendation 2(A) and, even before this audit began, has kept separate accounting records of the net development costs of each property purchased.

With regard to Recommendation 2(B), GLHI is confused by the recommendation made. The recommendation seems to require that GLHI provide documents to support the total cost for each property or pay over to the home buyers the sum of \$360,000.00., The total cost for each property is set forth in Mr. Brazier's audit and were obviously supported by information that he obtained from his audit. As a result, these costs are supported. If, however, the OIG is referring to requiring GLHI to provide further support for what the OIG believes to be the "excessive costs" incurred on each property, obviously GLHI cannot do this because it has opened its records and provided all the information it has to the OIG which included the cost estimates given by Mr. Alderink.

GLHI is now fully aware that the OIG disagrees with the interpretation of Terry Hansen as it relates to the determination of the list price and corresponding discount. GLHI would recommend that the rule be clarified once and for all so that this does not happen to other non-profits. GLHI has not and will not engage in similar transactions given the fact that the OIG interpretation is contradictory to that provided to GLHI by the local HUD office. As was stated above, many of the properties which were sold by GLHI were sold at an amount which was less than the FHA appraised value of the home. This is not a case where the homebuyer did not get the home that was worth what they paid for it, they actually got a home worth more than what they paid for it. In some cases, received gift funds from GLHI to purchase their home. There was no fraud, collusion on home buyers or intent on the part of the officers of GLHI to circumvent the programs requirements. We believe Mr. Hansen made a good faith and honest interpretation of what he perceived the rules to be, conveyed them to GLHI, and we proceeded in that fashion. Requiring GLHI to reimburse the sum of \$360,000.00 to the respective home buyers is unfair and will put GLHI out of business, plain and simple.

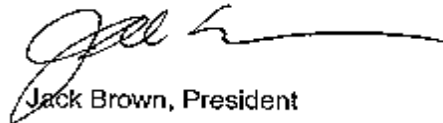
We would respectfully request the opportunity to provide additional information and supplement this response within the very near future. We were only given twenty-one (21) days to respond to findings that took the OIG several months to put together. While our response is as complete as it can be at this time, we may uncover additional photographs or documents to support our position and address some of the items relating to specific properties which are contained in the draft letter. We would also like to have the opportunity to sit down with the appropriate OIG officials to discuss the draft letter, our

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response and the proposed recommendations prior to this matter proceeding to the exit conference stage. We await your response in this regard. Thank you.

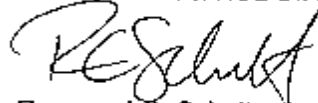
Sincerely,

GREAT LAKES HOUSING, INC.



Jack Brown, President

KREIS, ENDERLE,
CALLANDER & HUDGINS, P.C.



Raymond C. Schultz
Attorney for Great Lakes Housing, Inc.

RCS:lao
Enclosures

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GREAT LAKES HOUSING, INC.
2897 TAFT SW APT C
WYOMING, MI 49509

ADDRESSING WORK PAID FOR BUT ALLEGEDLY NOT DONE.

PLEASE NOTE: OIG INSPECTION AND PICTURES TAKEN, IN MOST CASES, WERE NOT THAT OF AREAS WHERE REPAIRS WERE MADE. THIS IS MOST LIKELY BECAUSE OIG INSPECTOR DID NOT SEE HOUSE PRIOR TO WORK BEING PERFORMED. WRITE UP SPECIFICATION WERE NOT SPECIFIC ENOUGH FOR OIG INSPECTOR TO FOLLOW.

ALSO TO BE NOTED, CHANGE ORDERS WERE INITIATED MOST OFTEN AFTER ITEMS HAD ALREADY BEEN COMPLETED, OR NO CHANGE ORDERS AT ALL WERE FILED BY THE HUD CONSULTANT.

**328 BROWN SW
GRAND RAPIDS**

#15 INSTALL STORM DOOR -STORM DOOR INSTALLED AT FRONT ENTRY AND REAR STORM DOOR DELETED ON CHANGE ORDER NUMBER TWO.

#16 INSTALL TWO NEW INTERIOR DOORS AND LOCKSETS AS NOTED ON WRITE UP - A NEW ENTRY TO THE BATHROOM WAS MADE OFF THE DINING ROOM. THE OLD ENTRY WAS AT THE FRONT BEDROOM. DOORS WERE ALSO INSTALLED AT FIRST FLOOR BEDROOM, NEW BEDROOM CLOSET, MAIN STAIRWELL AND NORTH UPPER BEDROOM.

#21 REPLACE BOTTOM SECTION OF BASEMENT STAIRS AS DEPICTED BY PHOTO OF BEFORE, THERE WAS NO BOTTOM STAIRS AT BASEMENT, AS OPPOSED TO THE AFTER PICTURE WITH NEW TREADS AT BOTTOM OF STAIRS.

C/O INSTALL FIVE SQUARE FEET OF ROOFING AT THE FRONT PORCH. AS NOTED IN PICTURE, FRONT PORCH WAS REPLACED.

#30 INSULATE ATTIC PER SPECIFICATIONS WE INSTALLED R -13 INSULATION AT ATTIC KNEE WALL "NOT THE ENTIRE ATTIC".

#13 INSTALL SIX ADDITIONAL GLASS PANES AT \$40.00 EACH AND C/O FOUR ADDITIONAL GLASS PANES AT FRONT PORCH AND TWO KITCHEN PANES WERE REPLACED. NOTE: IN MOST OF THESE NEIGHBORHOODS, IF NOT ON SITE IN 24 HOURS A DAY, KIDS LIKE TO THROW ROCKS.

C/O REPLACE FAULTY VALVE AT WATER METER FAULTY VALVE AT METER WAS NEEDED TO GET WATER SUPPLIED TO THE HOUSE. THIS MAY BE LEAKING NOW, BUT IT WAS REPLACED.

C/O INSTALL OUTLET FOR REFRIGERATOR AS SHOWN IN PHOTO OUTLET WAS INSTALLED.

C/O REPLACE CORRODED BUSSBAR AT ELECTRIC PANEL PERMIT PULLED BY GREAT LAKES HOUSING, INC., AND INSPECTED BY CITY OF GRAND RAPIDS. WORK DONE PRIOR TO REHAB STARTING. WE NEEDED POWER TO START JOB.

GREAT LAKES HOUSING, INC.
2897 TAFF SW APT C
WYOMING, MI 49509

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843 HANCOCK SE GRAND RAPIDS

#2 REPLACE BROKEN SIDING AT THE SOUTHEAST CORNER OF THE HOUSE
REPAIRED SIDING HANGING DOWN AT SE CORNER OF HOUSE AS SHOWN IN PICTURES.

#29 REPLACE DUCTWORK FOR THE FURNACE. COMPLETED BY SUB-CONTRACTOR AS SHOWN IN PHOTO.

STORM WINDOW FOR BEDROOM TOO SHORT DID NOT APPEAR THAT WAY AT TIME OF COMPLETION.

#27 CAP TOILET LINE AT BASEMENT TOILET SUPPLY LINE CAPPED. SEE PHOTO.

#27 REPLACE CRAW FOOT TUB AND FIXTURE CHANGE ORDER TO REGLAZE TUB, BUILD KNEE WALL AND TILE AROUND. SEE PHOTO

#27 REPAIR SUPPLY AND DRAIN PIPE REPAIRED UPSTAIRS SUPPLY TO TUB AND DRAIN IN FLOOR IN KITCHEN.

#28 INSTALL SMOKE DETECTORS ON FIRST FLOOR THREE SMOKE DETECTORS WERE INSTALLED. ONE IN DR -41NG ROOM, ONE IN BASEMENT, AND ONE AT STAIRS GOING UP.

#33 TEAR OUT AND REPLACE FIXTURES IN THE BASEMENT SPECIFICATIONS DO NOT SAY TO REPLACE ANY FIXTURES IN BASEMENT, JUST TO REMOVE THEM.

C/O REWIRE BASEMENT CEILING AFTER ALL WALLS WERE TORN OUT OF BASEMENT, MULTIPLE WIRES WERE EITHER DELETED OR RE -WIRED. SEE PHOTOS.

C/O INSTALL GROUND FAULT OUTLET IN KITCHEN ONE GFCI INSTALLED IN KITCHEN AND BATH. IN SOME CASES A GFCI BREAKER WAS INSTALLED AT PANEL INSTEAD OF AT SOURCE.

C/O INSTALL CROWN TRIM AT DINING ROOM CEILING. INSTALLED AT DINING ROOM CEILING JOINT. 50 LINEAR FOOT.

GREATI-LAKES HOUSING, INC.
2897 TAFT SW APT C
WYOMING, MI 49509

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215 WARREN SE
GRAND RAPIDS

- #1 TUCK POINT FOUNDATION** -- COMPLETED ALONG NORTH AND SOUTH SIDE OF HOUSE..
- # C/O SIDING REPAIR** - TEAR DOWN OF ATTACHED GARAGE AT NW SIDE OF HOUSE. ADDED NEW VINYL SIDING AT ENTRY AND DELETED DOOR.
- # 7 & C/O REPLACE CONCRETE STEPS AT NORTH SERVICE DOOR**-COMPLETELY REMOVED WITH GARAGE
- # 9 SCRAPE, PRIME, AND PAINT WINDOWS** COMPLETED WITH CUSTOM TRIM PAINT- JOB AS SEEN IN PHOTO.
- # 13 REPLACE CRACKED/BROKEN GLASS IN WINDOWS**-4 WINDOW PANES REPLACED AND REGLAZED. (FRONT, REAR, NORTH AND SOUTH SIDE OF HOUSE.)
- #13 REPLACE MISSING GLAZING PUTTY IN WINDOWS** DONE PRIOR TO PAINTING ON TEN WINDOWS ALL OVER HOUSE.
- # 13 & C/O INSTALL COMBINATION STORM WINDOWS** - CHANGE ORDER DELETING., AS NOTED BY OIG INSPECTOR.
- SCRAPE, PRIME AND PAINT REAR STAIRWAYS** - NOT IN WRITE UP AS NOTED BY OIG INSPECTOR. THIS WAS A REAR ENTRY TO HOUSE NOT INSIDE THE DWELLING. NOTHING WAS DONE WITH IT.
- #23 REPLACE SUBFLOOR AT BREEZEWAY.** CHANGE ORDER ADDED NEW FRONT DECK AND STAIRS.
- #34 REMOVE DEBRIS FROM ATTIC AND BASEMENT.** REMOVED ORIGINAL DEBRIS. ANYTHING ELSE MAY BE FROM NEW OWNERS. WRITE UP DOES NOT STATE LOCATION OF REMOVAL. THE LOCAL HUD OFFICE GENERALLY IS RESPONSIBLE FOR REMOVAL OF PREVIOUS OWNER'S DEBRIS.
- #35 NO EVIDENCE THAT ANY TREES WERE REMOVED.** ALL SHRUBS AND PINE TREE AT FRONT CORNER OF HOUSE REMOVED AS WELL AS TWO TREES AT BACK OF HOUSE . SEE PHOTOS
- #31 INSTALL BASE KITCHEN CABINETS FOR FIRST FLOOR.** - FIRST FLOOR KITCHEN SINK BASE CABINET TORN OUT AND REPLACED. UPSTAIRS HAD ALL NEW BASE CABINETS AND COUNTER TOPS. C/O STATES TO INSTALL NEW BASE CABINETS AND TOPS AT BOTH KITCHENS 18LF @ \$100.00/LF, NOT JUST AT THE FIRST FLOOR.
- #15 INSTALL LATCHING HARDWARE ON A DOOR** INSTALLED NEW LOCK SETS ON ALL NEW DOORS 6 TOTAL. WRITE UP DOES NOT STATE THIS. #15 SAYS "INSTALL NEW LOCKSETS." THERE WAS NO C/O FOR ADDITIONAL DOORS ADDED.

GREAT LAKES HOUSING, INC.
2897 TAFT SW APT C
WYOMING, MI 49509

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1213 THIRD NW GRAND RAPIDS

#13 INSTALL SIX NEW BASEMENT WINDOWS OR REFRAME EXISTING WINDOWS. CHANGE ORDER.- ONLY WINDOWS THAT NEEDED NEW SILLS AND RAILS AND ALSO ADDED STORM WINDOWS.

#1 AND #28 INSTALL SMOKE DETECTORS ON FIRST FLOOR AND BASEMENT. SMOKE DETECTORS INSTALLED AT FIRST FLOOR SPECIFICATIONS DO NOT SPECIFY ANY LOCATIONS.

REMOVE CASE IRON TUB IN BASEMENT - NOT ADDRESSED BY WRITE UP OR CHANGE ORDERS. NO IDEA.

#C/O INSTALL ADDITIONAL FIVE HANDRAILS INSTALLED PER NEW OWNER.

#C/O REPAIR CRACKED FLOOR JOIST AT BASEMENT C/O STATES THAT IT COULD BE REPAIRED OR SISTERED. THE CRACKED FLOOR JOIST WAS SISTERED, A BETTER SOLUTION THAN A SIMPLE REPAIR.

C/O INSTALL BOX COVER INSTALLED 3 JUNCTION BOX COVERS.

C/O INSTALL GROUND FAULT OUTLET TWO GFCI WERE INSTALLED IN KITCHEN AND BATH.

#C/O CUT AND FILL LEAKING OLD DOWNSPOUT TILE AT REAR OF HOUSE OLD DOWN SPOUT WAS CUT AND TILE WAS FIXED. DRAIN TILE WAS NOT REMOVED.

GREAT LAKES HOUSING, INC.
2897 TAFT SW APT C
WYOMING, MI 49509

ADDRESSING WORK PAID FOR BUT ALLEGEDLY NOT DONE.

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1957 PARIS SE GRAND RAPIDS

#4 REPLACE DAMAGED SOFFIT BOARDS AT FRONT OF HOUSE

SPECIFICATIONS DO NOT INDICATE IF THIS IS THE HOUSE OR GARAGE. HOUSE DOES NOT HAVE SOFFIT. ALSO NOTED ON OIG REPORT - DRAW REQUEST ALSO SHOW THAT THIS WAS NEVER PULLED NOR PAID OUT.

#15 INSTALL COMBINATION STORM DOOR AT FRONT - STORM DOOR NOT INSTALLED.

#9 SCRAPE, PRIME AND PAINT WINDOWS, WINDOW SILLS PLUS STUCCO AT FRONT PORCH. DRAW REQUEST SHOWS NOT PAID OUT. ALSO AT THE TIME THE WEATHER DID NOT PERMIT US TO PAINT. BUYER BOUGHT HOUSE BEFORE WEATHER BROKE AND WOULD DO THEMSELVES.

#28 INSTALL LIGHTING FIXTURE ALL LIGHT FIXTURES INSTALLED. 10 IN TOTAL. ½ BATH, DINING ROOM, 3 BEDROOMS, FULL BATH (2 - LIGHT BAR CHANGED TO 2 FIXTURES) HALLWAY, EXTERIOR, BASEMENT AND KITCHEN.

#31 INSTALL NEW EDGING ON KITCHEN COUNTER TOPS. NEW EDGING WAS INSTALLED. NEW OWNERS MAY HAVE REMOVED.

#31 RETRIM AND RECAULK BACKSPLASH BOARDS WRITE UP STATES RETRIM AND OR RECAULK BACKSPLASHES. BACKSPLASHES WERE RECAULKED.

Raymond C. Schultz

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May 20, 1999

VIA UPS - OVERNIGHT DELIVERY

U.S. Department of Housing & Urban Development
Office of Inspector General, Office of Audit
Attn: Mr. David Brazier
Detroit Office, Region V
Patrick M. McNamara Federal Building
477 Michigan Avenue, Room 1790
Detroit, MI 48226-2592

cc: Mr. Alan Samuelson, U.S. Department of Housing & Urban Development
Mr. Jack Brown, Great Lakes Housing, Inc.

Re: Supplement to April 15, 1999 Response After Completion of Exit Conference

Dear Mr. Brazier:

This letter is intended to supplement the response that was prepared by Great Lakes Housing, Inc. (GLHI) on April 15, 1999, in response to the draft findings dated March 26, 1999. This letter provides supplemental information as a follow-up to the Exit Conference which was conducted in my office on Friday, May 14, 1999. Specifically, you asked us to respond to the issues concerning various work items for three (3) properties (2123 Darwin, S.W., 1123 Noble, S.E., and 1244 Aurora), address the issue regarding permits and provide any additional photographs or other information relative to any of the findings that we were able to locate.

A. Work items for the three (3) properties and issue of amount paid to subcontractors.

1123 Noble, S.E.

The draft finding states that GLHI received \$2,449 in excess of the actual costs of rehabilitation. The actual cost of rehabilitation was \$27,524.95. GLHI received \$29,886 from the escrow account...\$2,361.05 over actual cost. In fact, the amount paid by GLHI for repairs for all of the properties listed in the table of Finding 1 are inaccurate. (See

Exhibit 1 and attached receipts). GLHI has uncovered additional receipts for each of these properties that were not available to Mr. Brazier when he conducted his inspection. GLHI paid \$160,756.44 rather than \$148,338, for repairs on these properties.

Using Warren Street as an example, the procedure was as follows. Mr. Alderink would prepare the initial write-up which would indicate the repairs which were needed to be made. In the Warren Street case, GLHI received \$28,520 from the escrow account. GLHI would then try to get this work done at a lower cost and would utilize the excess to pay for the day-to-day administrative costs of running the company. In this case, GLHI was able to get the work done for the sum of \$21,087.16 which created an excess over and above the amount received from the escrow account of \$7,432.84. GLHI determined from the inception of the company that it needed to retain 20% over the cost of repairs to be able to pay for its administrative expenses and operate its day-to-day affairs. Twenty percent (20%) of the actual amount paid for repairs totals \$4,217.43 as is shown in *Exhibit 1*. As it relates to the Warren Street property, then, GLHI only received an excess amount totaling \$3,215.41. Applying this formula to each property would allow GLHI to retain \$32,151.29 in addition to the cost of repairs which would ultimately reduce its excess amount received to \$17,699.07. If GLHI did not receive this administrative expense amount, it would not be able to operate on a daily basis.

Mr. Lopez also found that GLHI was paid for \$2,539 worth of work which was not done. This is simply untrue. All of the items set forth in the table on Appendix B-7 were completed by GLHI. Unfortunately, GLHI did not take pictures of this property to prove that the work has been completed.

The draft letter also states that Mr. Alderink did not include an electrical outlet and pressure relief valve on the hot water heater and that the kitchen sink leaked. Again, we believe that we had the right to rely upon Mr. Alderink to prepare an adequate and complete write-up. It is also possible that the leak in the kitchen sink could have begun after our work had been completed and through no fault of GLHI. If the hot water heater does not have a pressure relief valve, GLHI will see to it that this is completed.

2123 Darwin, S.W.

Mr. Lopez stated that \$600 worth of drywall work in the "first floor room" was not done. GLHI is unsure as to whether or not the inspector was looking in the correct room since no specific room is referred to. It is difficult for GLHI to respond to this allegation without knowing this information. Also, due to the vagueness of the write-ups prepared by Karl Alderink, it is easy to see how this confusion could result.

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GLHI did receive \$35,526 from the rehabilitation escrow funds. Its rehabilitation costs were \$25,277.25 rather than \$24,794 (*Exhibit 1*). As a result, GLHI received \$10,248.75 over and above the actual costs of rehabilitation. Again, it is the position of GLHI that it was entitled to 20% of the rehabilitation costs, or \$5,055.45, for administration. As a result, GLHI received excessive amounts totaling \$5,193.30 with regard to this property.

Additional pictures with regard to the repair work completed on the Darwin property were located and are attached as *Exhibit 2*. Appendix B-4 also states that Mr. Alderink did not prepare adequate work specifications and failed to address all code violations to meet the minimum property standards. Again, it is the position of GLHI that it had a right to rely upon Mr. Alderink and his expertise given the fact that he was a HUD trained inspector and was essentially the only person in this area with the ability to conduct these inspections.

1244 Aurora

Appendix B-8 states that GLHI received \$16,513 from the rehabilitation escrow and only paid its subcontractors \$14,319 to do the actual work. GLHI paid \$14,437.17 to its subcontractors. As stated before, GLHI believed it was entitled to receive 20% for administering the rehabilitation of the property. Since GLHI actually paid its subcontractors \$14,437.17, GLHI was entitled to \$2,887.43 (20% X \$14,437.17), yet it only received \$2,075.83. GLHI does not have pictures of the Aurora property. GLHI believes that all the work was completed and it is possible that the trim on the kitchen cabinet may have come off since the new owners took occupancy. With regard to the quality of the painting which was done in the bathroom and hallway and the bottom trim in the kitchen, GLHI would certainly be willing to pay to have these items corrected if this problem is attributable to the workmanship of our subcontractors rather than something that the occupants did after moving into the property.

B. Additional issues regarding Warren, Paris and Hancock.

215 Warren

Mr. Lopez determined that there was no evidence that any trees were removed from the property and, in Appendix B-1, placed a value of \$1,000 on this work. Attached as *Exhibit 3* are "before and after" pictures of the property clearly showing that the trees were removed. As stated in our initial response, GLHI is concerned that there may be many other items (which translate into several thousand dollars) which were, in fact, completed despite what was stated by Mr. Lopez. Further, GLHI paid \$21,087.16 for the repair work done on the property, not

\$14,301 as stated in Finding 1 (*Exhibit 1*).

1957 Paris

The draft finding claimed that there were no wall switches in the bedroom because Mr. Alderink did not include them in his inspection. It was also claimed that soffit boards, facia, etc. which were rotted had not been replaced and that the windows were not painted. This property was sold during the winter months and the weather did not permit the soffit, facia, and windows from being replaced and painted at that time. The buyers wanted to move into the home and the home was sold to the new buyers on a conventional loan which did not require this work to be done. GLHI was not paid for this work. With regard to the wall switches for the light fixtures, these items were not included on the initial write-up and GLHI relied on Mr. Alderink to prepare an accurate and complete write-up.

843 Hancock

The draft letter stated that Mr. Alderink did not include the peeling paint on the window frame and that the storm window in the basement was short by 2". If the storm window in the bedroom is, in fact, short by 2", we will replace it. With regard to the peeling paint on the window frames, again we had the right to rely upon Mr. Alderink to prepare a complete and thorough write-up. To require GLHI to go back and address items which were not included on the initial write-up, without compensation, would be extremely unfair.

C. Permits.

The draft finding states that GLHI did not pull the permits necessary for the work done on the property. Jack Brown met with Dennis M. Klein, Building Official with the City of Grand Rapids, to discuss which permits were required. Mr. Klein informed Mr. Brown that the only permits required were those for the furnace and that they should have been pulled by the contractor, C.J. Heating & Cooling. GLHI will see to it that these permits are pulled. Mr. Klein informed Mr. Brown that it will not be necessary for any of the remaining permits to be pulled (*Exhibit 4*).

D. Finding 2—table regarding excess proceeds allegedly received by GLHI.

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GLHI has poured through its records to verify the figures set forth in the table in Finding 2. Attached as *Exhibit 5* is the summary of GLHI. While GLHI still maintains, as stated in its initial response, that it did not fall under the 30% deep-discount/10% resale cap regulations, this table shows that the “excess proceeds” are over \$62,000 less than that which Finding 2 indicates.

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E. Letter to Alan Samuelson and David Brazier dated May 18, 1999.

GLHI would like to incorporate the letter dated May 18, 1999, that its counsel sent to Mr. Samuelson and Mr. Brazier regarding the discussions which took place at the Exit Conference held on May 14, 1999. We are very concerned that, because of the confusion with regard to the findings contained in the draft letter, specifically Finding 1, the Philadelphia Office may get the impression that GLHI is not responding to the findings or otherwise trying to avoid several issues. To reiterate, GLHI was informed at the Exit Conference that some of the draft findings which indicated that work "was not done" should have stated that the problem was with regard to "workmanship." As a result, GLHI was unable to respond to those issues directly and has not been able to do so since no clarification has been received.

Secondly, Mr. Brazier made it very clear that he did not believe that there was any intent on the part of GLHI or its officers to circumvent the HUD regulations in any way, shape or form and, specifically, that GLHI was following the directions that it received from the local office and Terry Hanson. It is clear from the letter that Terry Hanson sent to the Philadelphia Office that he, too, was operating under a good faith belief that he was interpreting the HUD regulations correctly. To come back on GLHI at this point and demand reimbursement for over \$360,000 in "excess proceeds" would be unfair. GLHI believes that its good faith reliance on Mr. Hanson in his interpretation of HUD regulations would provide it with a valid defense to such a claim if litigation became necessary. We believe the recommendation requiring GLHI to reimburse the buyers should be waived.

For obvious economic reasons, however, GLHI hopes that this can be resolved at the next level and these issues are put to rest once and for all.

Sincerely,

KREIS, ENDERLE,
CALLANDER & HUDGINS, P.C.



Raymond C. Schultz
Attorney for Great Lakes Housing, Inc.

RCS:lao
Enclosures

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Kreis
Enderle
Callander
& Hudgins

Raymond C. Schultz

May 18, 1999

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U.S. Department of Housing & Urban Development
Office of Inspector General, Office of Audit
Attn: Mr. David Brazier
Detroit Office, Region V
Patrick M. McNamara Federal Building
477 Michigan Avenue, Room 1790
Detroit, MI 48226-2592

cc: Mr. Alan Samuelson, U.S. Department of Housing, Chicago, Illinois
Mr. Jack Brown, Great Lakes Housing

Re: Exit Conference Held on May 14, 1999

Dear Mr. Brazier:

It was a pleasure meeting you and Mr. Samuelson at the exit conference that we conducted last week. I think that it was very beneficial for everyone involved to sit down, face-to-face, and discuss the contents of your draft finding. This letter is intended to clarify some of the conclusions that we reached and some of the things that still need to be done.

You stated that based upon our response, you believe that your draft findings were not very clear. Specifically, it was agreed that in many of your draft findings, you had indicated that work "was not done" when, in fact, the draft finding was supposed to indicate that the problem was with "workmanship." Because of this, Great Lakes Housing, Inc. (GLHI) was unable to respond to these workmanship issues and you stated that we would be able to take these issues up with the Philadelphia office.

As I told you, my concern is that when Philadelphia reviews our response, they may get the impression that we were either avoiding the issue or not being forthright and honest with our response. You informed me that you would clarify this in the draft finding so that Philadelphia is made aware of the confusing draft findings presented to GLHI. You assured Mr. Brown and I that we would have an opportunity to discuss these issues further with the Philadelphia office so that these issues can be addressed. I had asked why you could not simply revise your draft finding and provide us with additional time to prepare a response. You and Mr. Samuelson stated that you were under pressure to get the report completed by the end of the month. I know that you were probably able to sense our frustration in this regard because now we will be required to respond to a revised set of

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findings and some of the work that has been done to date was a waste of time on our part because it did not address the real issues which were not set forth in the original draft findings.

You commented on the fact that you believed GLHI to be a very cost-conscious entity and you complimented Jack Brown on being a member of the Board of Realtors and utilizing subcontractors in order to keep costs down. You made it very clear to us that you did not believe that there was any "intent" to do anything outside of HUD regulations and you believed that GLHI was simply acting at the direction of the local office and, specifically, Terry Hanson.

We talked briefly about your revising the recommendations in Finding 2. Specifically, Recommendation 2B would be revised so that it would recommend that the \$360,169 "excessive profit" be "waived" and that GLHI not be required to reimburse these amounts to the respective home buyers. This was based upon the fact that you believed no one at GLHI had any intent to defraud or circumvent the regulations, GLHI was operating under the belief that they were only obtaining a 10% discount on these properties as was stated on the face of each sales agreement and, further, that GLHI did not ask for or instigate any of this type of treatment but that these actions were taken (the discounted sales price and additional 10% discount) by Mr. Hanson at the local office unilaterally. You stated that it was your opinion that GLHI did not believe that it fell under the parameters of the 30% program and that you would consider modifying recommendation 2B in that regard. As we told you, there is no bank account with \$360,000 in "excess profit" which could be turned over to the respective home buyers. These homes were purchased by the buyers for less than fair market value and all of these buyers qualified under the program as low to moderate income. If GLHI were forced to pay these amounts, they would simply have to close their doors.

With regard to the recommendations contained in Finding 1, we again reiterated our position that we were relying upon Karl Alderink to do a complete and comprehensive write-up when he initially reviewed the property and, to the extent that Mr. Lopez found items during his inspection that were not included in the write-up, we believe that there may be various reasons for this. First of all, Mr. Lopez was not aware of the state or condition that the property was in when Mr. Alderink did his initial inspection and has nothing to compare his inspection with. Secondly, many of the items listed in Mr. Lopez's inspection could have been caused by the new home buyers after they took occupancy. In some cases, these homes have been occupied by two or more sets of individuals since GLHI completed its work. As I am sure you are aware, many of the people who occupy these homes do not have the maintenance of the property or aesthetics at the top of their list and more often than not leave the property in a much worse condition than that which it was received.

In summary, you and Mr. Samuelson agreed to allow GLHI until Friday, May 21, 1999, to supplement its initial response with any additional pictures that it can locate with regard to these properties, a response to the three (3) properties which were not

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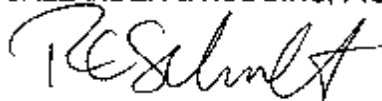
included in our initial response and any documentation that we are able to obtain with regard to the permit issue. We have also found documents to support repairs for the properties referred in Finding 1 and will supply this as well. I will also supply you with a disk which contains a copy of both this letter and our follow-up response.

Again, given the one-sided nature of the Draft Finding, it was a pleasant surprise to hear you state that you did not believe that GLHI or any of its officers had any intent to circumvent the HUD regulations and that, essentially, GLHI was a victim of receiving bad information/procedure from the local HUD office. It is to that end that we would again request that you make sure that this is adequately stated in your revised finding and also reflected in the recommendations. In my opinion, we can respond to these draft findings and Philadelphia will very likely see our response as an effort to avoid further liability. If, however, the Philadelphia office sees that it is your opinion that GLHI was acting in good faith and wholly at the direction of the local office and without any fraudulent intent, I believe that this will carry as much or more weight as our response.

Again, thank you for your time and consideration. If you have any questions or if anything contained in this letter is not to your understanding, please let me know immediately. Thank you.

Very truly yours,

KREIS, ENDERLE,
CALLANDER & HUDGINS, P.C.



Raymond C. Schultz

RCS:lao

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GREAT LAKES HOUSING EXHIBIT 1

Property Address	Amount Received From Escrow Account	Actual Amount Paid For Repairs	Amount Received In Excess Of Actual Costs	20% Retention for GLHI to Operate	Excess Of Actual Cost Received over 20% Retention
215 Warren	\$ 28,520	\$ 21,087.16	\$ 7,432.84	\$ 4,217.43	\$ 3,215.41
1957 Paris	18,922	12,048.65	6,873.35	2,409.73	4,463.62
1213 Third	24,108	18,110.00	5,998.00	3,622.00	2,376.00
2123 Darwin	35,526	25,277.25	10,248.75	5,055.45	5,193.30
843 Hancock	23,372	16,842.37	6,529.63	3,368.47	3,161.16
328 Brown	33,760	25,428.89	8,331.11	5,085.78	3,245.33
1123 Noble	29,886	27,524.95	2,361.05	5,504.99	(3,143.94)
1244 Aurora	16,513	14,437.17	2,075.83	2,887.43	(\$11.60)
Totals	\$210,607	\$160,756.44	\$49,850.56	\$32,151.29	\$17,699.28

Paid to Subs \$160,756.44
 20% Retention 32,151.29

Amount GLHI is
 entitled to receive \$192,907.93

Amount virtually
 received 210,607.00

Excess Amount
 received \$ 17,699.07
 =====

GREAT LAKES HOUSING EXHIBIT 2

May-19-99 02:25P GREAT LAKES HOUSING INC. 616-531-0720

P.02

GREAT LAKES HOUSING, INC.

AUDIT FINDING

RECAP BY GLHI

PROPERTY ADDRESS	ACQU COST	REPAIR COST	HOLDING COST	NET COSTS	ALLOW RESALE	SALE	EXCESS
917 ADAMS SE	\$ 4,856.75	\$ 34,726.99	\$ 7,062.27	\$ 46,446.01	\$ 51,090.61	\$ 51,400.00	\$ 309.39
1004 ALPINE NW	\$ 4,295.15	\$ 26,561.22	\$ 4,218.88	\$ 35,095.25	\$ 38,538.78	\$ 52,000.00	\$ 13,461.22
1244 AURORA	\$ 13,545.57	\$ 14,437.17	\$ 4,066.88	\$ 32,061.62	\$ 35,289.78	\$ 62,000.00	\$ 26,710.22
1125 BATES	\$ 3,172.27	\$ 19,008.84	\$ 5,511.03	\$ 27,692.14	\$ 30,461.36	\$ 44,800.00	\$ 14,436.86
328 BROWN SW	\$ 4,049.20	\$ 25,428.89	\$ 4,798.69	\$ 34,228.68	\$ 37,711.55	\$ 53,000.00	\$ 16,288.45
1315 COLLEGE	\$ 21,016.25	\$ 31,175.58	\$ 8,588.85	\$ 60,780.68	\$ 68,858.75	\$ 70,500.00	\$ 3,641.25
232 CORINNE	\$ 4,389.40	\$ 26,204.46	\$ 3,821.32	\$ 34,395.18	\$ 37,634.70	\$ 49,900.00	\$ 12,065.30
627 CROFTON	\$ 11,440.08	\$ 18,185.08	\$ 4,388.52	\$ 33,973.68	\$ 37,371.07	\$ 45,000.00	\$ 7,626.93
2123 DARWIN	\$ 4,024.78	\$ 25,277.25	\$ 2,751.44	\$ 32,053.47	\$ 35,259.82	\$ 55,000.00	\$ 19,741.18
1023 DUNHAM	\$ 9,210.13	\$ 16,721.75	\$ 7,339.37	\$ 33,271.28	\$ 38,998.39	\$ 38,000.00	\$ 1,401.61
747 FIETH	\$ 3,738.05	\$ 20,058.82	\$ 4,349.05	\$ 28,143.72	\$ 30,958.09	\$ 54,800.00	\$ 23,641.91
1644 GIDDINGS	\$ 8,487.38	\$ 30,830.01	\$ 8,445.86	\$ 45,763.25	\$ 60,339.58	\$ 74,800.00	\$ 24,590.42
900 GRIGGS	\$ 21,374.01	\$ 13,302.52	\$ 3,789.95	\$ 38,478.48	\$ 42,324.13	\$ 55,000.00	\$ 12,675.87
843 HANCOCK	\$ 3,528.51	\$ 18,842.37	\$ 4,384.82	\$ 24,735.70	\$ 27,209.27	\$ 49,900.00	\$ 15,690.73
127 JANET	\$ 51,066.50	\$ 6,875.00	\$ 5,480.08	\$ 63,520.58	\$ 69,872.84	\$ 74,900.00	\$ 5,027.36
930 LAFAYETTE	\$ 16,653.80	\$ 7,296.31	\$ 3,095.89	\$ 27,005.80	\$ 29,706.38	\$ 37,000.00	\$ 7,293.62
908 NAGOLD	\$ 14,249.16	\$ 14,621.51	\$ 4,872.58	\$ 33,743.23	\$ 37,117.55	\$ 49,000.00	\$ 11,882.45
1734 NELSON	\$ 37,715.22	\$ 13,387.24	\$ 6,342.08	\$ 57,444.54	\$ 63,188.99	\$ 86,900.00	\$ 3,711.01
1123 NOBLE	\$ 3,857.11	\$ 27,524.95	\$ 10,808.84	\$ 41,990.60	\$ 46,190.00	\$ 64,000.00	\$ 17,810.00
1867 PARIS	\$ 29,709.87	\$ 12,046.65	\$ 7,883.99	\$ 49,642.31	\$ 54,806.54	\$ 64,900.00	\$ 9,893.45
331 PINE	\$ 20,087.09	\$ 21,135.46	\$ 3,812.51	\$ 45,095.03	\$ 49,514.93	\$ 58,650.00	\$ 7,125.07
131 ROSE	\$ 3,850.43	\$ 22,808.95	\$ 5,604.32	\$ 31,861.70	\$ 35,157.87	\$ 45,000.00	\$ 9,842.13
1097 TEMPLE	\$ 6,095.13	\$ 28,109.39	\$ 4,265.00	\$ 38,409.52	\$ 42,250.47	\$ 46,500.00	\$ 4,249.53
1213 THIRD	\$ 11,137.89	\$ 18,110.00	\$ 2,828.77	\$ 32,074.66	\$ 35,282.13	\$ 60,000.00	\$ 24,717.87
1028 UNDERWOOD	\$ 20,847.31	\$ 19,191.94	\$ 5,435.88	\$ 46,474.91	\$ 50,022.40	\$ 59,000.00	\$ 8,977.60
215 WARREN	\$ 3,798.10	\$ 21,097.16	\$ 8,632.65	\$ 33,517.91	\$ 36,899.70	\$ 50,000.00	\$ 13,190.30
3045 24TH JAMES	\$ 5,344.29	\$ 104,421.85	\$ 16,067.18	\$ 126,833.30	\$ 138,416.83	\$ 120,000.00	\$ (16,416.63)
	\$ 341,310.00	\$ 635,217.17	\$ 156,204.34	\$ 1,132,731.51	\$ 1,248,041.10	\$ 1,543,550.00	\$ 297,508.90

NOTE THAT ON 3045 24TH, BILLS WERE STILL COMING IN WHEN AUDIT OCCURED THESE WERE FAXED TO DAVE BRAZIER.

Distribution

Assistant Secretary for Housing-Federal Housing Commissioner (2)
 Secretary's Representative, Midwest (2)
 Director, Philadelphia Homeownership Center (2)
 Senior Community Builder, Grand Rapids Office (2)
 Assistant to the Deputy Secretary for Field Policy and Management, SDF (Room 7108)(2)
 Deputy Chief Financial Officer for Finance, FF (Room 2202)
 Director, Office of Budget, FO (Room 3270)
 Internal Control and Audit Resolution Officer, 3AFI (2)
 Audit Liaison Officer for Housing, HQC, (Room 6232) (2)
 Department Audit Liaison Officer, FM, (Room 2206) (2)
 Acquisitions Librarian, Library, AS, (Room 8141)
 Deputy Secretary, SD, (Room 10100)
 Chief of Staff, S, (Room 10000)
 Special Assistant to the Deputy Secretary for Project Management, SD, (Room 10100)
 Assistant Secretary for Administration, A, (Room 10110)
 Assistant Secretary for Congressional and Intergovernmental Relations, J, (Room 10120)
 Senior Advisor to the Secretary, Office of Public Affairs, W, (Room 10132)
 Director of Scheduling and Advance, AL, 10158
 Counselor to the Secretary, S, 10218
 Deputy Chief of Staff, S, (Room 10226)
 Deputy Chief of Staff for Operations, S, (Room 10226)
 Deputy Chief of Staff for Programs and Policy, S, (Room 10226)
 Deputy Assistant Secretary for Public Affairs, W, (Room 10222)
 Special Assistant for Inter-Faith Community Outreach, S, (Room 10222)
 Executive Officer for Administrative Operations and Management, S, (Room 10220)
 Senior Advisor to the Secretary for Pine Ridge Project, W, 10216
 General Counsel, C, (Room 10214)
 Acting Director, Office of Federal Housing Enterprise Oversight, O, 9th Floor Mailroom
 Office of Policy Development and Research, R, (Room 8100)
 Assistant Secretary for Community Planning and Development, D, (Room 7100)
 Executive Vice President, Government National Mortgage Association, T, (Room 6100)
 Assistant Secretary for Fair Housing and Equal Opportunity, E, (Room 5100)
 Chief Procurement Officer, N, (Room 5184)
 Assistant Secretary for Public and Indian Housing, P, (Room 4100)
 Chief Information Officer, F, (Room 8206)
 Director, Enforcement Center, V, 200 Portals Building
 Acting Director, Real Estate Assessment Center, V, 1280 Maryland Avenue, SW, Suite 800
 Director, Office of Multifamily Assistance Restructuring, Y, 4000 Portals Building
 Chief Financial Officer, F (Room 2202)
 Deputy Staff Director, Counsel, Subcommittee on Criminal Justice, Drug Policy & Human

Resources, B 373 Rayburn House Office Bldg., Washington, DC 20515

The Honorable Fred Thompson, Chairman, Committee on Governmental Affairs, 340 Dirksen Senate Office Building, United States Senate, Washington, DC 20510

The Honorable Joseph Lieberman, Ranking Member, Committee on Governmental Affairs, 706 Hart Senate Office Bldg., United States Senate, Washington, DC 20510

The Honorable Dan Burton, Chairman, Committee on Government Reform and Oversight, 2185 Rayburn Bldg., United States House of Representatives, Washington, DC 20515

Henry A. Waxman, Ranking Member, Committee on Government Reform, 2204 Rayburn Bldg., House of Representatives, Washington, DC 20515

Ms. Cindy Foglemen, Subcommittee on General Oversight and Investigations, Room 212, O'Neil House Office Building, Washington DC 20515

Director, Housing and Community Development Issue Area, U.S. GAO, 441 G Street NW, Room 2474, Washington, DC 20548 (Attention Judy England-Joseph)

Steve Redburn, Chief Housing Branch, Office of Management and Budget, 725 17th Street, NW., Room 9226, New Executive Office Building, Washington, DC 20503