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# AUDIT REPORT



GOLDEN FEATHER REALTY SERVICES, INC.  
SINGLE FAMILY PROPERTY DISPOSITION PROGRAM  
MANAGEMENT AND MARKETING SERVICES  
CONTRACT (C-OPC-21322)

IRVINE, CALIFORNIA

00-SF-222-1002

SEPTEMBER 22, 2000

OFFICE OF AUDIT, PACIFIC/HAWAII  
SAN FRANCISCO, CALIFORNIA

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Issue Date September 22, 2000
Audit Case Number 00-SF-222-1002

TO: Joseph C. Bates  
Director, Santa Ana Homeownership Center, 9JHH

FROM: Mimi Y. Lee  
District Inspector General for Audit, 9AGA

SUBJECT: Golden Feather Realty Services, Inc.  
Single Family Property Disposition Program  
Management and Marketing Services Contract (C-OPC-21322)  
Irvine, California

As part of OIG's nationwide review of HUD's Management and Marketing (M&M) Services contracts, we audited Golden Feather Realty Services, Inc.'s. (GFR) disposition of HUD- owned properties. This report contains two findings.

Within 60 days, please furnish us for each recommendation in this report, a status report on (1) corrective action taken, (2) the proposed corrective action and the date to be completed, or (3) why action is considered as necessary. Also, please furnish us copies of any correspondence or directives issued because of the audit.

Should you have any questions, please contact Ruben Velasco, Assistant District Inspector General for Audit, at (213) 894-8016.

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# Executive Summary

As part of OIG's nationwide review of HUD's Management and Marketing (M&M) Services Contracts, we audited Golden Feather Realty Services, Inc.'s disposition of single family HUD-owned properties. The purpose of our audit was to determine whether GFR managed and marketed single family HUD-owned properties in accordance with its M&M contract, and other HUD requirements.

We determined that GFR generally managed and marketed single family HUD-owned properties in accordance with its M&M contract and other HUD requirements. We particularly noted GFR significantly reduced the number of HUD-owned properties in the Southern California inventory from almost 13,000 as of April 1999, to about 7,000 as of March 2000. However, as discussed in the two findings contained in this report, GFR needs to fully comply with certain aspects of its property disposition activities.

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## Golden Feather Realty Did Not Always Adequately Protect, Preserve, and Maintain HUD-owned Properties

Golden Feather Realty (GFR) did not always adequately protect, preserve, and maintain HUD-owned properties. Our site inspections of 30 selected properties within the Los Angeles and San Bernardino, California areas disclosed that GFR did not always:

- correct health and safety hazards and remove defective paint surfaces;
- protect properties from the elements to prevent further deterioration;
- repair damages caused by routine vandalism;
- secure properties against unauthorized entry; and
- remove debris and maintain the lawns in order to maintain the physical appearance of the properties.

As a result, these conditions reflected a negative image of HUD's REO program, but more importantly, it hampered HUD's efforts to fully accomplish its mission of strengthening neighborhoods and communities. HUD was also less assured that sales of HUD-owned properties provided the maximum return to the mortgage insurance fund. GFR's lack of written procedures did not ensure adverse conditions found during

property inspections were accurately and consistently reported. The lack of follow-up action did not assure needed repair items identified were resolved timely and adequately.

Golden Feather Realty Did Not Always Meet Required Time Frames for Processing Sales of HUD-owned Properties

Golden Feather Realty incurred delays in processing sales of HUD-owned properties in 24 of 45 HUD-owned properties reviewed. These delays occurred during (1) performing initial inspections, (2) obtaining appraisals, (3) approving disposition programs, and (4) reviewing sales contracts.

Consequently, the delays caused these properties to remain in HUD's real estate owned property inventory longer than necessary. As a result of the delays, it could also increase property holding costs and exposure to deterioration or damage due to vandalism. Lack of knowledge and management emphasis of contract requirements, as well as staff misinterpretation of HUD regulations, caused GFR to incur the delays.

Auditee comments

We discussed the findings with GFR officials during the audit and at a September 11, 2000 exit conference. We provided GFR with a draft copy of Finding 1 on July 19, and draft copy of Finding 2 on August 3, 2000 for their comments. We received GFR's response to Finding 1 on August 7, and Finding 2 on August 16, 2000. GFR generally disagreed with both findings. We considered GFR's comments and revised the findings where appropriate. The responses and our evaluation are discussed in the Findings and the full text of their responses are included as Appendix B.

Recommendations

We recommend HUD's Santa Ana Homeownership Center (SAHOC) require GFR to fully comply with its M&M contract to ensure that HUD-owned properties are always adequately protected, preserved and maintained, as well as marketed and sold in a timely manner. We included specific recommendations at the end of each finding to correct the noted deficiencies.

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# Table of Contents

---

Management Memorandum	i
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Executive Summary	iii
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---

Introduction	1
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## Findings

1	Golden Feather Realty Did Not Always Adequately Protect, Preserve, And Maintain HUD-owned Properties	5
2	Golden Feather Did Not Always Meet Required Time Frames For Processing Sales Of HUD-owned Properties	23

---

Management Controls	31
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---

Follow Up On Prior Audits	33
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## Appendices

A	Results of OIG Site Inspections	35
B	Auditee Comments	37
C	Distribution	59

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# Introduction

## Program Background

Federal Housing Administration's (FHA) Single Family Mortgage Insurance Program helps low and moderate income families become homeowners by reducing downpayments and limiting lender fees. FHA insures the loans on the homes. HUD acquires single family properties (one-to-four family residential units) as a result of foreclosure of FHA-insured mortgages or special acquisitions. Following foreclosure, mortgage lenders have the right to deed the properties to the Secretary of HUD in exchange for mortgage insurance benefits.

HUD disposes acquired properties through its Property Disposition Program, administered through its Single Family Housing Real Estate Owned Division. Its mission is to reduce the property inventory in a manner that expands homeownership opportunities, strengthens neighborhoods and communities, and ensures a maximum return to the mortgage insurance fund. Effective March 29, 1999, HUD contracted out for the management and marketing of Real Estate Owned (REO) properties. HUD awarded seven privately owned companies a total of 16 contracts to manage and market REO properties nationwide.

## M&M Contractor-Golden Feather Realty Services, Inc.

Golden Feather Realty Services, Inc. was awarded M&M contracts for the disposition of HUD-owned properties. GFR assumed full responsibility for the management and marketing functions. HUD's primary role is to monitor GFR's compliance with its contracts. The primary objective of the M&M contract is to ensure HUD-owned properties are: (1) protected and preserved; (2) properly managed, evaluated, and marketed in a manner which produces the highest possible return to HUD's mortgage insurance fund; and (3) maintained to ensure the overall program and the image of HUD is positive and complaints are minimal.

HUD awarded the following M&M contracts to Golden Feather Realty Services, Inc.:

Contract Number	Amount	Area Covered
C-OPC-21322	\$43,659,695	Southern California
C-OPC-21336	\$12,904,375	Northern California
C-OPC-21520	\$ 5,260,039	Oregon, Idaho and Washington
C-OPC-21519	\$20,047,077	Illinois, Indiana, Kentucky, and Tennessee
<b>TOTAL</b>	<b>\$81,871,186</b>	

GFR's corporate headquarters office is located in San Antonio, Texas, and its corporate operations offices are located in Phoenix, Arizona and Plano, Texas. Its regional offices are located in Sacramento and Irvine, California; Chicago, Illinois; and Milton, Washington.

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#### Audit Objectives, Scope, And Methodology

The objective of our audit was to determine whether GFR managed and marketed single family HUD-owned properties in accordance with its M&M contract, and other pertinent HUD requirements.

To accomplish our objectives we performed the following:

- ✓ Reviewed pertinent HUD regulations, Southern California's M&M Contract, and other HUD requirements;
- ✓ Interviewed Santa Ana Homeownership Center officials and reviewed relevant monitoring files to obtain an understanding of policies and practices for carrying out REO program activities;
- ✓ Interviewed GFR officials and staff to obtain an understanding of procedures and practices for carrying out their responsibilities under the M&M contract;
- ✓ Analyzed property sales statistics to determine whether GFR met REO missions and goals;
- ✓ Reviewed a sample of 10 judgmentally selected Held off Market properties to determine whether GFR was taking

appropriate action to resolve the problems preventing the properties from being marketed and sold;

- ✓ Reviewed a sample of 15 judgmentally selected properties closed within the last six months ending March 31, 2000 to determine whether GFR complied with sales requirements;
- ✓ Conducted site inspections and reviewed files of 30 randomly selected properties in the two cities that had the largest inventories of HUD-owned properties to determine whether GFR protected, preserved, and maintained properties, as well as complied with required time frames for processing these properties;
- ✓ Reviewed a sample of vouchers for pass-through expenses and fixed fees to determine whether GFR complied with procedures for the payment of services;
- ✓ Reviewed subcontracting procedures to determine whether GFR complied with HUD requirements; and
- ✓ Reviewed bidding and purchasing processes to determine whether GFR complied with HUD requirements.

Our audit generally covered the period April 1999 through March 2000. Where appropriate, we extended our review to cover other periods. We performed our audit field work between April and July 2000.

We conducted the audit in accordance with generally accepted government auditing standards.

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## Golden Feather Realty Did Not Always Adequately Protect, Preserve, And Maintain HUD-owned Properties

Contrary to the provisions of its management and marketing contract, Golden Feather Realty (GFR) did not always adequately protect, preserve, and maintain HUD-owned properties. Our site inspections of 30 selected properties within the Los Angeles and San Bernardino, California areas disclosed that GFR did not always:

- correct health and safety hazards and remove defective paint surfaces;
- protect properties from the elements to prevent further deterioration;
- repair damages caused by routine vandalism;
- secure properties against unauthorized entry; and
- remove debris and maintain the lawns in order to maintain the physical appearance of the properties.

As a result, these conditions reflected a negative image of HUD's REO program, but more importantly, it hampered HUD's efforts to fully accomplish its mission of strengthening neighborhoods and communities. HUD was also less assured that sales of HUD-owned properties provided the maximum return to the mortgage insurance fund. GFR's lack of written procedures did not ensure adverse conditions found during property inspections were accurately and consistently reported. The lack of follow-up action did not assure needed repair items identified were resolved timely and adequately.

GFR is responsible for managing and marketing HUD-owned properties

The Management and Marketing Services Contract between HUD and GFR, states GFR shall provide all facilities, materials, supplies, equipment labor, and services required to successfully manage single family (1-4 units) properties which are HUD-owned Properties and to successfully market these properties. In part, the primary objectives of the contract are to ensure HUD-owned properties are: (1) protected and preserved; (2) properly managed, evaluated, and marketed in a manner which produces the highest possible return to HUD's mortgage

insurance fund; and (3) maintained to ensure the overall program and the image of HUD is positive and complaints are minimal.

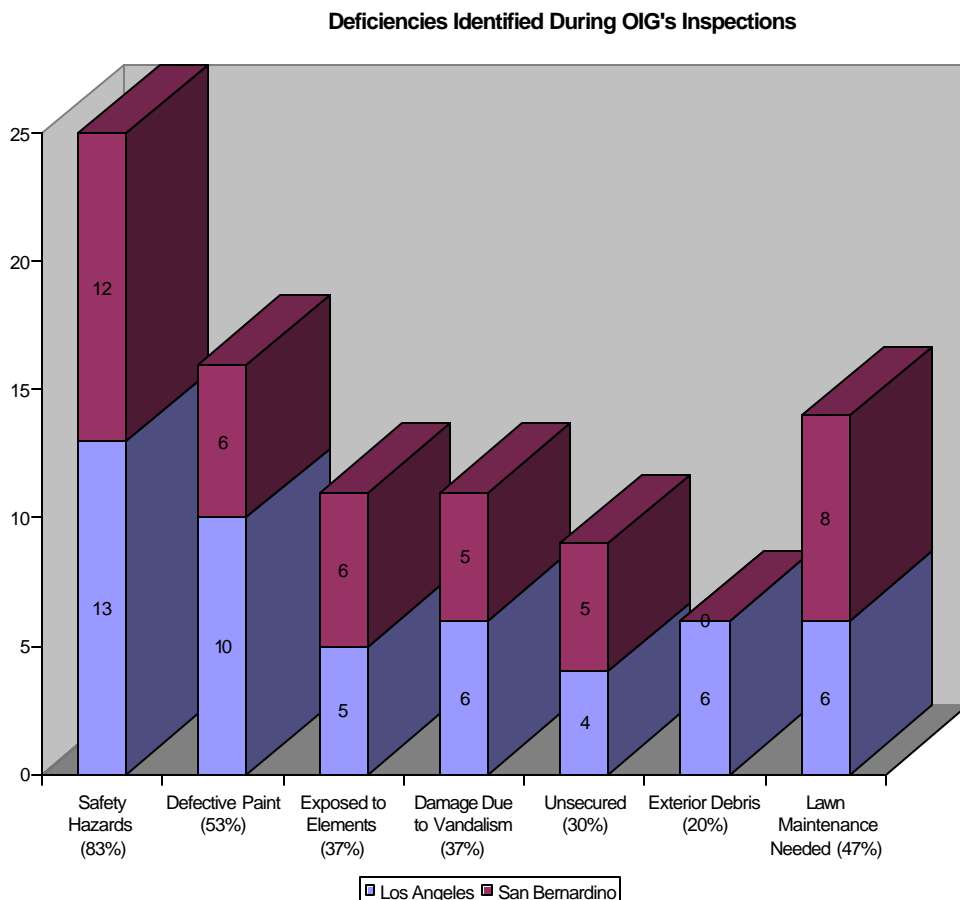
GFR must protect, preserve and maintain HUD-owned properties

Section C-2 (V) of the M&M Contract outlined tasks applicable to each of the assigned properties and states that GFR shall perform each task applicable to each specific property, depending upon its current processing stage. Unless otherwise specifically stated, the Contractor's actions shall be timely so as to eliminate any hazardous conditions, to preserve and protect properties, to maintain properties in a presentable condition at all times, and to enable timely marketing and sales.

The Contractor must in any event maintain each property in such a way as to prevent any deterioration in condition or value to the property between the time that it is assigned the property and the time it conveys the property to a purchaser. This would include any repair necessitated by the proximate omission to properly inspect, preserve, protect, or maintain the property.

Bad conditions existed in all 30 properties inspected

We selected and conducted site inspections of 30 HUD-owned properties in the Los Angeles and San Bernardino, California areas which were being processed for disposition and sales. Contrary to the specific requirements contained in its M&M contract with HUD, GFR did not adequately protect, preserve and maintain the HUD-owned properties in all 30 properties which we inspected. The graph on the next page summarizes the results of our inspections by deficiencies. (Appendix A also lists a detailed breakdown of the properties inspected and the type of deficiencies noted.)



Details of deficiencies found during our site inspections are discussed separately as follows:

**GFR did not remove health and safety hazards (25 of 30 properties - 83%)**

Health and safety hazards were present in over 80% of the properties inspected

The M&M Contract requires GFR to correct ANY condition that presents a health or safety hazard to the public or to the property within 24 hours of discovery. This would include repair of broken steps or floorboards, removal of hazardous material such as gasoline cans or oil-soaked rags, or removal of dead animals or feces.

Our inspections, however, disclosed conditions that posed health and safety hazards in 25 of the 30 (83%) properties inspected, including multiple hazards found for some of the properties. We reviewed GFR inspection reports that took

place just before and after our inspections to determine whether the hazards had been identified by GFR's inspectors. We found none of the hazards that we identified had been reported by GFR's inspectors, and thus, not subsequently corrected. The following are examples of hazardous conditions noted during our inspections:

- ☞ frayed and unsafe electrical wiring to the building, thus creating a fire and safety hazard;
- ☞ severely water damaged ceiling and about to collapse;
- ☞ a garage roof support beam that was severely split and very hazardous (See Photo 1);
- ☞ missing electrical panel box covers that left exposed wiring, thus creating a fire and safety hazard (See Photo 2);
- ☞ sewer openings from missing toilets that needed to be capped to prevent sewer gas from entering the properties; and ,
- ☞ rotted flooring that was unsafe and dilapidated and fire damaged exterior stair case that was unsafe (See Photo 3).

Uncorrected health and safety hazards expose HUD and GFR to potential liability

In our opinion, the failure to ensure health and safety hazards are identified and corrected unnecessarily expose HUD and/or GFR to potential liability. A GFR official attributed the deficient inspections to oversight by the inspectors and GFR's lack of a quality control procedure to evaluate the thoroughness and quality of the inspections. He also agreed these types of items should be reported by the inspectors and should be corrected promptly.



Photo 1: (041-941005) Garage support beam is severely split and very hazardous. GFR's inspection reports did not identify any safety hazards at the property.

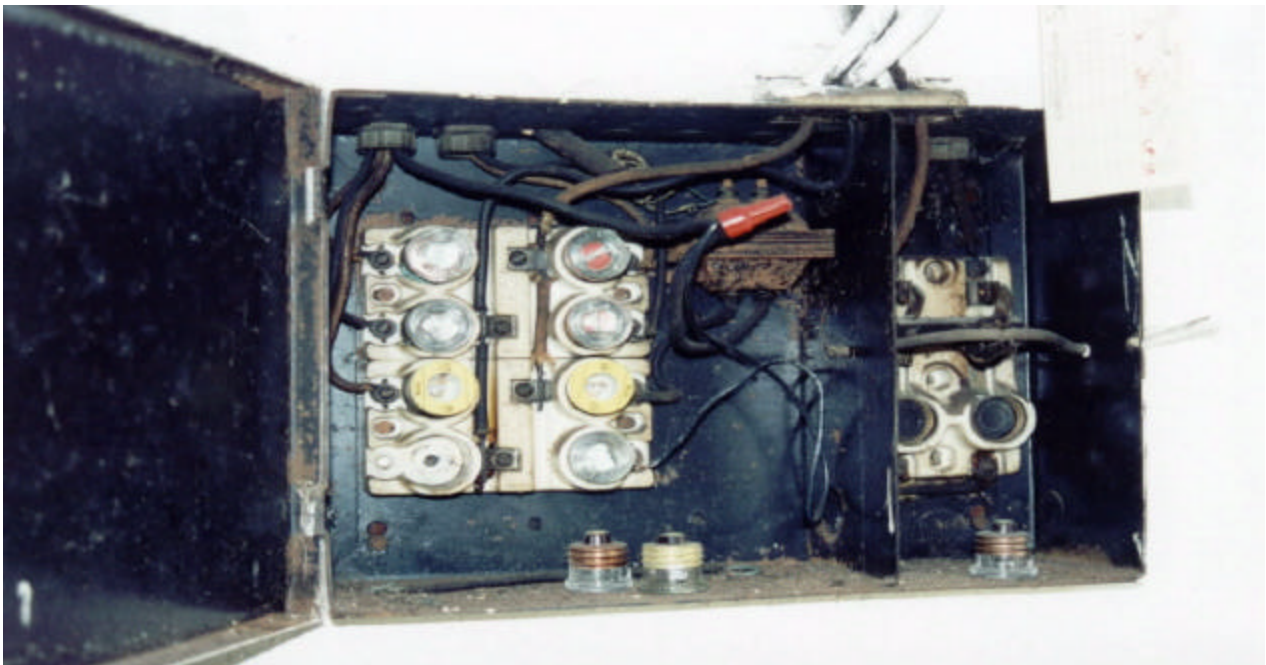


Photo 2: (041-934020) Electrical panel box cover is missing, thus leaving the wiring exposed and creating a fire and safety hazard. GFR's inspection reports did not report this deficiency.



Photo 3: (041-963632) Rear stair case to the upper level unit is deteriorated and fire damaged, leaving it structurally unsafe. GFR's inspection reports did not report this deficiency.

**GFR did not remove defective paint surfaces (16 of 30 properties - 53%)**

GFR did not remove harmful paint surfaces

Our inspections disclosed 16 of 30 (53%) properties contained defective (flaking, chipping, or peeling) paint surfaces. Since the properties were built prior to 1978, they were potentially lead-based. If ingested, lead based paint could be harmful to children and others.

We reviewed GFR's inspection reports and found its inspectors did not identify the defective paint surfaces. This omission allowed this potentially harmful condition to be uncorrected. To illustrate, a property built in 1964 had extensive chipping and peeling paint on the exterior surfaces that was very obvious (See Photo 4), yet, GFR inspectors did not identify this problem. Similarly, we inspected another property which was built in 1920 and noted peeling paint on interior surfaces in one of the rooms that was very noticeable. GFR's inspection report again did not identify this problem.



Photo 4: (046-674157) Exterior surfaces had extensive chipping and peeling paint. GFR's inspection reports did not identify any defective paint at the property.

**GFR did not adequately protect properties from the elements to prevent further deterioration (11 of 30 properties - 37%)**

The M&M Contract requires GFR to protect the property from damage from the elements, through such measures as repairing broken windows, patching roof leaks, and replacing functional shutters.

GFR's inaction caused properties to further deteriorate

GFR did not adequately protect properties from the elements to prevent further deterioration in 11 of 30 (37%) properties we inspected. At one property, both buildings had suffered extensive water damage due to deteriorated and leaking roofs. Ceilings and sub-floors had caved in on the affected areas (See Photo 5). GFR's February 17, 2000 inspection report disclosed the roof was leaking and it needed a tarp. OIG inspected this property on May 3, 2000, and noted the same problem. GFR re-inspected the property one week after OIG's inspection and reported further damage to the roof requiring extensive repairs. A GFR official agreed that GFR is responsible for preventing further deterioration to the properties, but claimed it was difficult

to determine whether roofs are actively leaking or not. As illustrated in this particular case, however, GFR initially determined the roof was actively leaking and required patching, but did not repair the damaged roof immediately to prevent further deterioration.



Photo 5: (041-984016) Property suffered extensive damage due to active roof leaks. GFR's inspection reports identified the need for repairs, but did not correct the problem.

**GFR did not repair damages or replaced missing appliances caused by routine vandalism (11 of 30 properties - 37%)**

The M&M Contract requires GFR to repair all damages due to vandalism. The GTR may authorize reimbursement for repairs due to extraordinary acts of vandalism. Damages caused by routine vandalism such as broken windows, spray paint to the exterior or interior of the home, and theft of appliances, do not qualify as pass through expenses.

GFR did not repair damages caused by routine vandalism as required

GFR did not repair damages caused by routine vandalism in 11 of 30 (37%) properties including graffiti and missing appliances and other items such as sinks, toilets, water heaters, and light fixtures. For example, at one property we inspected, the interior showed extensive graffiti throughout (See Photo 6). GFR

inspected the property on or about the same time that we made the property inspection. However, GFR's inspection report did not disclose any evidence of vandalism or graffiti. This shows that GFR inspectors were not accurately reporting the actual condition of the properties.



Photo 6: (048-084891) Property suffered extensive vandalism and graffiti throughout the interior. GFR's inspection reports did not identify any damages caused by vandalism.

We inspected another property which showed evidence of extensive graffiti on the exterior (See Photo 7). GFR's inspection reports just prior to our inspection also identified that graffiti was present on the exterior walls and garage area. However, when we re-inspected the property, we found extensive graffiti was still present. Therefore, even when GFR inspectors identify the need for repairs, these deficiencies were not being corrected.



Photo 7: (041-963632) Property exterior showed evidence of graffiti. GFR's inspection reports did not identify the need for any graffiti removal.

GFR's inspection reports did not identify missing items

We inspected another property which showed evidence of vandalism. The bathroom sink, vanity, and toilet had been missing after it was conveyed to HUD (See Photo 8). GFR's inspection reports just before and after our inspection did not identify any missing items. Therefore, we question the thoroughness of the inspections because these types of deficiencies could not be easily missed by GFR inspectors.



Photo 8: (197-041029) Property showed evidence of vandalism because of the missing bathroom sink, vanity, and toilet. GFR's inspection reports did not identify any missing items.

GFR misinterpreted contract requirements to repair damages from routine vandalism

A GFR official stated he interpreted GFR's contract to be responsible only for minor problems, such as replacing a broken window or removing minor graffiti. He also stated, in his opinion, theft of sinks, toilets, and water heaters, or major graffiti, are considered extraordinary vandalism, and therefore, not GFR's responsibility. The contract language was clear with respect to what is considered routine vandalism, therefore, GFR should be held responsible for replacing the missing appliances.

**GFR did not secure properties against unauthorized entry (9 of 30 properties - 30%)**

The M&M Contract requires GFR to secure the properties to prevent unauthorized entry using a locking system acceptable to the GTR.

GFR did not fully secure properties to prevent unauthorized entry

GFR did not fully secure properties against unauthorized entry in 9 of the 30 (30%) properties we inspected. We found doors to properties or garages that were unlocked, missing padlocks, or contained broken padlocks. For example, at one property, we

found the front door padlock to the upper level unit was missing and showed evidence that someone may be living inside. After we completed our inspections, we advised GFR that the unit was unsecured. Subsequently, GFR informed us that it had been re-secured. However, when we re-inspected the property, we found the padlock was still missing.

**GFR did not maintain the physical appearance of the properties (6 of 30 properties - 20%)**

The M&M Contract requires GFR to remove and properly dispose all interior and exterior debris both after property conveyance and on a continual basis.

GFR did not remove trash and debris

GFR did not maintain the physical appearance of the properties by removing exterior trash and debris in 6 of 30 (20%) properties we inspected. For example, we found extensive trash and debris scattered throughout the exterior (See Photo 9). GFR's inspection report one week after our inspection identified the need to remove trash and debris. However, when we re-inspected the property, the trash and debris were still present. A GFR official agreed GFR is responsible for ensuring that the properties should be free of trash and debris, but again attributed this problem to oversight and lack of a quality control procedure to monitor the thoroughness and quality of the inspections. Keeping the properties free of debris is an integral part of strengthening the appearance of the neighborhood.



Photo 9: (197-041029) Property had extensive trash and debris on the exterior. GFR's inspection reports did not report any debris.

**GFR did not adequately maintain the lawns (14 of 30 properties - 47%).**

The M&M Contract requires GFR to maintain lawn, shrubbery and trees consistent with neighborhood standards.

Lawns in almost half the properties inspected needed to be cut

We found in 14 of 30 (47%) properties inspected, GFR did not adequately maintain the lawns. For example, at one property (See Photo 10), we observed the back lawn was overgrown and had not been cut recently. GFR's inspection reports immediately before and after our inspection did not identify that the lawn needed to be cut.

We also noted in many cases, it appeared the front lawns of properties were being cut, but the back lawns were being neglected. A GFR official said the lawns are supposed to be cut every two weeks, and agreed that both front and back yard lawns should be cut. Keeping the property free of debris is also an integral part of strengthening the neighborhoods, instead of allowing the properties to become eyesores.



Photo 10: (048-095005) Property has not had the back lawn cut recently. GFR's inspection reports did not report that the lawn needed to be cut.

Bad property conditions caused a negative image of HUD's REO program

The deficiencies found during our inspections not only violated GFR's M&M Contract with HUD but also reflect negatively on HUD's REO program. More importantly, these conditions hampered HUD's efforts to meet its mission of strengthening neighborhoods and communities. In addition, the deteriorated condition of the properties may cause a decline in property values, thereby, reducing the maximum return to the mortgage insurance fund.

Inspections were deficient due to lack of written and quality control procedures

Deficient property inspections occurred because GFR either did not (1) accurately identify and report repairs or corrective action needed, or (2) ensure the identified deficiencies were corrected promptly. In addition, the lack of a quality control procedure to perform or monitor the quality of the inspections was also a contributing factor. We discussed the results of our inspections with a GFR official who acknowledged that there were problems with the adequacy of the inspections. He said GFR needs to re-emphasize the importance of the inspections to its inspectors and indicated that GFR was already in the process of implementing a system to monitor the quality of the inspections.

  
**Auditee Comments  
and OIG Evaluation**

GFR generally disagreed with the finding and stated we had drawn sweeping conclusions from a statistically insignificant sample of properties and not representative of the total inventory of HUD-owned properties in Southern California. GFR stated it was unfair to extrapolate the results of our review of the 30 properties to the entire HUD REO program. GFR also disagreed HUD may be less assured that sales of HUD-owned properties provided the maximum return to the mortgage insurance fund since GFR believed it was selling homes faster and at higher prices now than before.

We revised the finding to show our conclusion was only reflective of the 30 properties inspected and not to the entire inventory of HUD-owned properties it managed in Southern California. We want to emphasize, however, that we statistically selected the 30 properties from the two largest cities covered by GFR's M&M contract to eliminate any bias. The results of our inspection disclosed deficiencies in all 30 properties. Therefore, it is conceivable the deficiencies we found in the 30 properties inspected may also exist on any or all of the properties we did not inspect. We acknowledge GFR has been successful in reducing the inventory of HUD-owned properties in the Southern California area. However, we believe HUD would have greater assurance that sales of HUD-owned properties will provide the maximum return to the mortgage insurance fund if GFR always protected, preserved, and maintained these properties.

**Health and Safety Hazards** GFR disagreed with our evaluation and determination of what constitutes health and safety hazards, and contended the three examples cited in the finding did not present either health or safety hazards. GFR stated the split roof beam occurred before GFR's M&M contract became effective and the property was sold without FHA insurance. Therefore, there was no need to take any corrective action. With regard to the missing electrical panel box cover, GFR stated the electricity was not activated and since the property was listed uninsured, no repairs were required. As for the charred staircase, GFR stated it was aware of

this deficiency and acknowledged that additional measures should have been taken.

We do not agree with GFR's explanation. The M&M Contract requires GFR to correct ANY condition that presents a health or safety hazard to the public or to the property within 24 hours of discovery. We based our conclusions on the knowledge and expertise of an OIG inspector who used long established HUD guidelines in determining what constitutes health and safety hazards. Based on that approach, he determined health and safety hazard violations in 25 of the 30 (83%) properties inspected.

**Defective Paint Surfaces** GFR said the M&M Contract permits GFR to treat defective paint surfaces any time prior to closing. GFR also said it relies on its initial inspection report and/or the FHA appraisal to identify defective paint requiring treatment.

Even though the M&M Contract allows GFR to treat defective paint surfaces any time prior to closing, GFR would never have taken any corrective action on the defective conditions found in the 15 cases reviewed. This is because GFR only initiates work orders for any needed repairs cited by its own inspection reports. For the 15 properties in which we identified defective paint surfaces, GFR's inspection reports failed to identify any problems. Therefore, GFR did not initiate any work orders to correct the deficiencies.

**Protection from the Elements** GFR disagreed it did not adequately protect the properties from the elements. For the case example cited in the finding, GFR stated it made numerous attempts to tarp the roof to prevent further damage, but the tarp had always been stolen. GFR also stated since the property had already been damaged prior to its conveyance to HUD, subsequent damage was inconsequential.

GFR's contractual obligation is to routinely inspect and take all actions necessary to protect, preserve and maintain HUD-owned properties from further

deterioration in condition or value. In this regard, it is incumbent upon GFR to perform the necessary inspections required in order to comply with its M&M Contract. Further, the condition of a property upon conveyance to HUD does not have any bearing on how often and well the property should be protected from deterioration.

**Routine Vandalism** GFR acknowledged vandalism at the case example shown in the finding occurred but was not repaired. GFR stated the graffiti shown on one of the properties used as an example was not removed because it was not visible from the street and was not vulgar or profane. GFR also claimed the presence of graffiti on these properties did not adversely affect HUD's return on the sale of the properties. GFR stated it has now implemented an inspector evaluation system to identify inspectors needing additional training or remedial action.

The M&M Contract clearly requires GFR to repair all damages due to vandalism. The contract also does not exempt GFR from the removal of graffiti not visible from any view. Further, the M&M Contract requires GFR to maintain each property in a presentable condition at all times.

**Securing the Properties** GFR acknowledged difficulties in keeping some properties secured against unauthorized entry. GFR claimed it routinely has to secure and re-secure the same house several times in the neighborhoods we conducted the inspections. Because of the high crime rate in those areas, these neighborhoods are not typical of the neighborhoods where most of HUD's inventory in Southern California is located.

We recognize some neighborhoods may have higher crime rates than others. However, this should not preclude GFR from adhering from its contractual obligations to ensure all HUD-owned properties are always secured against unauthorized entry.

**Debris Removal** GFR acknowledged exterior debris at the properties is a continuing problem but stated it routinely removes debris as its inspectors report it. In accordance with the M&M Contract, GFR is required to remove and properly dispose of all debris both after property conveyance and on a continual basis.

**Maintaining the Lawns** GFR acknowledged problems with its own outside contractors' performance resulting in lawns not being serviced. GFR said it has now revised its quality control procedures to identify non-performing contractors to assure lawns are always maintained. Since GFR stated that it has corrected the problem, we have no further comment.

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## Recommendations

We recommend you require GFR to:

- 1A. Develop and implement written procedures to ensure inspection methods are consistently applied and in accordance with its M&M contract.
- 1B. Provide needed training for its inspectors to ensure that they are informed and have a complete understanding of GFR's contractual requirements with respect to property inspections.
- 1C. Follow-up on GFR's implementation of its quality control procedure to ensure that property inspections reflect the actual condition of the properties and repairs or corrective action needed are identified and resolved timely.

## Golden Feather Realty Did Not Always Meet Required Time Frames For Processing Sales Of HUD-owned Properties

Golden Feather Realty incurred delays in processing sales of HUD-owned properties in 24 of 45 HUD-owned properties reviewed. These delays occurred in (1) performing initial inspections, (2) obtaining appraisals, (3) approving disposition programs, and (4) reviewing sales contracts.

Consequently, the delays caused the properties to remain in HUD's real estate owned property inventory longer than necessary. As a result of the delays, it could also increase property holding costs and exposure to deterioration or damage due to vandalism. Lack of knowledge and management emphasis of contract requirements, as well as staff misinterpretation of HUD regulations, caused GFR to incur the delays.

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**GFR is responsible for marketing HUD-owned properties timely**

Section C-2 of the Management and Marketing Services Contract between HUD and GFR outlines specific tasks applicable to each assigned property. Further, unless otherwise specifically stated, GFR's actions shall be timely so as to eliminate any hazardous conditions, to preserve and protect properties, to maintain properties in a presentable condition at all times, and to enable timely marketing and sales.

**GFR did not always meet required time frames for processing HUD -owned properties**

We reviewed 30 open and 15 closed case files to determine GFR's compliance with HUD and Management and Marketing contract requirements. We found GFR did not always meet the required time frames in performing property inspections, obtaining appraisals, approving disposition programs, and reviewing sales contracts.

For the open case files reviewed, delays occurred in 19 of 30 (63%) cases for:

- ✓ performing initial inspections within 24 hours from the date HUD acquires title to the property (13 cases - 43%);
- ✓ obtaining appraisals within 10 business days from the date HUD acquires title to the property (4 cases - 13%); and,

- ✓ approving disposition programs within 3 business days after receipt of appraisal (10 - cases 33%).

For the closed cases, GFR did not review 5 of 15 (33%) sales contracts within 5 business days, as required.

Details of the four deficiencies are discussed separately below.

**GFR did not always conduct initial inspections timely**

GFR did not perform initial inspections within 24 hours after HUD acquired the properties in 13 of 30 (43%) cases reviewed. The delays ranged from 1 - 18 days late. For 3 of the 13 cases, GFR did not perform initial inspections for more than 10 days after the acquisition date.

Timeliness of initial inspections is critical to ensure properties are fully secured against unauthorized entry and protected from damages due to vandalism. Documenting the initial condition of properties at the time they are conveyed to HUD is also important for GFR's use in reviewing mortgagees' claims for reimbursement of preservation and protection costs.

A GFR official explained the short time frame is difficult to meet because of the practicality of conducting the initial inspection on the same day the property is assigned to GFR. This official added it is even more difficult particularly on a Friday or the day before a holiday because the next day is a non-working day. Of the 13 late cases however, only one preceded a weekend, yet, GFR did not perform the inspection until 4 days later, including the 2-day weekend period.

**GFR did not always ensure timely receipt of the appraisals**

GFR did not obtain property appraisals within 10 business days of acquisition in 4 of 30 (%) cases reviewed. The delays ranged from 4 - 66 days late. Without the appraisal, the property can not be listed for sale because the disposition approach cannot be determined until the appraisal has been completed and evaluated.

A GFR official explained its Real Estate Asset Management (REAM) system produces an exception report identifying late appraisals. GFR's procedures require its staff to follow-up on late appraisals. In 2 of the 4 late appraisals, a GFR official believed the appraisals were received on time because these

were completed within 10 business days from the date GFR entered the properties into its inventory but over 10 business days from HUD's actual acquisition date. In accordance with HUD regulations, appraisals should be completed from the date HUD acquires title to the property and not the date GFR enters the property into its inventory.

Delays in obtaining property appraisals cause properties to remain in HUD's inventory longer than necessary, thereby, resulting in additional property holding costs. Properties could also be exposed to damages due to vandalism while being unoccupied.

**GFR did not always approve disposition programs timely**

GFR did not approve property disposition programs within 3 business days of receipt of appraisals in 10 of 30 (33%) cases reviewed. The delays ranged from 1 - 51 days late. In four of the 10 cases, GFR approved the property disposition programs more than 10 business days late. GFR's failure to approve property disposition programs timely resulted in delays in listing the properties for sale.

The M&M Contract requires GFR to determine the list price and the manner and terms under which each property will be offered for sale. Further, GFR shall make a written determination of the appropriate disposition approach for each property. HUD Handbook 4310.5 REV-2, *Property Disposition Handbook*, states that the written property disposition program shall be completed, reviewed and approved within 3 days of receipt of the appraisal.

GFR officials stated they were unaware of HUD's requirement to approve disposition programs within 3 business days of receipt of property appraisals. They explained the delays may have been due to GFR's policy of approving disposition programs only once a week. Since GFR lists properties each Friday, they only approve disposition programs on Thursdays to minimize any problems or changes that can occur before the properties are listed for sale. Therefore, if GFR was following its policy, the most number of days the approvals would have been delayed was one business day. As we have noted, however, delays in 4 of the 10 cases took more than 10 business days.

**GFR did not always review sales contracts timely**

The M&M Contract states GFR shall negotiate, reject, or accept sales offers; sign sales contracts; and oversee sales closings. Exhibit 8 of the Contract requires GFR to provide the closing agent with all necessary pertinent sales documents including title evidence, tax information, homeowners association and utility bills, and sales contract within five business days upon acceptance of a sales contract. GFR must review closing documentation to ensure their accuracy.

In 5 of 15 (33%) cases, GFR did not review the sales contract within five business days of receipt of the sales contract. The delays ranged from 6 - 12 days late. Failure to review sales contracts in a timely manner delays the entire sales closing process. GFR officials acknowledged the reviews were late and claimed the delays were due to the high volume of sales contracts being processed.

**Lack of knowledge and emphasis of contract and HUD requirements caused processing delays**

Lack of knowledge and emphasis of contract requirements, as well as staff misinterpretation of HUD's regulations, caused GFR to incur delays in processing HUD-owned properties for sale. A GFR official stated their efforts have been focused on reducing the size of the REO inventory, rather than always meeting individual time frames to process each phase of the disposition process.

**HUD-owned properties unnecessarily remained in REO inventory longer**

The delays caused HUD-owned properties to remain in REO property inventory longer than necessary. As a result of the delays, it could also increase property holding costs and exposure to deterioration and damages due to vandalism. For example, Finding 1 of this report disclosed over 53 percent of properties we inspected showed deterioration due to exposure to the elements and/or damages caused by vandalism. The longer the properties are left unattended, the more likely that unauthorized entry and damages due to vandalism could occur.

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**Auditee Comments and OIG Evaluation**

GFR disagreed with our conclusions and claimed it met relevant time guidelines except in circumstances beyond its control. GFR asserted the finding contained myopic conclusions drawn from an infinitesimal sample of data, which does not reflect GFR's successes under the M&M Contract. GFR also disagreed the delays resulted from "lack of knowledge and

management emphasis on contract requirements” or from “staff misinterpretation of HUD regulations”. It added we ignored the realities inherent in performing the day-to-day tasks required by the M&M Contract. GFR also stated the finding did not contain identifiable case data.

The results of our review do not validate GFR’s claim that it met relevant time guidelines except in circumstances beyond its control. For the open cases, we statistically and randomly selected our sample of 30 cases to avoid having a bias sample. Therefore, each case included in the total population where we chose our sample had an equal chance of being selected. We judgmentally selected 15 closed cases for review. We based and reported our conclusions solely on the results of our review of the cases and did not project the results in relation with the total number of cases GFR processed and closed during the audit period. Further, contrary to GFR’s statement, we considered external variables that may have caused delays in processing the cases and did not take any exception in those cases where we believed the delays were beyond GFR’s control. Based on our file reviews and interviews with GFR staff and officials, we concluded the delays resulted from lack of knowledge and management emphasis on contract requirements, or staff misinterpretation of HUD requirements.

**Initial Inspections** According to GFR, it had sufficient procedures to ensure initial inspections are conducted within 24 hours. GFR did not dispute the delays but attributed the delays to issues outside of their control such as concerns of HUD’s actual ownership, accessibility, right of occupancy, validity of property addresses, etc. GFR asserted we did not consider these external factors, which impacted GFR’s ability to fully comply with its M&M contract.

We evaluated the reasons GFR cited causing the delays, but neither documentation in the files nor discussions with GFR staff supported GFR’s assertion. None of GFR’s cited reasons applied to the cases we reviewed.

**Receipt of Appraisals** GFR did not dispute the delays but attributed the delays to issues outside of their

control relating to delayed notification of conveyance, property ownership, property accessibility, validity of property addresses, etc. GFR believed appraisals should be completed within 10 business days from the date GFR enters the property into its inventory rather than the same date HUD acquires title.

We considered external factors and uncontrollable variables when we reviewed GFR's appraisal receipt process. The factors and variables GFR cited in their response did not apply to the cases we reviewed.

With respect to the criteria on the 10-business day requirement, we discussed this issue with a HUD official during our audit, who verified that appraisals should be completed within 10 business days from the date HUD acquires title to the property, the same day the property should be entered into GFR's inventory.

**Disposition Program Approvals** GFR disagreed it did not always approve disposition programs timely. GFR again asserted we failed to consider the environment in which sales disposition operates and the external variables, which interfere with, the smooth transition from appraisal to listing. GFR also claimed we incorrectly relied on a three-day requirement in the HUD Property Disposition Handbook, which predates the existence of the M&M program and ignores the presence of external factors.

As cited in GFR's M&M Contract, however, the HUD Property Disposition Handbook was still effective and GFR was required to comply with handbook requirements, except in specific instances where the contract supercedes the Handbook.

**Review of Sales Contracts** GFR disagreed with our conclusion and stated we did not distinguish between the two separate functions in the review of sales contract process consisting of: (1) contract review and acceptance and (2) preparation and transmission to the closing agent. GFR claimed the 5-day requirement stated in the Contract relates solely to the preparation

and transmission stage of the process. While GFR did not dispute there were delays, it cited various situations outside of its control that cause delays.

We disagree with GFR's interpretation of the criteria that the 5-day requirement only relates to the preparation and transmission of the sales contract. If this was the case, GFR would never be held accountable for any delays relating to contract review and acceptance. Rather, we believe HUD's intent was to allow five days for the entire review, acceptance, and transmittal process to ensure timely sales closings. With respect to the delays we reported in the finding, we recognize there may be valid situations causing the delays, however, none of the reasons cited by GFR were applicable to the cases reviewed.

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## Recommendations

We recommend that you:

- 2A. Instruct GFR to comply with its contract and HUD requirements to assure sales of HUD-owned properties are always processed timely.

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# Management Controls

In planning and performing our audit, we obtained an understanding of GFR's management controls applicable to the disposition of HUD-owned properties that were relevant to the audit. Management is responsible for establishing effective management controls. Management controls, in the broadest sense, 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, direction and controlling program operations. They include the systems for measuring, reporting and monitoring program performance.

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## Relevant Management Controls

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

- Protecting, preserving, and maintaining HUD-owned properties from deterioration or damage due to vandalism.
- Identifying and documenting needed repairs to HUD-owned properties.
- Processing HUD-owned properties in accordance with established time frames.

We assessed all of the management controls identified above.

## Significant Weaknesses

A significant weakness exists if management control does not give reasonable assurance control objectives are met. Based on the results of our review, we believe the following were significant weaknesses:

- Lack of written procedures to ensure adverse conditions found during property inspections were accurately and consistently reported. (Finding 1)
- Inadequate controls to ensure follow-up action was being taken to assure needed repair items identified were resolved timely. (Finding 1)
- Lack of knowledge and management emphasis of contract requirements to assure property disposition time frames were being met. (Finding 2)

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## Follow Up On Prior Audits

HUD OIG concurrently performed two audits of Golden Feather Realty Services, Inc.'s property disposition activities in Irvine, California and Chicago, Illinois' regional offices. These are the first OIG audits of GFR. OIG's Midwest District will issue a separate audit report of GFR's property disposition activities for the Chicago, Illinois regional office.

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## Results of OIG Site Inspections

		Health & Safety		Structural			Physical Appearance	
No.	FHA Case No.	Safety Hazards	Defective Paint	Not Protected from the Elements	Damage due to Vandalism	Not Secure	Exterior Debris	Lawn Maintenance Needed
<b>LOS ANGELES:</b>								
1	041-983784	X						X
2	041-857782	X	X	X	X		X	
3	197-033629	X						X
4	041-941005	X	X		X	X	X	
5	041-976229		X					
6	041-934020	X	X			X		
7	041-992458	X	X					
8	197-036026	X	X	X	X		X	
9	197-065308						X	
10	197-041029	X	X		X	X	X	X
11	041-752988	X	X	X				X
12	041-984016	X		X	X			
13	041-837090	X	X			X		
14	041-829307	X	X	X			X	X
15	041-963632	X			X	X		X
	<b>Subtotal</b>	<b>13</b>	<b>10</b>	<b>5</b>	<b>6</b>	<b>5</b>	<b>6</b>	<b>6</b>
<b>SAN BERNARDINO:</b>								
16	048-076413	X	X	X		X		
17	046-825966	X	X		X			X
18	046-865353	X		X				
19	046-875110					X		X
20	048-008812				X			
21	046-674157	X	X	X	X			X
22	046-394014	X				X		
23	048-028185	X						X
24	048-095005	X	X	X	X			X
25	048-154058	X						
26	048-131234	X	X					X
27	048-084891	X	X	X	X	X		
28	046-969166			X				X
29	048-078885	X						
30	048-039503	X						X
	<b>Subtotal</b>	<b>12</b>	<b>6</b>	<b>6</b>	<b>5</b>	<b>4</b>	<b>0</b>	<b>8</b>
	<b>Total</b>	<b>25</b>	<b>16</b>	<b>11</b>	<b>11</b>	<b>9</b>	<b>6</b>	<b>14</b>
	<b>Percent</b>	<b>83%</b>	<b>53%</b>	<b>37%</b>	<b>37%</b>	<b>30%</b>	<b>20%</b>	<b>47%</b>

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# Auditee Comments



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August 7, 2000

Mr. Ruben Velasco

Assistant District Inspector General for Audit  
U. S. Department of Housing and Urban Development  
611 West 6<sup>th</sup> Street, Suite 1160  
Los Angeles, California 90017

*Re: Response to Draft Finding 1*

Dear Mr. Velasco:

Enclosed please find Golden Feather Realty's Response to the Draft Finding of the Office of Inspector General.

Please direct future correspondence concerning your report to the undersigned at the Corporate Headquarters address noted above.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Robert Kolitz".

Robert Kolitz  
President

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# Golden Feather Realty's Response to Audit Findings from the Office of Inspector General

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*Response to Finding 1: Golden Feather Realty  
Disagrees with the Finding that it did not  
Adequately Protect, Preserve and Maintain  
HUD Owned Properties*

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This document is submitted in response to the draft audit findings of the Office of Inspector General ("OIG"). The contents hereof are copyrighted by Golden Feather Realty Services, Inc. ("GFR") and all rights are reserved. GFR formally requests that this response be included as an attachment to the final report of the OIG. This document may be reproduced by the OIG for inclusion in its final report provided that it is reproduced in its entirety without modification. Should the OIG's draft finding be modified, GFR requests an opportunity to respond to any amended data, findings or conclusions.

## **Golden Feather Realty Disagrees with the Finding that it Did Not Adequately Protect, Preserve and Maintain HUD Owned Properties**

Since the inception of HUD's Management and Marketing ("M&M") program, Golden Feather Realty has met and exceeded all material contractual requirements relating to the protection, preservation and maintenance of HUD owned properties. Regrettably, the report from the Office of Inspector General ("OIG") has drawn sweeping conclusions from a statistically insignificant sample of properties that are not representative of the inventory of HUD owned properties in Southern California. This sampling represents less than one percent of the GFR managed inventory of HUD Homes in Southern California and was limited to aged inventory in depressed and crime-ridden areas of the region. The neighborhoods chosen are not typical of HUD's inventory in the area (which currently totals under 5,000 homes – down from over 14,000 homes) and presents a distorted image of HUD owned properties in Southern California.

GFR places an unparalleled emphasis on its responsibility to preserve, protect and maintain HUD Homes under its management. To that end, GFR constantly monitors and uncovers property issues and acts quickly to remedy such issues as they occur. It is this dedication to maintaining and improving Southern California's neighborhoods that has forged strong relationships with local governments and citizen groups across the area. In recent months, Golden Feather Realty has received a growing number of letters of accolades and thanks from local leaders for dramatically improving the condition of the HUD inventory in their areas<sup>1</sup>. Given the history of troubled HUD property conditions for many years prior to the M&M Contract, GFR had to overcome an inherent belief widely held that HUD properties were not well kept and not well managed. Prior to the inception of the M&M program, local governments had lost patience with property conditions and were issuing citations and liens against HUD owned property at alarming rates. In just one year, GFR's work in cleaning up the properties, reducing the inventory and establishing strong bonds in the community reversed the long held anti-HUD bias. Now, instead of citations and liens, the lines of communication are open and, when property

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<sup>1</sup> Letters of "Thanks" have come from cities all over the region including, but not limited to:

- Kevin Gilligan - Assistant District Attorney, City of Los Angeles
- Bob Mischel - Housing Dept. Coordinator/Problem Property Resolution Team, City of Los Angeles
- Renne Gardner - Problem Property Resolution Team Bureau Chief, City of Los Angeles
- Patrick G. Crowe - Chief of Police, City of Colton
- Jason Finley - Code Compliance Officer, City of Palm Desert
- James W. Daum - Code Compliance Officer II, City of Moreno Valley
- Douglas Wicks - Sanitation Inspector II, Public Works Agency, City of Santa Ana
- A. Bryant - Code Enforcement Supervisor, City of Inglewood
- David Christenson - Building & Safety Supervisor, County of Riverside
- Doug Leeper - Field Operations Supervisor, City Code Compliance, City of San Bernardino
- Dale Wierma - Principal Building Inspector, Dept. Of Planning & Building, City of Long Beach

issues arise, the communities contact GFR, and the problems are resolved. The marked reduction of liens and citation across the region is a more representative sampling of the condition of the inventory in Southern California, as these cities aggressively monitor their vacant homes closely. If GFR was not properly maintaining the HUD inventory, the cities' code enforcement officers (who inspect these homes regularly) would inundate GFR and HUD with citations and liens, interfering with GFR's ability to sell these homes. Years of neglect cannot be completely eliminated overnight, but GFR's efforts in only one year have diametrically changed HUD's image in Southern California.

**The OIG's finding contends that:**

- 1. The property conditions noted in the 30 properties sampled "reflected a negative image of HUD's REO program."**
- 2. The property conditions noted in the 30 properties sampled "hampered HUD's efforts to accomplish its mission of strengthening neighborhoods and communities."**
- 3. "HUD was also less assured that sales of HUD-owned properties provided the maximum return to the mortgage insurance fund."**
- 4. GFR's procedures were not adequate to assure that property issues, once "identified, were resolved timely and adequately."**

**GFR disagrees with these contentions and the methodology used in reaching them. To extrapolate the disputed findings from 30 atypical properties to conclusions that range to the entirety of HUD's REO program is unfair<sup>2</sup>. In response to the conclusions drawn by the OIG's limited factual finding, GFR notes that:**

*The property conditions noted in the 30 properties sampled "reflected a negative image of HUD's REO program." and The property conditions noted in the 30 properties sampled "hampered HUD's efforts to accomplish its mission of strengthening neighborhoods and communities."*

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<sup>2</sup> The areas sampled by the OIG are not representative of the Southern California inventory in a myriad of respects including, but not limited to:

- *Age of Inventory:* Of the 30 properties sampled by the OIG, 47% were acquisitions dating back to 1999 and 90% (27 properties) dated back six months or more. The age of these properties are not typical of the balance of the inventory and manifests itself in significantly increased property condition issues.
- *Eligibility for FHA Insured Financing:* Of the 30 homes sampled, 26 have either closed or are under contract as of the date of this response. Of these 26 homes, 24 (or 92%) were not eligible for FHA Financing because of their condition at the time of acquisition which is not typical of the HUD inventory in Southern California.
- *Average Sales Price:* The average price of the single family homes sampled is 18% *less* than the average price of other HUD Homes in the Southern California area.
- *Number of Units:* Of the 30 houses sampled, 37% contained more than one unit. This number is more than twice the inventory average of 17%.

The OIG's report offers no substantiation for its conclusions that the property conditions noted in these 30 houses resulted in either a negative image of HUD's REO program or hampered HUD's efforts of strengthening communities. To the contrary, as discussed above, GFR's efforts in Southern California have made measurable and identifiable improvements in HUD's image and the image of the REO program. Likewise, the never before seen reduction in the inventory of vacant homes (from over 14,000 to under 5,000), has taken abandoned buildings out of the community and replaced these blights with new neighbors. Today, Southern California neighborhoods are strengthened and buoyed by the knowledge that they have 9,000 fewer abandoned buildings (and 9,000 more neighbors) than they had before GFR assumed responsibility for the area.

*"HUD was also less assured that sales of HUD-owned properties provided the maximum return to the mortgage insurance fund."*

There is no basis in the OIG report for HUD to feel less assured about the GFR's ability to maximize the return to the mortgage insurance fund. GFR's management of HUD Homes has maximized the return to the fund by preserving, protecting and maintaining the homes, selling the homes faster and at higher prices than realized before. Since the outset of GFR's involvement in Southern California, the return to the mortgage insurance fund has seen quantifiable increases of approximately \$10,000 per house sold in the region. This equates to a return to the fund of over \$200,000,000.00 more under GFR's management. These dramatic increases began with GFR's first full month as the M&M and have continued for each and every month thereafter. HUD can be assured that GFR's management of HUD Homes is providing unprecedented returns to the mortgage insurance fund.

*GFR's procedures were not adequate to assure that property issues, once "identified, were resolved timely and adequately."*

This conclusion focuses on GFR's procedures for identifying and then resolving property issues. As discussed in greater detail below, many examples cited by the OIG as deficient property conditions do not, in fact, necessitate remedial measures under the M&M Contract (the "Contract"). The Contract sets parameters for what conditions are to be remedied and GFR strives in all aspects of its operation to meet these parameters. In addition, the subjective evaluation of the OIG field personnel is, in many instances, contrary to GFR's findings which result from many visits and inspections of these houses. Unfortunately, since only eight houses were pictured and discussed in detail in the OIG report (six of which have already sold and closed in the short time between the OIG inspection and the date of its preliminary finding), GFR can only address these subjective findings in two cases. Such a small sample represents insufficient data from which to conclude that GFR's inspection and repair procedures are objectionable.

## SPECIFIC PROPERTY CONDITIONS CITED

### *Health and Safety Hazards*

The report alleges that health and safety hazards were present in over 80% of the properties inspected. GFR disagrees with the OIG's evaluation and its determination of what constitutes a hazard. In each of the three examples discussed in the report, the conditions identified were neither health nor safety hazards. We acknowledge the likelihood of differing opinions, as an inspection necessarily reflects a subjective view of the condition of a property. In almost every instance, if two people were to examine the same house independently of each other, they would be likely to interpret conditions differently and would surely identify different issues affecting the value and habitability of the property. This subjectivity is inherent in the process.

The OIG report offers three photos in support of its conclusions in this area. In photo #1, the OIG concludes that a split roof beam in a garage is hazardous. In fact, it appears that the split roof beam was a long-standing problem dating back several years (and predates GFR's management). While it is apparent that the beam is in need of repair or replacement (which would not be required or expected under the Contract), ***there is no indication that the other structural members in place do not provide more than adequate strength to prevent collapse.*** While extra-contractual repairs may be in order, the OIG report offers no substantiation for the assertion that the condition poses an immediate hazard or danger. This property was sold without eligibility for FHA Insurance and closed on May 3, 2000 (without GFR making a claim that it met minimum property requirements as defined by HUD). It is Golden Feather's belief that no action was required under the terms of the Contract.

In photo #2, a missing electrical panel box cover is alleged to create a safety or fire hazard. It should first be noted that this property was in HUD's inventory before GFR assumed responsibility for this region. The prior property management company, however, did include a photograph in the property file which shows the missing panel cover. Having identified this issue, GFR did not attempt to activate the electricity. A missing electrical panel or cover can constitute a hazard only if the utilities are activated. The absence of the panel cover is one of the reasons the property was analyzed and listed "uninsured" and has since sold and closed. Under the Contract, GFR was not responsible for taking further action on this house.

Photo #3 identifies a charred staircase to the rear of a multi-family property and concludes that it is "structurally unsafe". The OIG report further finds that GFR did not identify this issue in an inspection report. Initially, it must be noted that GFR ***did*** report this deficiency in its initial inspection report. The damaged staircase is on the outside of a multi-family property (on the landing where the stairs meet the building). In analyzing the condition of the staircase and landing, GFR elected to prevent access to the damaged landing from the inside of the building so that an unsuspecting person could not happen upon

the landing without seeing the damaged area. The only remaining access to the landing was from the outside of the building. Upon reanalysis, GFR acknowledges that additional measures could have been taken to block external access to the landing as well.

### ***Removal of Defective Paint Surfaces***

The report identifies 19 homes with defective paint and concludes that GFR did not identify or remove “harmful paint surfaces”. The report cites one example (Photo 4) of a home with defective exterior paint and claims that “GFR inspectors did not identify this problem”. In fact, GFR inspectors *did* identify this problem.

GFR relies on its initial inspection report and/or the certification of its FHA appraisers to identify defective paint requiring treatment. In the house depicted in Photo 4, both GFR’s initial inspection report and the appraisal report identified the defective paint. Since defective paint issues accrue over long time periods, it would be of little value for GFR’s routine inspectors to reiterate these findings on each subsequent report. Accordingly, routine inspection reports do not call out defective paint surfaces.

With regard to the treatment of defective paint surfaces, it should be noted that the Contract permits GFR to perform this treatment any time prior to closing. It is common for homes like the one depicted in Photo 4 to be treated in the days or weeks immediately before closing. While there may be instances where treatment was not performed, GFR continues to refine its procedures to assure that few if any homes are sold without proper treatment of defective paint surfaces.

### ***Protection of Properties from the Elements***

The OIG alleges that in eleven of the properties inspected, GFR did not adequately protect the properties from the elements. The one example cited was a tri-plex located in one of the highest crime areas in the entire region. On countless occasions, GFR removed interior and exterior debris dumped on this property, abated graffiti repeatedly added to the wall, tarped the roof only to have the tarp stolen, secured and re-secured the doorway to the property. On this property, thirteen different work orders were written in an attempt to protect this asset – all at GFR’s expense. Given the constant acts of vandalism, it is unfair to draw a sweeping conclusion about property protection from this one house. Because this unit was a victim of extraordinary acts of vandalism, the cost of repeatedly tarping this roof (only to have the tarp stolen shortly thereafter) would have been borne by HUD. GFR determined that the cost of such repairs would have been substantially greater than the diminution in property value resulting from sheetrock damage in the unit. Indeed, since the sheetrock was already damaged prior to the property’s conveyance to HUD, subsequent damage would have been inconsequential as the sheetrock would require replacement regardless.

### ***Missing Appliances caused by Routine Vandalism***

The OIG report alleges that “GFR did not repair damage caused by routine vandalism as required.” In support, the OIG offers three photographs (Photos 6 – 8).

In Photo 6, the subject property experienced extraordinary vandalism *before* becoming part of GFR’s inventory. The property was appraised and sold “uninsured” at \$15,000.00, *100% of its value*. On the appraisal that was completed when the property was initially placed in GFR’s inventory, the following deficiencies were noted: water damage, drywall/framing damage, roof damage, heater needed, electrical problems, plumbing problems, replace doors, substandard add-on, tear-down recommended. GFR completed 14 work orders on this house at its expense. GFR acknowledges that its inspectors failed to note the graffiti on their reports but this failure, on this house, did not adversely affect HUD’s return as the house sold for 100% of its appraised value. Nevertheless, GFR is committed to its continuing efforts to improve quality control measures in the field. To that end, GFR has implemented an inspector evaluation system which results in monthly “report cards” for each inspector and allows management to identify personnel in need of greater training or other remedial action. These report cards are prepared by a separate team of Quality Control Inspectors who follow behind GFR field personnel to evaluate the quality of their work. In Southern California alone, GFR inspectors complete over 10,000 inspections each month. Even with a 99% accuracy rate, there would still be 100 houses each month with potentially unidentified items. It is by no means a perfect science, but GFR’s performance across the Southern California area has been laudable and choosing a house that an FHA appraiser deems worthy of demolition is not representative of GFR’s work in the area.

Photo 7 depicts a multi-family motel building in a high crime area. As a result of a Contract modification and GFR’s agreement to manage certain multi-family properties for HUD, the abatement of graffiti on this building would be at HUD’s costs. This graffiti is not visible from the street and is not vulgar or profane. It has been GFR’s experience in these situations that removing the graffiti often provides the “taggers” with a fresh palette and encourages more graffiti (often times resulting in instances of profanity and vulgarity). In this instance, to minimize the risk of repeated (even daily) acts of graffiti which would result in extraordinary cost to HUD, GFR elected to allow this graffiti to remain unabated on this building.

The conclusions drawn from Photo 8 are without support in the property file. This photo depicts a bathroom missing a toilet and sink. The OIG concludes that the “sink, vanity and toilet had been missing *after* it was conveyed to HUD” (emphasis added). This conclusion is mistaken as shown by both GFR’s Initial Inspection report and the report of the FHA approved appraiser. Both of these reports identify the missing items and demonstrate that these fixtures were missing at the time of HUD’s acquisition. As this property was listed uninsured, it would not be a candidate for replacement of the missing fixtures.

### ***Securing Properties Against Unauthorized Entry***

The OIG report identifies nine properties that were not fully secured. One example is cited where a missing padlock was replaced but was then found to be missing again in a subsequent inspection.

As mentioned above, the neighborhoods selected for the OIG sample are not typical of HUD's inventory in Southern California. These are high crime neighborhoods where vacant homes are most apt to be broken into by vagrants, gangs and criminals. It is very common in these areas for GFR to secure and re-secure the same house many times in the same month at GFR's expense.

For example, a review of the first two houses on Appendix "A" to the finding shows the recurring nature of security issues in these particular areas. On the first house, between May 5 and June 30, 2000, GFR issued work orders to contractors to re-secure the home on four separate occasions. These contractor securings are in addition to the multiple instances of minor securing performed by the inspector during his routine visits to the property. The second house showed similar results with seven instances of contractor securings between April 12 and June 6, 2000. On one of the homes listed in Appendix "A" to the OIG finding, GFR issued 18 separate work orders between April and July of this year to address issues of security, graffiti, debris removal and safety hazards. The constant battle to keep these properties secure and free of extraordinary vandalism is typical of the sampled neighborhoods but not representative of HUD's inventory in Southern California.

The OIG report cites one (unidentified) property missing a front door padlock on an upstairs unit. Without identification of the specific address where this condition was found, GFR cannot respond to the specifics of that circumstance. In the sampled neighborhoods in general, however, it is quite common for GFR to replace padlocks several times only to find the locks removed, damaged or stolen by the next inspection.

### ***Maintaining the Physical Appearance of the Properties (Debris Removal)***

In six of the 30 properties sampled, the report alleges the presence of exterior debris around the home. One example is cited (Photo 9). In the neighborhoods chosen for this sampling, exterior debris is an especially acute issue. As part of its standard operating procedures, GFR performs an initial debris removal on each HUD Home as it comes into inventory. Thereafter, as debris is reported by inspectors, work orders are issued for "subsequent debris removals". Across the entire Southern California region, GFR performs subsequent debris removals on approximately 15% of the inventory. In stark contrast, the areas sampled by the OIG have a subsequent debris removal rate of nearly 100%. GFR reviewed each of the six instances of debris cited by the OIG report and at least one subsequent debris removal work order had already been issued on each of these houses as of the date of this response.

Of the six properties for which debris issues were found, only one is an unsold property. That house was illegally occupied in June. As that property is currently the subject of an eviction proceeding, GFR is careful to avoid approaching the property in violation of the rights of the adverse occupants. GFR had removed debris dumped on this site on several occasions prior to the adverse occupancy, and it appeared that the house was being used as a dumping grounds by its neighbors. Once vacant, this property will again be cleaned and prepared for sale. It should also be noted that GFR is working

closely with the investigative branch of the OIG to solve the ongoing and significant problems created for HUD by rental scams such as the one affecting this property.

As required by the Contract, GFR endeavors to timely inspect these homes and issue work orders to remove the debris as it is discovered. The problem with these six properties (and in these particular neighborhoods in general) is that as soon as work orders are issued and debris hauled away, others come along and illegally dump on the property. It is an ongoing battle that GFR is fighting and winning (especially when compared to its predecessors). The growing list of laudatory accolades from the cities underscores GFR's successes in cleaning up this inventory.

### ***Maintaining Lawns Consistent with Neighborhood Standards***

During the growing season, GFR performs lawn maintenance twice monthly on each property in inventory. At current inventory levels, this amounts to over 10,000 yard services every month. The OIG report cited 14 lawns of the 30 sampled houses which were described as not properly maintained.

As the 2000 growing season began in earnest, GFR encountered some difficulties with certain contractors that ultimately were terminated. GFR acknowledges that these issues of contractor non-performance resulted in some homes missing scheduled yard services and others having only the front yard cut during a given time period. GFR's internal quality control procedures identified these issues prior to the OIG's report and initiated the process of terminating and replacing the offending contractors. In addition, GFR has refined its quality control procedures to maximize its ability to identify contractors that fail to perform as promised. Since June, 2000, with the implementation of increased quality control in the field, GFR's QC Inspectors are not only reviewing the work of GFR's personnel, they are also reviewing the work of the contractors, especially yard service companies. These heightened quality control measures will improve GFR's ability to identify poor performing contractors and allow GFR to take corrective action even sooner.

Despite all of these internal measures, however, with 10,000 yard cuts every month, there will be occasional instances of human errors which GFR is committed to identifying and remedying.

## **CONCLUSION**

The OIG finding concludes by restating the four contentions discussed hereinabove and by restating its conclusions that GFR did not adequately inspect or report deficiencies or ensure that such deficiencies were corrected. These generalizations are drawn from a non-representative sampling of HUD's inventory in the area and in some cases, as shown above, are based on incorrect factual findings. To criticize GFR's property maintenance procedures based on this sample creates an unfair perception of GFR's efforts in this region and ignores its unparalleled successes.

Even before this report, as part of its ordinary business practices, GFR was constantly at work refining and improving its procedures for property maintenance and quality control. This commitment to always strive to be better will continue for the life of this Contract and all that follow. Since GFR assumed responsibility as the M&M for Southern California, nearly 23,000 HUD homes have sold and the inventory of vacant HUD Homes has fallen from over 14,000 down to its current level of under 5,000. GFR has produced an unprecedented twelve consecutive months of inventory reduction in Southern California. In just over one year, GFR has processed 16,984 newly acquired properties into inventory and has listed 22,944 homes for sale, of which 8,080 were offered to non-profits, police officers, and teachers. As a direct result of GFR's improvement of property conditions in the region, HUD has enjoyed a marked increase in the average sales price of its homes and an equally measurable decline in the time on market (resulting in dramatically lower holding costs for HUD). None of these dramatic improvements in the disposition of HUD's inventory would have been possible had GFR failed to properly maintain, preserve and protect the assets under its management.

While GFR is very proud of its performance to date, it recognizes that the nature of its business will always present challenges requiring constant monitoring and change. GFR remains steadfastly committed to meeting these challenges and producing results which foster HUD's mission of strengthening neighborhoods and communities.



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August 16, 2000

Mr. Ruben Velasco

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*Re: Response to Draft Finding 2*

Dear Mr. Velasco:

Enclosed please find Golden Feather Realty's Response to Draft Finding 2 of the Office of Inspector General.

Please direct future correspondence concerning your report to the undersigned at the Corporate Headquarters address noted above.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Robert Kolitz".

Robert Kolitz  
President

# Golden Feather Realty's Response to Audit Findings from the Office of Inspector General

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*Response to Finding 2: Golden Feather Realty's Systems and Procedures Help Assure that Relevant Property Disposition Time Guidelines are Met, Except in Circumstances Beyond the Company's Control.*

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This document is submitted in response to the draft audit findings of the Office of Inspector General ("OIG"). The contents hereof are copyrighted by Golden Feather Realty Services, Inc. ("GFR") and all rights are reserved. GFR formally requests that this response be included as an attachment to the final report of the OIG. This document may be reproduced by the OIG for inclusion in its final report provided that it is reproduced in its entirety without modification. Should the OIG's draft finding be modified, GFR requests an opportunity to respond to any amended data, findings or conclusions.

***Golden Feather Realty's Systems and Procedures Help Assure that Relevant Property Disposition Time Guidelines are Met, Except in Circumstances Beyond the Company's Control.***

## INTRODUCTION

In evaluating the success of an M&M Contractor's property disposition process, one must look across its entire inventory and examine the timeliness and success of its sales programs. Selecting 45 properties from a sales program that has processed over 25,000 houses (a sample size of less than .02%) does not allow this audit to reflect the real successes seen in Southern California during the first year of the M&M Contract.

Since assuming responsibility for Southern California, GFR has substantially improved the average net proceeds received by HUD on each sale, which has resulted in an unprecedented increase in the return to the FHA mortgage insurance fund. These tangible benefits result from GFR's efficiencies and the company's attention and typical adherence to the timelines set forth in the M&M Contract (the "Contract"). To achieve these fiscal improvements during the first year of the Contract, GFR and its staff focused on reducing average time on market for a HUD Home together with increasing the net return on each sale. When both of these objectives are met, the results are palpable. For the twelve month period immediately preceding GFR's management of the HUD-owned inventory, a HUD Home averaged 234 days in inventory. Since the inception of the M & M program, this time frame has dropped dramatically to 166 days<sup>3</sup>. As the OIG report states, added time in inventory can "increase property holding costs and exposure to deterioration or damage due to vandalism." With the average home in inventory 68 fewer days under GFR's management, HUD Homes have had *less* time to suffer from deferred maintenance or vandalism directly resulting in holding cost savings to HUD. Fewer days in inventory, coupled with better property conditions, have also resulted in increased return to HUD on the sale of the inventory. Reviewing .02% of the homes sold overlooks these critical facts and does not provide an appropriate overview of the program's success to date.

In addition to its myopic conclusions drawn from an infinitesimal sample of data, the OIG Report is also devoid of any specific or identifiable case data, making it impossible to comment discretely on the origin of the individual findings. To suggest that disposition delays resulted from a "lack of knowledge

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<sup>3</sup> This figure is based on properties acquired by HUD since the inception of the M&M Contract in Southern California.

and management emphasis on contract requirements” or from “staff misinterpretation of HUD regulations,” ignores the realities inherent in performing the day-to-day tasks required by the Contract. It is GFR’s position that the isolated findings and conclusions drawn there from are out of context and demonstrate a disregard for the external forces affecting the practical application of the M & M contract. The process of managing and marketing HUD-owned properties does not exist in a vacuum and is impacted by a variety of uncontrollable variables and situations, many of which will be identified in this response.

As a result of GFR’s efforts in only one year, HUD’s property disposition program in Southern California is better today than ever before.

## TIMELY PERFORMANCE OF INITIAL INSPECTIONS

GFR’s procedures provide for the performance of an initial inspection of properties within 24 hours of assignment. In some cases, however, unforeseen issues may delay the inspection as matters such as ownership, right of occupancy or proper addresses are resolved.

- Of the 30 to 70 new acquisitions processed by GFR daily in Southern California, approximately 40% are delivered to GFR with inaccurate or insufficient addresses requiring additional research to correctly identify. The initial processing of these assets, which come to GFR through various means, but primarily through electronic conveyance, often require time consuming investigation resulting from either the mortgagees’ failures to properly complete their claim or inherent flaws in the SFIS/SAMS interface<sup>4</sup>. GFR, at its expense, has been compelled to purchase investigative resources to correct these errors *before* an initial inspection can be ordered. If GFR were to act in blind adherence in these cases, HUD would be flooded with lawsuits resulting from trespass claims by innocent homeowners whose houses were opened and, in some cases, even cleaned out. Even worse, is the looming possibility of a physical confrontation between a GFR Inspector and a home owner if the wrong address were to be assigned without verification. Under the best of circumstances, GFR cannot investigate every questionable issue and get the inspection order to the field in the first few hours following assignment. Being thorough, however, even if it occasionally results in delays, is necessary to avoid serious mishaps that could tarnish HUD’s image in the community. There can be little doubt that the Contract did not foresee that the system of electronic conveyance would have as many systems-related errors as it does. Nevertheless, GFR works as quickly as possible to correct these errors and endeavors to complete initial inspections within 24 hours of verifying the address in each case. ***An initial inspection cannot be completed in 24 hours if a correct address is not provided by the electronic conveyance system.***

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<sup>4</sup> In many instances, the space available in a SAMS or SFIS field will be insufficient to allow the entry of complete addresses including unit numbers. In some cases, the information is truncated leaving GFR with an incomplete address.

- In addition to incorrect addresses, GFR must also resolve questions of legal ownership. On a regular basis, errors are discovered in the claims filed through the SFIS system which call into question whether a property is owned by HUD. Without full knowledge of HUD's actual ownership, GFR cannot proceed. There are occasions where an incorrect case number is entered into the SAMS/SFIS system triggering the wrong property to be identified as an acquisition. In the past, claims were checked before hitting Z-track. Now properties hit Z-track as soon as a claim is made by the mortgagee; regardless of their correctness. Other claims reflect erroneous claim type codes that raise doubt as to their validity. ***An initial inspection cannot be completed in 24 hours if there are concerns over HUD's actual ownership of the property.***
- When a new acquisition involves a condo association and gated security, obtaining legal access can present numerous hurdles which result in unexpected, but unavoidable, delays. Once the management company is identified, more often than not, association fees must be paid ***before*** access will be granted. As these payments cannot be processed instantly considering the many factors involved, the inspection is delayed. ***An initial inspection cannot be completed in 24 hours if legal access is not available.***
- If one carefully examines the dates and times of claims being placed in the SFIS system, you can easily detect discrepancies making it impossible to achieve the 24 hour guideline. For example, claim dates or HUD acquisition dates may commence on one day, but not appear in SAMS until the next day. Obviously, in such cases, GFR cannot inspect what it does not have. ***An initial inspection cannot be completed in 24 hours if the date of acquisition and the date GFR receives notification of conveyance are not the same day.***
- On occasion, properties presented to GFR on the electronic conveyance do not exist in SFIS due to the original mortgage predating the system. When this happens, the property can be entered in SAMS, but GFR must verify HUD's ownership prior to performing an initial inspection. This error, called by SAMS an IIF Verification error, can only be corrected by HUD. Often this fix takes considerable time. ***An initial inspection cannot be completed in 24 hours if the asset cannot even be entered into SAMS correctly.***
- In the case of high-risk neighborhoods, our inspectors encounter a variety of dangerous conditions that require great caution. For the sake of their safety and the safety of others in the community, inspectors are sometimes forced to solicit the assistance of the police or partner with another inspector. ***An initial inspection cannot be completed in 24 hours if the conditions threaten the safety of the inspector or others in the community.***
- In many situations, GFR discovers HUD-owned properties occupied when they are first approached. Such situations may be the result of rental scams, squatters, adverse occupants, or the mortgagee's failure to complete the required evictions. In many of these cases, access to property is unavailable until legal action can be completed. ***An initial inspection cannot be completed in 24 hours if unauthorized occupancy is discovered.***

- On some occasions, the physical addresses of assigned properties are altered to confuse foreclosing entities. We have encountered exchanged unit numbers and corner houses renumbered deceptively to disguise the property as having a municipal address on the adjacent street. The tricks are endless. ***An initial inspection cannot be completed in 24 hours if the very identity of the property is altered to deceive.***
- As if there are not enough natural obstacles, GFR has even encountered second story units where stairways had been removed eliminating any chance to access the property timely. ***An initial inspection cannot be completed in 24 hours if all means of access have been removed.***

## TIMELY RECEIPT OF APPRAISALS

The finding that "GFR did not always ensure timely receipt of the appraisal" is equally troublesome in light of the contributing causes which may delay the anticipated delivery of appraisals. As with the first issue, there are a multitude of factors that may surface, including the following, which lead to unfavorable timing in this category. In addition, the OIG Report's reliance on "HUD regulations", while contractual, often presents issues of impracticality, as these regulations were not drafted in conjunction with the M&M Contract.

The OIG Report contends that, according to HUD regulations, appraisals should be completed within ten business days "from the date HUD acquires title to the property and not the date GFR enters the property into its inventory." This approach, however, ignores the realities of property conveyance under the M&M program. GFR usually has no means of knowing when a property will come into its inventory other than the receipt of the electronic conveyance. Accordingly, until GFR receives the conveyance and enters it into the system, it cannot order its appraisal. It must be remembered that the "regulations" to which the OIG Report refers were drafted prior to the existence of the M&M program and do not reflect the requirements or realities of the Contract. It should also be noted that the Contract itself does not call for appraisals to be completed within ten days of HUD's acquisition of the property. To the contrary, the Contract requires that appraisals be obtained within ten business days of "assignment" of the property (M&M Contract, Section C-2, IV)<sup>5</sup>.

- Much like the circumstances hampering the timely inspection of properties, appraisers are also challenged by incorrect or incomplete addresses. GFR attempts to issue appraisal instructions only after the correct information is obtained. ***Unless the property can be properly identified, appraisals cannot be completed in 10 days.***

<sup>5</sup> There is an internal contradiction within the M&M Contract that makes the commencement date for the appraisal timeframe unclear (*see* M&M Contract, Section C-2, V, Para. 9). Since it would be impossible to achieve contract compliance with the ten day period commencing with HUD acquisition, GFR bases its timeframe calculation on the assignment date as provided by the Contract.

- As discussed in the context of initial inspections, gaining access to condos in gated communities also creates delays. ***Unless access can be legally obtained, appraisals cannot be completed in 10 days.***
- Questionable title to properties deem premature appraisal attempts ill-advised. ***Unless ownership can be confirmed, appraisals cannot be completed in 10 days.***
- If a site is discovered to be zoned commercial, a whole new set of instructions, licenses, criteria, and forms are required. Due to the specialty nature of this change and the appraisal itself, it takes more than the customary 10 days. ***The added factor of an atypical zoning prevents appraisals from being completed in 10 days.***
- If a property is occupied by adverse inhabitants, the appraiser is unable to enter. Appraisers have been denied access to properties by unexpected residents varying from dangerous animals to gang members. In these cases, legal action is often required which necessarily delays the appraisal. ***The presence of adverse occupants prevents appraisals from being completed in 10 days.***
- Health issues also surface causing delays in the completion of appraisals. Methamphetamine labs, excessive blood, drug paraphernalia, for example, require specialized removal and delay property inspection by the appraiser. ***The presence of unexpected materials prevents appraisals from being completed in 10 days.***
- In areas of rampant vandalism, locks may be tampered with denying the appraiser access between the time of the initial inspection and the next day when he arrives. ***Unexpected denial of access prevents appraisals from being completed in 10 days.***
- Deceptive tampering with addresses and/or unit numbers also interferes with the appraiser's ability to obtain access to the correct unit. ***In cases of altered street or unit numbers, appraisals cannot be completed in 10 days.***
- There are also miscellaneous circumstances such as missing stairways, encroachments requiring surveys, or properties appearing to have two houses on one lot or two lots with one house in the middle. In these cases, further research is required to assure that the appraiser is analyzing the correct property and is able to inspect the entire building. ***In cases requiring additional research, appraisals cannot be completed in 10 days.***

## TIMELY APPROVAL OF DISPOSITION PROGRAMS

The OIG Report contends that "GFR did not always approve disposition programs timely". This finding also fails to consider the environment in which the sales disposition program operates and the external variables which interfere with the smooth transition from appraisal to listing.

- The OIG Report, relying by reference on the HUD Property Disposition Handbook, is critical of GFR's property disposition program in those cases where a disposition has not been approved within three days of receipt of appraisal. This criticism, however, is based on requirements that significantly predate the existence of the M&M program and once again ignores the presence of external factors. A number of the guidelines in the Disposition Handbook are simply no longer feasible or workable under the M&M program. For example, the Property Disposition Handbook does not even allow for, or provide guidelines for, an electronic bidding system. With regard to three day approvals of all dispositions, the handbook directive was not drafted in light of the current method of electronic bidding. As an example, recent changes in the SAMS program automatically converts properties to a Step 6 on the listing date (instead of on the approval date). To sporadically approve disposition programs that cannot be moved to a Step 6 risks listing properties that may otherwise be cancelled for any of the following reasons.
  - Title issues discovered at the last minute
  - Quality Control of physical condition of property discovers an unsafe condition
  - Discovery of adverse occupants
  - Removal of the property from the market to accommodate the OIG Safe Home Program
  - Dramatic change in condition due to extraordinary vandalism requiring reevaluation of the price or status
  - Fire
  - Demolition due to outstanding code violations pre-dating GFR
  - Notification from mortgagees that the conveyance was improperly done and must be re-conveyed

Remedying these items would be made far more complicated if GFR were approved dispositions before the property was actually ready to list. Additionally, since timelines are the focus of this and many other monitoring efforts, early approval of dispositions would stretch the time in Step six (Step 5 for approved non-profit sales) causing more exceptions on the SAMS "Cases Exceeding Time in Current Step Report". Early disposition approvals could also cause early reanalysis of listings and a premature reduction in price, which ultimately can reduce the return to the FHA fund.

## **TIMELY REVIEW OF SALES CONTRACTS**

The OIG Report contends that "GFR did not always review sales contracts timely." In support of this finding, the report refers to Exhibit 8 of the Contract which requires that M&M Contractor to provide closing agents with certain documents within five (5) days of contract acceptance.

The OIG Report fails to distinguish between two separate and distinct functions in the contracting process. This process involves two stages: (1) the contract review and acceptance process ("Stage 1"); and (2) the preparation and transmission of the contract to the closing agent ("Stage 2"). While the OIG Report cites a five day time frame for Stage 2, the criticism of GFR in this finding relates to failing to complete the Stage 1 review within five (5) days.

What is missed in the OIG Report is that there is no five (5) day requirement in the M&M Contract for Stage 1. GFR imposes internal guidelines to expedite the process, but the “5 of 15 cases” cited by the OIG relate to contract review for which there are no express time requirements under the Contract. The OIG Report further confuses this issue by saying that “GFR did not review the sales contract within five business days of receipt of the *accepted sales contract*” (emphasis added). GFR does not receive an “accepted sales contract.” Until GFR signs the contract, there is no “accepted sales contract”.

GFR reviews and accepts contracts as expeditiously as possible given the issues that arise during the process. Of course, because of the legal significance of accepting a contract on behalf of HUD, GFR must be thorough in its contract review to assure accuracy and completeness. In many instances, contract review will discover errors requiring additional documentation or the completion and re-execution of a new contract by the buyer and agent. These delays are beyond GFR’s control:

- The percentage of contracts received by GFR with errors is in excess of 50%. The M&M contract requires GFR to give brokers the opportunity to remedy errors in their contract. Considering the required communication and the time needed for the broker to revise the documents (and obtain new signatures), delays will almost always exist in these cases.
- Tower Communications ([www.HUD.org](http://www.HUD.org)) occasionally experiences technical difficulties, sometimes from the Internet, and the results of the online bidding must be carefully examined to avoid awarding the properties incorrectly. These technical issues can result in a delay in contract review.
- HUD frequently adds new programs and changes existing programs and procedures causing revisions to contract procedures. Educating the real estate community and the public takes time. These new programs and procedures will often result in significantly increased numbers of contract errors as the public learns of the new procedures.
- GFR grants unrepresented OND/TND purchasers more time than those represented by brokers. This is in keeping with HUD’s mission to help strengthen neighborhoods. These unrepresented buyers are often less sophisticated and require more assistance.
- GFR attempted a zero tolerance policy relating to contract compliance and contract errors in an attempt to reduce the review timeframe but was met with vocal protests, congressional complaints, threats, and lawsuits. At HUD’s advice, GFR abandoned the program and returned to a more lenient and forgiving approach. Working with the real estate community and public to resolve these errors takes time and causes delays in contract acceptance.
- The M & M contract requires that we accept back-up bidders. When the initially awarded winner fails to perform, we then notify the back-up and the process starts all over. In these cases, the bid date and the contract date may be several days or weeks apart. GFR updates the award date in SAMS, but a review of bid date versus contract date would make the contracts appear delayed when, in fact, they were not.

- When it is discovered that there may be a title problem, GFR tries to catch it early enough and will not sign an incoming contract until the title issue is resolved. The resulting research can cause delays in contract acceptance.

## OIG'S SUMMARY CONCLUSIONS

The OIG Finding makes two conclusions: (1) that the GFR staff is hindered by a "lack of knowledge" causing "process delays"; and (2) "delays caused HUD-owned properties to remain in REO property inventory longer than necessary." GFR disagrees with these conclusions and contends that the results over the preceding year presents a more accurate depiction of the process than does 45 unidentified sales.

The OIG claim that the GFR staff is hindered by a "lack of knowledge" causing "process delays" is unfounded. The very basis of GFR's success in inventory reduction is the careful monitoring and administration of the allowable timetables and constraints. Indeed, these timeframes are an integral part of GFR's overall philosophy of managing the M&M contract. The OIG Report's statement that a GFR official said that greater emphasis is placed on the reduction of inventory, to the exclusion of individual timeframes was taken entirely out of context. These two objectives (reducing inventory and meeting individual timeframes) are not mutually exclusive and GFR is focused on meeting both. The emphasis on individual timeframes is strongly evidenced by the countless exception reports that are run daily and the many procedures and controls demonstrated to the OIG staff throughout their audit. In addition, each week, every GFR processing office prepares a report that details the percentage of properties meeting timeline requirements through each step of the disposition process. This Weekly Matrix Report is sent to senior management and is reviewed to identify areas where delays are occurring. In these situations, management does further investigation to isolate the cause of the delay and to determine appropriate remedial action. These delays, however, cannot be attributed to a lack of knowledge of the staff. To the contrary, delays will always be inherent in the process and will unavoidably result from external factors beyond GFR's control.

The OIG Report's second conclusion, that properties remained in inventory longer than necessary, is not supported by the factual results seen over the preceding year. As discussed above, since GFR took over management of these properties, the time in inventory has gone down by an average of 68 days per home<sup>6</sup>. Properties are being held in inventory for less time and this is a result of GFR's adherence, where possible, to the time frames in the M&M Contract. The findings of a review of less than .02% of the GFR's sales, and findings which fails to identify the specific sales so that the causes of the delays can be determined, does not dispute the fact that time in inventory has declined significantly under GFR's management.

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<sup>6</sup> It should also be noted that the decline in average time in inventory would have been much greater except that GFR was required to hold over 500 houses off market for an extended period of time as an Asset Control Area agreement was negotiated between HUD and the city and county of San Bernardino.

## CONCLUSION

During GFR's first year in Southern California, approximately 25,000 appraisals were ordered, the majority of which were delivered within the allotted time. Nearly 18,000 new acquisitions were processed and inspected, most without incident or delay. Approximately 24,000 properties have been listed for sale, having completed the appropriate preparations and data entry. Inventory reduction has been unprecedented dropping a swollen inventory of nearly 14,000 to a now manageable level under 5,000.

These statistics along with the substantial increase in sale price, reduction in holding cost, and the increased net return to the FHA fund fully supports GFR's claim of success and overall conformity to the intended time frames. If GFR had failed to comply with the timeframes in any material way, the results would surely have manifested themselves in numbers contrary to those herein presented.

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