U.S. Department of Housing and Urban Development
District Office of the Inspector General
Office of Audit
Richard B. Russell Federal Building
75 Spring Street, SW, Room 330
Atlanta, GA 30303-3388
(404) 331-3369

September 27, 2001 2001-AT-1808

MEMORANDUM FOR: Charles E. Gardner
Director, Atlanta Homeownership Center, 4AHH

N.H. Cooper

FROM: Nancy H. Cooper
District Inspector General for Audit-Southeast/Caribbean, 4AGA

SUBJECT: Autographed Book Give-Away for Inner-City Youths, Inc.
Orlando, FL
Nonprofit Participation in FHA Single Family Insurance Program

As part of a nationwide audit of the Federal Housing Administration's (FHA) Single Family Insurance Program, we audited Autographed Book Give-Away for Inner-City Youths, Inc.'s (ABG) purchase of Real Estate Owned (REO) properties. Our objectives were to determine whether ABG was legitimate and independent (not under the influence, control, or direction of other parties) and passed on the benefits of discounts received on the purchase of HUD homes to low- and moderate-income homebuyers.

ABG did not properly control and manage its affordable housing program. ABG allowed venture partners to influence and control most of the properties purchased from HUD. The arrangement created a conflict of interest and defeated HUD's objective of increasing opportunities for affordable homeownership to low and moderate-income persons. ABG sold homes to ineligible purchasers, sold homes at excessive prices, allowed properties to be sold at predatory loan rates, failed to maintain adequate accounting records, and needed to improve the quality of its renovation work. In addition to its failure to meet HUD's program objectives, we question ABG's charitable intent. The Executive Director used the non-profit to pay personal expenses of $97,351. Use of a nonprofit for personal benefit violates HUD's eligibility criteria for participation in its programs.

We recommend HUD require ABG to reimburse HUD $23,225 for the discounts it received on the three properties it sold to unqualified buyers, and pay down the mortgages for the 30 percent discounted properties sold in excess of 110 percent of net development cost. We also recommend ABG assist homebuyers with exorbitant mortgage rates (over 17 percent) to obtain refinancing at reasonable prevailing rates, and correct or pay for rehabilitation deficiencies identified by our audit.

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We sent a draft of this audit memorandum to ABG on September 13, 2001. ABG provided oral comments on September 19, 2001, and written comments on September 20, 2001. Overall, ABG's Executive Director believed ABG maintained control of the acquired properties, but in some instances did not fully manage all aspects of work performed on the properties.

Within 60 days of this memorandum, please provide us a status report for each recommendation on: (1) corrective action taken; (2) proposed corrective action and date to be completed; or (3) why action is considered unnecessary. Also, please furnish us copies of any correspondence or directive issued because of this review.

If you have any questions, please contact James D. McKay, Assistant District Inspector General for Audit, at 404-331-3369.

Background

Autographed Book Give-Away for Inner-City Youths, Inc. is a nonprofit organization under Section 501 (c)(3) of the Internal Revenue Code and was incorporated under Florida State law on May 19, 1998. Its office is located in Orlando, Florida. According to its Articles of Incorporation and By-Laws, ABG was organized exclusively for charitable, religious, educational, and scientific purposes. Its activities are directed towards providing personalized autographed books to inner-city youths and to demonstrate to underprivileged youths that they can become published authors and not just professional athletes for the benefit of the community and state. ABG's Executive Director said it has donated several thousand autographed books to inner-city youth at local high schools and other institutions.

A four-member Board of Directors governed ABG. The Board of Directors was responsible for: managing the business, property, and affairs of the organization, transacting all business, and determining the policies, fiscal matters, employment of staff, and other personnel issues. The Executive Director, under contract, was responsible for maintaining all licenses, permits and other requirements necessary to perform his duties under the contract, as determined by HUD and applicable agency regulations and related laws, and for keeping the non-profit agency advised of those requirements. ABG did not have any other employees. The Executive Director also served as voluntary Chairman of the Board.

ABG's non-profit status allowed it to participate in the purchase of HUD owned properties. HUD's discount sales program allows nonprofit organizations to purchase HUD owned properties at a discount of 30 percent in revitalization areas and up to 15 percent in non-revitalization areas. HUD intended that the discounted sales would allow nonprofit agencies to rehabilitate the properties if necessary and then resell them to low and moderate-income homebuyers at a reduced, affordable price.

Below is a brief chronology of events pertaining to ABG's participation in HUD's FHA Single Family Insurance Program:

- March 4, 1999, HUD approved ABG as a nonprofit organization to participate in the purchase of REO properties at a discount. ABG was limited to purchasing one property at a time through the Direct Sale Program.

- ABG purchased its first discounted HUD Home on August 24, 1999.

- March 24, 2000, ABG submitted its recertification application to HUD in accordance with Mortgagee Letter 00-08.

- June 1, 2000, HUD met with ABG's Executive Director to discuss the results of a HUD review, which identified a number of concerns. Subsequently, HUD issued a warning letter outlining corrective actions required and future monitoring requirements.

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- June 26, 2000, HUD recertified ABG to participate in the HUD program, but limited ABG to 5 properties.

- February 12, 2001, HUD placed ABG under technical compliance review due to questionable activities in its purchase of HUD Homes under the Direct Sale Program.

- May 9, 2001, HUD issued a proposed removal letter to ABG after its technical compliance review and review of other information.

- July 11, 2001, HUD issued a 1-year removal action against ABG, effective May 9, 2001. Two violations that led to the removal were that ABG did not adequately pass on discounts to homeowners and entered into joint venture agreements with investors.

During the period of August 24, 1999, through October 31, 2000, ABG purchased a total of 49 properties for $2,894,510 and received discounts of $375,335. ABG's primary source of income was proceeds from the sale of HUD discounted homes.

Audit Objectives, Scope, and Methodology

Our audit objectives were to determine whether ABG was legitimate and independent (not under the influence, control, or direction of other parties) and passed on the benefits of discounts received on the purchase of HUD homes to low and moderate-income homebuyers.

To accomplish our objectives, we conducted interviews with HUD officials, ABG's management, profit-motivated entities involved in the purchase, rehab, and resale of the properties, and homebuyers. We also conducted public record searches and on-site reviews of the properties. Further, we reviewed HUD files on ABG, REO case files, property files maintained by ABG, records obtained from the profit-motivated entities, loan origination files, closing files, and ABG's financial data.

We selected eight properties for review from HUD's Single Family Asset Management System report. We selected the only three 30 percent discounted properties, one 15 percent, and four 10 percent discounted properties purchased by ABG. In addition to including all 30 percent discounted properties, we focused on those properties ABG resold to homebuyers with large gifts, high interest rate loans, and/or involved joint ventures.

The audit included properties purchased by ABG from August 24, 1999, through October 19, 2000. We performed fieldwork from January 2001 through August 2001.

ABG Failed to Meet Affordable Housing Objectives

ABG did not properly control and manage its affordable housing program. ABG allowed venture partners to influence and control most of the properties purchased from HUD. The arrangement created a conflict of interest and defeated HUD's objective of increasing opportunities for affordable homeownership to low and moderate-income persons. ABG sold homes to ineligible purchasers, sold homes at excessive prices, allowed properties to be sold at predatory loan rates, failed to maintain adequate accounting records, and needed to improve the quality of its renovation work. In addition to its failure to meet HUD's program objectives, we question ABG's charitable intent. The Executive Director used the non-profit to pay personal expenses of $97,351. Use of a nonprofit for personal benefit violates HUD's eligibility criteria for participation in its programs.

ABG did not properly control and manage its affordable housing program

ABG did not properly manage or oversee the operations of its affordable housing plan to ensure that HUD program objectives were being pursued and met. ABG improperly allowed venture partners seeking to derive a profit from the program to influence, control, and manage its affordable housing program. ABG officials told us they used the joint venture arrangement as an opportunity to expand its affordable housing program.

Mortgagee Letter 96-52 requires a nonprofit to act on its own behalf and not be under the influence, control, or direction of any outside party seeking to derive a profit or gain from the proposed project, such as a landowner, real estate broker, contractor, builder, lender, or consultant. A nonprofit must have the administrative capability and financial capacity to develop and carry out its proposed affordable housing plan (Housing Notice 94-74, Attachment 1, Requirements 4 and 5; and Mortgagee Letter 96-52). Furthermore, HUD prohibits any person who is an employee, agent, consultant, officer, or an elected or appointed official or who is in a position to participate in a decision-making process or gain inside information from obtaining a personal or financial interest or benefit from the lease or purchase of the property, either for himself or herself or for those with whom he or she has family or business ties, during his or her tenure or for 1-year thereafter. (Title 24 of the Code of Federal Regulations (CFR) §291.435 (b)).

Of the 49 properties ABG purchased during the audit period, 32 (or 65 percent) involved for-profit rehabilitation contractors. Three of the eight properties we reviewed involved profit-motivated entities. ABG did not have written agreements for two of the three properties, but generally operated under similar terms and conditions as those with written agreements. We examined an agreement for another property not in our sample. The agreement included language that indicated that the for-profit partner had extensive control and influence. For example, the agreement stated:

- The partner shall be entitled to retain the entire net profit from the sale of the property over and above the agreed purchase price,
- The non-profit shall be entitled to a flat paid donation,

- The non-profit is executing loan documents to purchase the property as an accommodation to the partner, and
- The partner shall be solely responsible for rehabilitating the property, marketing the property for sale and negotiating all contracts for the sale of the property.

The third property involved a trust agreement with ABG designated as trustee and the owners of a for-profit entity as beneficiaries. The trust agreement stipulated that a particular real estate consultant must be used and that ABG should not disclose the identity of the beneficiaries or the terms of the agreement. The trust agreement also included other language that indicated control by the for-profit partners (beneficiaries):

- Trustee (ABG) shall enter into an appropriate sales contract with prospective owner/occupant, subject to beneficiaries final approval of any such agreement and ultimate control,
- Beneficiaries shall be entitled to retain the entire net profit from the ultimate sale to owner/occupant,
- Trustee's sole entitlement to compensation is a fee payable at the closing of the purchase from HUD, and
- Beneficiaries shall retain control of any final decisions regarding the sale or other disposition of the property, and should beneficiaries desire to replace or to discharge trustee, trustee shall convey legal title to beneficiaries.

The agreements contained no requirement that the discounts be passed on to low and moderate-income homebuyers. Essentially, ABG had a limited role in the program and used its nonprofit status as a means to obtain the property from HUD at a discount.

ABG did not incur any risk in the purchase, rehabilitation, or resale of the joint venture properties, because ABG invested no monies in them. ABG allowed the for-profit entities to use its nonprofit name for a fee to acquire properties from HUD at a discount, then renovate and resell them. In the 3 sample properties, ABG received administrative fees of $9,000. ABG executed all the paperwork needed to make it appear that it acquired the properties from HUD and resold them on its own behalf in accordance with its affordable housing plan. However, ABG actually purchased the properties for and on behalf of the for-profit entities. By its involvement with profit-motivated entities, ABG relinquished control over most of its housing transactions, undermined its own affordable housing plan, and sold properties to ineligible homebuyers.

Affordable Housing Plan Undermined

According to ABG's own affordable housing plan, among other things, it intended to: (1) increase home ownership within depressed inner-city areas for low to moderate-income persons, (2) allow eligible participants to benefit from the reduced price at which ABG purchased the homes from HUD, which would be passed on directly to the participants, and (3) locate eligible participants to benefit from its program via various local community contacts.

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Two of the three properties that involved for-profit partners were not located in depressed inner-city areas. (We were unable to inspect the third property or contact the owners.) Furthermore, all three properties were sold to ineligible homebuyers. Finally, the two owners of the properties that we visited stated that they had minimal contact with ABG staff, except at closing.

ABG Resold HUD Homes to Ineligible Purchasers

Mortgagee Letter 96-52 states the affordable housing program must serve the housing needs of low and moderate-income individuals and families. Title 24 CFR 203.41(a)(1) defines low or moderate-income housing as housing that is designed to be affordable to individuals or families whose household income does not exceed 115 percent of the median income for the area.

ABG sold the three properties that involved for-profit partners to ineligible buyers. ABG purchased properties at 1020 Wentworth Court and 2845 11th Avenue N. and received discounts of $9,066 and $3,000, respectively. ABG resold the properties to individuals whose incomes exceeded 115 percent of the median area income as adjusted for family size. ABG purchased another property at 1815 Mahogany Drive and received an $11,159 discount. ABG sold that property to two foreign students whose father, a wealthy foreign construction company owner, paid cash for the property.

We also identified five (5) additional transactions outside our sample that occurred during 1999 and 2000, in which homebuyers paid cash for the properties. While we did not review those properties, the mere fact that the buyers paid cash for the properties indicates they probably were not low to moderate-income.

ABG's revised affordable housing program does briefly mention the 115 percent of median income guideline under the section relating to lease/purchase program (which was not approved by HOC). However, there is no evidence that ABG verified or checked buyer incomes. The contract ABG used for prospective buyers did not mention any income level requirements. We found no controls or procedures in place to ensure that only those individuals and families that meet the 115 percent of median income test were allowed to participate in ABG's affordable housing program.

HUD discounts not passed on

Mortgagee Letter 97-5 states that for properties purchased with a discount in excess of 15 percent, the resale price cannot exceed 110 percent of net development cost. If the sales price exceeds 110 percent of net development cost, the excess profit **must be used** to pay down the existing mortgage. Currently, HUD has no specific written restrictions on the resale price of properties purchased at a discount of 15 percent or less.

ABG improperly sold the 30 percent discounted properties for more than 110 percent of net development cost. ABG received $43,541 excess profits from these properties.

Property Address	HUD Discount Percentage	110 Percent of Net Development Cost	Resale Price	Excessive Resale Price
7621 Perugia Avenue	30	$66,786	$79,000	$12,214
1625 W. 28th Street	30	52,787	69,000	16,213
7727 Ravenna	30	49,886	65,000	15,114
Total		$169,459	$213,000	$43,541

As a further test, we also compared ABG's resale prices of the 8 sample properties to HUD's *as-repaired value* from the REO appraisals. Our comparisons showed the resale prices were significantly above HUD's as-repaired values. The resale prices ranged from 107 percent to 197 percent of HUD's *as-repaired value*.

Property Address	HUD Discount Percentage	HUD's As-Repaired Value	Resale Price	Resale Price as a Percentage of HUD's Value
4724 White Willow Lane	10	$60,000	$80,000	133
5910 Westbury	10	87,000	95,000	109
1625 W. 28th Street	30	53,000	69,000	130
7727 Ravenna Avenue	30	51,845	65,000	125
7621 Perugia Avenue	30	66,000	79,000	120
1815 Mahogany	10	90,000	97,000	107
1020 Wentworth Court	15	75,000	98,900	132
2845 11th Avenue	10	40,000	78,900	197

Predatory Loans

ABG was not effective in helping prospective homebuyers obtain financing at reasonable interest rates. Further, ABG knowingly allowed several low and moderate-income persons to get involved in mortgage financing that resulted in financial difficulties and hardship. Therefore, ABG did not fulfill the goal of the HUD home program or its own affordable housing program by providing affordable housing opportunities to low and moderate-income persons.

ABG allowed 3 properties to be sold to low and moderate-income individuals/families at interest rates that exceeded 17 percent, when the prevailing mortgage interest rate was below 8 percent. There were at least three additional sales with mortgage loan interest rates of 10.75 percent or more. There were also two sales where the loans had adjustable rate mortgages with lifetime caps on interest rates between 13.33 percent and 14.83 percent. Equicredit financed all three of the loans with rates exceeding 17 percent and Westside Funding working with ABG had arranged the financing. These closings were held during September and November 1999.

ABG did not adequately protect the interest of the homebuyers who were participating in its affordable housing program. The Executive Director of ABG had knowledge of these exorbitant interest rates prior to or at the closings for these properties but failed to do anything about the high interest rate mortgage loans.

HUD identified and questioned the three 17 percent interest rate loans. ABG sent each borrower a letter offering to assist them in obtaining re-financing on the property, but made no additional efforts. We interviewed the Executive Director and asked him about the 17 percent interest rate loans. He agreed that the interest rates were exorbitant and expressed his intentions to explore ways to assist these three individuals obtain some kind of relief.

We determined that the prevailing 30-year mortgage interest rate was below 8 percent during the time (September and November 1999) of the three closings. The high interest loans had a substantial negative impact. It meant that the home cost the borrower twice as much as it should. For example, the family that purchased the property at 7727 Ravenna Avenue had monthly mortgage payments under the 17.7 percent mortgage loan of $770.96. Had the mortgage loan been at the prevailing rate of 8 percent their monthly payment would have been $381.56, a decrease of $389.40 or about half the required payment. Prior to purchasing this home, the family had been paying monthly rent for an apartment in the amount of $550. As of May 2001 the family was scheduled for a foreclosure hearing in the Orange County Courts on the property because they were delinquent in their payments. A job loss of one spouse contributed to their financial problems. However, a monthly mortgage payment twice what it could have been also contributed to their financial hardship. In effect, the purchase of a home from ABG actually hurt this family rather than helped them. Even if they had been able to make the high monthly payments, over the life of the mortgage they would have paid an additional $140,193.17 in interest ($225,554.77 at 17.7 percent) as compared to $85,361.60 at 8 percent.

ABG Failed to Maintain Adequate Accounting Records

A nonprofit must evidence administrative capability and financial capacity to develop and carry out the proposed affordable housing plan (Housing Notice 94-74, Attachment 1, Requirements 4 and 5; Mortgagee Letter 96-52). Also, Mortgagee Letter 00-08 states that nonprofits need to maintain an acceptable accounting system to report on property purchases, rehabilitation, rental, and resale. Furthermore, tax-exempt organizations must file an annual information return with the Internal Revenue Service (IRS). This return would be either IRS Form 990 or IRS Form 990-EZ, depending on the amount of annual receipts and total assets of the tax-exempt organization. A formal accounting system must be maintained in order for an organization to complete the required sections of either IRS Form 990 or IRS Form 990EZ.

ABG did not maintain any formal accounting records or system of accounting and has not filed the required IRS Forms. Specifically,

- ABG did not maintain a general ledger or formal accounting records to record its transactions. ABG used two checking accounts to record property purchases, rehabilitation, and resale activities, as well as personal and household expenses. Only the cancelled checks, deposit slips, and check stubs were maintained. There had been no attempt to classify the information into various expense or income categories.
- ABG did not have adequate records to support rehabilitation expenses, whether repaired by partners or ABG. For properties involving joint partners, the partners listed supplies, materials, and labor payments on a register report. The register reports did not describe what types of repairs were performed. For properties ABG repaired, ABG wrote checks that covered multiple properties, and the Executive Director could not provide support for

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amounts spent for individual properties. The Executive Director stated his practice was to make partial payments for repairs to several properties on a single check. He wrote the street names in the memo area of the check. However, he did not indicate what amount applied to each address.

Possible Personal Benefit Derived

Title 24 CFR 203.41 defines an eligible non-profit as one in which no part of its net earnings inure to the benefit of any member, founder, contributor or individual. Mortgagee Letter 96-52 prohibited members of the nonprofit's board, employees, and any one with an identity of interest to the nonprofit from benefiting specifically from the nonprofit's affordable housing program. The IRS instructions for completing Form 990, Schedule A, Part III requires nonprofit organizations to disclose and explain financial transactions with organizations and individuals in a position to influence their operations. The IRS designed Form 990 to help ensure that organizations remain true to their charitable purposes and that private individuals do not enrich themselves at the expense of those purposes.

ABG's Executive Director used the nonprofit's accounts to record property purchases, rehabilitation, and resale activities, as well as personal and household expenses. He used ABG's two checking accounts to pay his mortgage, car payments, home utility bills and other personal expenditures, including checks written directly to him with no explanations. We calculated the total compensation for the period February 1999 (date ABG opened its first checking account) through December 2000. We treated all personal expenses as salary paid to or on behalf of the Executive Director. We then deducted the Executive Director's salary (based on the $100,000 annual rate stipulated by the employment contract) from the total to arrive at $97,351 that was paid for personal expenses.

Furthermore, ABG's Executive Director did not prepare W-2s or Form 1099s to report the compensation, and had not filed a tax return with the IRS for himself or for the nonprofit since its formation in May 1998. The Executive Director stated that he planned to have his accountant review ABG's checking accounts and classify the personal expenses as salary payments and to use those amounts for the 1099's.

ABG Needs to Improve Quality of Renovation Work

ABG did not complete some needed repairs and, in some instances, completed repairs using poor quality workmanship. The items are presented on Appendix A. Work not done in various homes included vinyl floor covering not replaced in certain areas, kitchen countertops not repaired, a hole in garage ceiling was not repaired, new front door and screen door not installed, and one home was not pressure washed and painted as needed. Poor quality work included electrical service work that resulted in power outages when major appliances were used simultaneously and garage wall water damage that re-occurred after the wall was repaired, but the water leak was not repaired. Additionally, our sample included seven properties for which HUD's inspection reports showed a need to replace roofs on homes ABG bought from HUD. We confirmed that ABG, or the for-profit entities that ABG allowed to control the properties, did not replace five of the roofs. Two homeowners said they were told that they would have to pay for the work if they wanted the roofs to be replaced.

As a result, the nonprofit agency sold homes to low to moderate-income individuals who may not have the funds to make the needed repairs. These conditions were significant because HUD granted sufficient discounts for the nonprofit agency to repair all major problems with the homes. These conditions were in addition to the adverse impact the nonprofit caused the purchasers by selling the properties for amounts that exceeded HUD's appraised values.

ABG Response

ABG's Executive Director believed it had properly controlled its program, but acknowledged that it did not fully manage all aspects of work performed on properties. He believed the joint venture arrangement was an acceptable practice as the agreement was prepared by independent counsel and was purported to comply with all HUD requirements.

The Executive Director said licensed appraisers determined resale prices, and ABG made gifts to cover down payment requirements. He said the gifts were not provided by third parties, and contended that ABG did not materially profit from the sales when gifts were considered. He asked that any repayment of excess resale prices for the 30 percent discount properties be reduced by any gifts or closing costs paid for the homebuyers.

The Executive Director said he had tried to assist the homebuyers with excessive rates. He said none of the homebuyers had accepted his offers for assistance. He also said he had contacted HUD for other solutions to the problem.

The Executive Director did not agree that private inurement had resulted from ABG's activities. He said he had advanced funds to ABG to keep it financially afloat until it became self-sufficient. He said the $97,351 consisted of refundable deposits that he was entitled to. He also said ABG now has implemented an acceptable accounting system and does not commingle funds.

OIG Evaluation of ABG's response

We believe the venture arrangement is improper because it allows partners seeking to derive a profit from the program to influence, control, and manage the program. ABG improperly relinquished most of its control over the rehabilitation and calculation of the resale price to the venture partners. ABG did not have the receipts to support the rehabilitation costs. Furthermore, ABG indicated the resale prices were determined by appraisals, not actual net development costs. Accordingly, ABG relinquished its control and authority over the program. Ultimately, homebuyers paid higher prices than necessary, which defeated the purpose of the program.

We reviewed additional information submitted by the Executive Director. He said his accountant had reorganized the nonprofit's and his personal finances. The documentation indicated the Executive Director had made several large personal deposits to one checking account in 1999. However, we did not audit all of the records and thus cannot determine whether the nonprofit and personal activities are properly recorded and represented.

Recommendations

We recommend the Director of the Atlanta Homeownership Center:

1A. Require ABG to reimburse HUD $23,225 for the discounts ABG received on the three properties it sold to unqualified buyers – $9,066 for Wentworth Court, $3,000 for 11th Avenue N., and $11,159 for Mahogany Dr.

1B. Require ABG to pay down the mortgages for the 30 percent discounted properties it sold for prices that exceeded 110 percent of net development cost. ABG requested the prices be reduced for gifts or closing costs paid on behalf of the homebuyers.

1C. Require ABG to assist homebuyers with exorbitant interest rate mortgages obtain mortgage refinancing at more reasonable current prevailing rates.

1D. Require ABG to correct the rehabilitation deficiencies identified in Appendix A at no cost to the purchaser or current occupant of the homes.

SCHEDULE OF REHAB WORK DEFICIENCIES

Property Address	Work Not Performed (A)	Poor Quality Work (B)
7727 Ravenna Drive	1, 2, 3	-
1020 Wentworth Court	1	-
7621 Perugia Avenue	1, 4, 5, 6, 7, 8,	-
1625 W. 28th Street	10, 11, 12	1
4724 White Willow Lane	13, 15, 16, 17	2, 3, 4
1815 Mahogany Drive	1	5
5910 Westbury Drive[a]	1, 2, 10, 14	-

A—Work Not Performed

1. The roof was not replaced. *
2. The burglar bars had not been removed. *
3. The stove and hood fan were not in the house when the purchasers bought the property. *
4. The floor covering in the utility room was not replaced. The kitchen floor was done, but would not have needed the 40 yards of linoleum as shown on the nonprofit's list of repairs.
5. Electrical service and fans were not completed.
6. Miscellaneous plumbing and repairs were not done.
7. The column on the carport was not replaced. *
8. The exterior wall was not sealed. *
9. Closet door was not re-hanged.
10. The exterior was not pressure washed and painted. The exterior trim was not painted.
11. New front door and screen door were not installed.
12. New hardware for interior adjustments was not done.
13. The kitchen countertops were not repaired.
14. The screens were not repaired.
15. Hole in garage ceiling was not repaired.
16. The garage door was not repaired and garage door opener did not work.
17. The stove, refrigerator, and dishwasher did not work.

B—Poor Quality Work

1. New electrical service was completed but power outages occurred when the dryer and stove are used at the same time.
2. The dining room flooring was peeling near the patio door. *
3. There was a water stain on the garage wall resulting from a water leak. *
4. The kitchen flooring was peeling near dishwasher.
5. The garbage disposal did not operate. *

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a. We conducted inspection of exterior of home only, because the homeowners were not available for our scheduled and unannounced visits.

* The item was not included in contractor's invoice or the nonprofit's list of repair work.

AUDITEE COMMENTS

AUTOGRAPHED BOOK GIVE-AWAY FOR INNER-CITY YOUTH - ABG HOUSING PROG.
When did you receive your first autographed book?
Registered with FL Dept. of Agri. and as a 501(c) (3) Foundation
750 S. Orange Blossom Trail, Suite 120
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Tel. 407.426.8597; Fax 407.481.9448; E-Mail andy11@dellepro.com

September 20, 2001

Ms. Nancy Cooper
District Inspector General
U.S. Department of Housing and Urban Development
75 Spring Street, SW, Room 330
Atlanta, GA 30303-3388

RE: EXIT CONFERENCE – REQUESTS & COMMENTARY
Hand Delivered and E-Mailed on September 20, 2001

Dear Ms. Cooper:

Thank you for your letter dated September 13, 2001. The subsequent exit conference on September 19, 2001 was conducted with James McKay, Tony Bailey and Gayle Knowlson (Director for HOC Program Support). Autographed Book Give-Away For Inner-City Youth, Inc. (ABG) submits the following statements for your consideration as inclusions or modifications, in the final report to Director Charles Gardner.

COMMENTARY FOR VARIOUS SECTIONS OF DRAFT REPORT

COVER MEMORANDUM

- 2nd Paragraph, Page 1 – Can this cover page indicate that only discovered audit exceptions are discussed? There were some program compliances not mentioned in this report but contained in working papers.
- 2nd Paragraph, Page 1 – ABG did control the acquired properties, but in certain instances did not fully manage all aspects of work performed on properties. ABG executed all contracts, documents, etc., attended closings and had clients to execute its Internal Housing Contracts. The Internal Housing Contracts bound the clients (owner occupants) to ABG program objectives regarding improving literacy through improved housing. A dispute arose between ABG and a rehabber. The rehabber wanted to realize certain revenues from the HUD acquired property at 611 Caborca Drive, Ocoee, FL. ABG independently decided that the property was conveyed to an Ocoee Police Officer and an assistant manager for a restaurant, with a substantial internal ABG gift. The

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Ms. Nancy Cooper
District Inspector General
U.S. Department of Housing and Urban Development

Rehabbers filed a lien against the property as recorded in the orange public records at Book 6114 Page 3777 on October 24, 2000.

- 2nd Paragraph, Page 1 – ABG immediately produced and disclosed the written joint venture agreements to the IG at the audit entry conference. No other nonprofit had done the same. The agreement was prepared by independent legal counsel and purported to comply with all HOC requirements. Other area nonprofits are presently operating under the same joint venture agreements as duly reported, with similar known entities. The HOC has taken no action against these nonprofits, while ABG is being cited. ABG respectfully asks that there not be selective enforcement with reference to joint ventures.
- 2nd Paragraph, Page 1 – ABG questions the determinations for income, rather than differentiating between net worth vs. income for those 3 properties allegedly sold to ineligible persons. ABG understands that the guidelines are only concern with annual income of the owner occupant.
- 2nd Paragraph, Page 1 – A functional accounting system has been implemented and submitted for the IG's review.
- 2nd Paragraph, Page 1 – The Executive Director has submitted copies of deposited checks into ABG operating checking account that attested to funds used by the Executive Director were those of the Executive Director and not of any grants or third party sources.
- 3rd Paragraph, Page 1 – ABG asks that the IG reconsiders the recommendations as stated for HOC reimbursements for the unqualified buyers property discounts and for the $43,541 sold to 30% discounted properties. ABG has submitted verifications that ABG did not receive any third party funding for the ABG gifts granted to the owner occupants in question. ABG used a process of gifting equity in the 30% properties to clients for down payments. This gifting process was timely submitted to the HOC in various requested reports.
- 2nd Paragraph, Page 1 – ABG would request that it is allowed reinstatement into the HOC's nonprofit programs once compliance with remaining audit exceptions can be accomplished.

BACKGROUND SECTION

- 1st Paragraph, Page 3 – ABG would like to add a short statement that it has donated several thousands of autographed books to inner-city youth at Jones and Evans High Schools, etc.

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Ms. Nancy Cooper
District Inspector General
U.S. Department of Housing and Urban Development

ABG FAILED TO MEET AFFORDABLE HOUSING OBJECTIVES

- ABG indicated its method of calculating sales prices in its submitted affordable housing program to the HOC. The HOC did not allow ABG to go forward with its lease-option program. ABG never used any FHA 203 funding for its acquisitions and rehabilitations, therefore ABG was not made aware of HUD's determinations for repairs.
- ABG has corrected the accounting and personal expense problems as previously stated under the cover letter responses above.
- On December 15, 2000 a letter from the HOC was sent to ABG with the following language therein: ***We have completed our review of the information submitted regarding the completion of the first five properties purchased through the Department's Direct Sale Program. Since your last recertification, we have concluded that Autographed Book Give-Away for Inner-City Youth (ABG) has successfully completed the rehabilitation and resale of these five properties in accordance with your affordable housing plan.***

ABG DID NOT PROPERLY CONTROL & MANAGE ITS HOUSING PROGRAM

- ABG has commented on the control aspect regarding the use of the joint venture agreements with a conflict involving a HUD property on Caborca in Ocoee, Florida in the cover memorandum. ABG maintained control of the properties.
- 3rd Paragraph, Page 6 – ABG incurred significant risks on the property in several different ways: (1) The lien that incurred as a result of the dispute with rehabber and (2) ABG signed the mortgages on each property and therefore was subjected to same requirements as independent ABG financing arrangements with Banks.
- ABG was not a straw buyer because ABG could independently purchase properties, negotiated contracts, had clients signed ABG literary housing agreements and ABG determined when the sale of properties would occur.
- The payments to ABG by rehabbers were disclosed on the submitted HUD1's.
- ABG produced the majority of the owner occupants or approved them for participation in its program as evidenced by the ABG internal contract in the property files with client identification.

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District Inspector General
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ABG RESOLD HUD HOMES TO INELIGIBLE PURCHASERS

- The report fails to indicate what was the income of the owner occupants. ABG contends that the owner occupants submitted to ABG or ABG representative were eligible for the program. If they were ineligible based upon household income, this was an oversight by ABG. The net worth of the owner occupant is not a part of eligibility consideration per mortgagee letter 96-52.
- Please delete stated reference to nationality of student buyers in draft report.
- In ABG's initial affordable housing plan, ABG was unaware of the income restrictions.

HUD DISCOUNTS NOT PASSED ON

- ABG made comment regarding this audit exception in the above section regarding memorandum cover letter.
- The resale prices were determined by the licensed appraisal of the lender or mortgage broker. There is a built-in incentive by the third party appraiser to be conservative to reduce exposure to lender. Once the prices were determined, ABG offered the clients a gift of equity to cover the down payment requirements of the lender. This was acceptable to the lender and ABG has made reference to it in its revised affordable housing plan under recertification.
- ABG did not materially profit from the sale of the homes at the Resale Price.

PREDATORY LOANS

- The loans mentioned herein were ABG's first completed real estate transactions.
- ABG had known Dannie Elzie of West Side Funding (located in the same office building as ABG) several years prior to ABG's acceptance into the Direct Sale Program. ABG in good faith relied upon the representations of West Side Funding, that it was working for the benefit of ABG's clients.
- ABG had no prior knowledge of the excessive interest rates until closing or immediate before closing. As confirmed by clients, once the rates were discussed the clients were informed that they could back out of the transactions without penalty. It was further represented to clients, by West Side Funding, that if they could pay their mortgage payments on time, for approximately one-year, the terms could be refinanced at a lower rate. Each client agreed. The clients received high rates, in the opinion of ABG at closing, because they had credit deficiencies and in the case of the Ravenna Closing, current judgments with a recent foreclosure.

- ABG discontinued the association with West Side Funding on its own accord and has attempted to assist the buyers.
- None of the buyers have taken ABG's offers for assistance. ABG has been in contact with the Wrights (offered to assist Wrights with Legal Counsel named Barry Williams, Esquire, who could assist in filing a Chapter 11 to force down the mortgage payments), Rolle (offered to assist with refinancing/Rolle works in ABG's building and has home under contract for sale to third party at a significant profit), and the Chambers (offered to assist with refinancing efforts).
- ABG also contacted the HOC on July 2, 2001 with a request that ABG could repurchase the three properties under an FHA insured mortgage, with resale at cost to the effective parties through a contract for deed arrangement.

ABG FAILED TO MAINTAIN ADEQUATE ACCOUNTING RECORDS

- ABG has implemented a generally accepted accounting system for its transactions.
- ABG does not co-mingle funds.
- ABG has submitted accounting records to attest that ABG is under compliance.
- A system of receipts and disbursements was duly maintained before implementation of the formal accounting system.

PERSONAL BENEFITS DERIVED

- The Executive Director has submitted detailed proof, which included copies of third party checks made payable to Executive Director, to indicate that said amount of $97,351 consisted of refundable deposits that Executive Director was entitled to. These refundable deposits were made to keep ABG financially afloat until it could become self-sufficient. No interest or other benefits accrued.
- ABG has prepared Form 990 and 1099.

ABG NEEDS TO IMPROVE QUALITY OF RENOVATION WORK

- ABG was not privy to the property evaluations, as conducted by HUD, because ABG only used private financing in its property acquisitions. No FHA funds were requested.
- ABG relied upon the licensed contractors to make estimates and repairs on property.
- ABG has contracted with different contractors and now seeks to review HUD's property analysis.

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District Inspector General
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RECOMMENDATIONS SECTION:

- 1A. ABG will reimburse for those ineligible buyers, if it is in accordance with buyers income, mortgagee letter requirements and net worth, where applicable.
- 1B. ABG should not be required to reimburse or pay down mortgages where no financial benefit was derived by ABG from using internal gifts of equity in assisting homebuyers with down payments. Once the internal gifts are subtracted from the resale price, it will equal or become approximate to acquisition costs + closing costs + net development costs + 10% profit by ABG.
- 1C. ABG will continue to assist Buyers wherever feasible with properties.
- 1D. ABG has been removed or unable to participate in HUD's affordable housing program since February 12, 2001, but has continued to perform all responsibilities with the optimistic approach of eventual program reinstatement. ABG has not made any false certifications to HOC or IG.

I look forward to receiving the final report. If you need any additional information or clarifications, please contact me.

Cordially,

Anderson C. Hill, II
Executive Director

c: ABG Board Members

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DISTRIBUTION

Executive Director, Autographed Book Give-Away for Inner-City Youths, Orlando, Florida
Secretary, S
Deputy Secretary, SD (Room 10100)
Chief of Staff, S (Room 10000)
Assistant Secretary for Administration, S (Room 10110)
Acting Assistant Secretary for Congressional and Intergovernmental Relations, J (Room 10120)
Deputy Assistant Secretary, Office of Public Affairs, S, (Room 10132)
Deputy Assistant Secretary for Administrative Services, Office of the Executive Secretariat, AX (Room 10139)
Deputy Assistant Secretary for Intergovernmental Relations,
Acting Deputy Chief of Staff, S (Room 10226)
Deputy Chief of Staff for Policy, S (Room 10226)
Deputy Chief of Staff for Programs, S (Room 10226)
Special Counsel to the Secretary, S (Room 10234)
Senior Advisor to the Secretary, S
Special Assistant for Inter-Faith Community Outreach, S (Room 10222)
Executive Officer for Administrative Operations and Management, S (Room 10220)
General Counsel, C (Room 10214)
Assistant Secretary for Housing/Federal Housing Commissioner, H (Room 9100)
Assistant Secretary for Policy Development and Research, R (Room 8100)
Assistant Secretary for Community Planning and Development, D (Room 7100)
Assistant Deputy Secretary for Field Policy and Management, SDF (Room 7108)
Office of Government National Mortgage Association, T (Room 6100)
Assistant Secretary for Fair Housing and Equal Opportunity, E (Room 5100)
Director, Office of Departmental Equal Employment Opportunity, U
Chief Procurement Officer, N (Room 5184)
Assistant Secretary for Public and Indian Housing, P (Room 4100)
Director, Office of Departmental Operations and Coordination, I (Room 2124)
Office of the Chief Financial Officer, F (Room 2202)
Chief Information Officer, Q (Room 3152)
Acting Director, HUD Enforcement Center, V, 1250 Maryland Avenue, SW, Suite 200
Acting Director, Real Estate Assessment Center, X, 1280 Maryland Avenue, SW, Suite 800
Director, Office of Multifamily Assistance Restructuring, Y, 1280 Maryland Avenue, SW, Suite 4000
Inspector General, G (Room 8256)

Secretary's Representative, 4AS
State Coordinator, Florida State Office, 4DS
Director, Atlanta Homeownership Center, 4AHH
Audit Liaison Officer, 3AFI
Audit Liaison Officer, Office of Housing, HF (Room 9116)
Departmental Audit Liaison Officer, FM (Room 2206)
Acquisitions Librarian, Library, AS (Room 8141)
Counsel to the IG, GC (Room 8260)
HUD OIG Webmanager-Electronic Format Via Notes Mail (Cliff Jones@hud.gov)
Public Affairs Officer, G (Room 8256)
Stanley Czerwinski, Associate Director, Resources, Community, and Economic Development Division, U.S. GAO, 441 G Street N.W., Room 2T23, Washington DC 20548
The Honorable Fred Thompson, Chairman, Committee on Governmental Affairs, United States Senate, Washington DC 20510-6250
The Honorable Joseph Lieberman, Ranking Member, Committee on Governmental Affairs, United States Senate, Washington DC 20510-6250
The Honorable Dan Burton, Chairman, Committee on Government Reform, United States House of Representatives, Washington DC 20515-6143
The Honorable Henry A. Waxman, Ranking Member, Committee on Government Reform, United States House of Representatives, Washington, DC 20515-4305
Ms. Cindy Fogleman, Subcommittee on Oversight and Investigations, Room 212, O'Neil House Office Building, Washington, DC 20515-6143
Steve Redburn, Chief, Housing Branch, Office of Management and Budget, 725 17th Street, NW, Room 9226, New Executive Office Bldg., Washington, DC 20503
Sharon Pinkerton, Deputy Staff Director, Counsel, Subcommittee on Criminal Justice, Drug Policy and Human Resources, B373 Rayburn House Office Bldg., Washington, DC 20515
Armando Falcon, Director, Office of Federal Housing Enterprise Oversight, O, 1700 G Street, NW, Room 4011, Washington, DC 20552
Andrew R. Cochran, Senior Counsel, Committee on Financial Services, 2129 Rayburn House Office Building, Washington, DC 20510