



Issue Date March 10, 2003
Audit Case Number 2003-KC-1005

TO: John C. Weicher, Assistant Secretary for Housing-Federal Housing Commissioner,
Chairman, Mortgagee Review Board, H

Roger E. Niesen

FROM: Roger E. Niesen, Regional Inspector General for Audit, 7AGA

SUBJECT: Choice Enterprises Inc.
950 S. Cherry Street Suite 118
Denver, CO 80246

INTRODUCTION

We have completed an audit of Choice Enterprises Inc., a Denver Home Ownership Center contractor performing insurance endorsement review procedures. Our objective was to determine if Choice Enterprises Inc, followed HUD's regulations and contract terms, for reviewing "Late Requests for Endorsement." We found Choice Enterprises inappropriately endorsed 75 of the 297 loans we reviewed. The 75 loans, valued at \$6,567,024, did not have the required documentation for processing.

During our audit, we tested a random sample of 297 loan files processed by Choice Enterprises Inc. The loans were processed during the period July 1, 2001 through June 30, 2002. They came from a total universe of 22,033 loans that were submitted for Federal Housing Administration insurance over 80 days after closing. We tested the loan files to determine if the contractor followed specific "Late Request for Endorsement" procedures. We interviewed contractor employees to identify the processing procedures that were in place. We also interviewed Home Ownership Center staff, and we reviewed HUD Handbook 4165.1 to identify HUD's requirements for late endorsement procedures. For this review, we used some guidance given to the contractor by Denver Home Ownership Center staff, because it was less restrictive than HUD's written requirements. This guidance extended the time allowed to submit loans for endorsement beyond that contained in HUD Handbook 4165.1. We performed the audit in accordance with generally accepted government auditing standards.

In accordance with HUD Handbook 2000.06 REV-3, within 60 days please give us, for each recommendation without a management decision, a status report on: (1) the corrective action taken; (2) the proposed corrective action and the date to be completed; or (3) why action is considered unnecessary. Additional status reports are required at 90 days and 120 days after report issuance for any recommendation without a management decision. Also, please furnish us copies of any correspondence or directives issued because of the audit.

Should you or your staff have any questions, please contact me at (913) 551-5870.

SUMMARY

Choice Enterprises endorsed mortgages that did not contain the documentation required to insure loans submitted for endorsement more than 60 days after closing. For 75 of the 297 files we tested, the omission was significant and the loans should not have been endorsed. Choice Enterprises' management controls for late endorsements were not adequate to ensure that HUD guidelines were followed.

The improper late endorsement of the 75 mortgages increases the probability that HUD will have to pay insurance claims for loans that default, thereby, increasing the risk to the Federal Housing Administration insurance fund.

BACKGROUND

Choice Enterprises, formed in 1979, is in the business of providing staffing support and general facilities management services to both public and private sectors of the economy. The company moved its headquarters operation from Omaha, Nebraska to Denver, Colorado in October of 1999. Choice was awarded a contract with HUD and provided services for the Denver Home Ownership Center office from July 2000 through July 2002. The scope of the work was to "furnish all necessary labor to perform Mortgage Credit Insurance Endorsement processing services at the HUD Denver Processing Center at such times and in such quantities as may be required by the government."

Choice Enterprises was contracted to perform a minimum of 50,000 endorsement reviews each year of the two-year contract and a maximum of 200,000 endorsement reviews each year of the two-year contract. The contract estimated the contractor would perform 175,000 endorsement reviews each year. The contractor was paid the following amounts for each file reviewed:

- \$3.55 from contract inception in July 2000 to October 2000.
- \$7.56 from October 2000 to April 2001.
- \$8.67 from April 2001 to November 2001.
- \$9.08 from November 2001 to August 2002.

In August 2002, the contract was re-bid. Choice was not selected and no longer provides endorsement services to the Denver Home Ownership Center.

FINDING 1
Mortgages Were Endorsed Without Required Documentation

Choice Enterprises endorsed mortgages that did not contain the necessary documentation for endorsement when the loans were submitted more than 60 days after closing. For 75 of the 297 files we tested, significant documentation was missing and, therefore, the loans should not have been endorsed. Choice Enterprises' written Quality Control Plan and written policies and procedures, which should have ensured the files were complete, lacked the organization and completeness of an effective policy. The improper endorsement of the 75 mortgages valued at \$6,567,024 increased the risk to the Federal Housing Administration insurance fund.

According to HUD Handbook 4165.1 Chapter 3, late request for endorsement procedures apply if the mortgage is submitted to HUD more than 60 days after closing. The files for those loans must include specific additional documentation. For this review, we used some guidance given to the contractor by Denver Home Ownership Center staff, because it was less restrictive than HUD's written requirements. This guidance extended the time allowed to submit loans for endorsement beyond that contained in HUD Handbook 4165.1. Late endorsement procedures require the following documentation: 1) an explanation of the delay and actions taken to prevent a recurrence; 2) a certification that escrow accounts are current and intact; 4) a payment ledger reflecting all payments, including payment due in month of submission; 5) a certification that the lender provided no funds to bring the loan current, and that no previous payments are delinquent. If a delinquent payment exists, the loan cannot be endorsed until the payment ledger reflects six consecutive timely payments.

Choice Enterprises endorsed mortgages that did not contain the necessary documentation for endorsement when the loans were submitted more than 60 days after closing. We tested the loan files to determine if Choice followed HUD's specific "Late Request for Endorsement" procedures (as listed above). We manually reviewed 297 loan files, looking for the documentation required by HUD Handbook 4165.1. For 75 of the 297 files, we found that significant documentation was omitted and, therefore, the loans should not have been endorsed.

For this test, we considered a loan to be ineligible for endorsement if it met any of the following six criteria:

1. Files that did not have a letter requesting late endorsement when the file was determined to be late by the Contractor.
2. Files that did not have a letter to certify that escrow accounts were current and intact.
3. Files that did not have a letter to certify that that the lender did not provide funds to bring the loan current.
4. Files that did not include a payment ledger.
5. Files in which the payment ledger was not current.
6. Files in which one or more of the payments were delinquent.

Documentation was omitted from loan files because of weaknesses in Choice's management controls. We identified the following weaknesses that contributed to the inappropriate endorsements:

- Employees were not adequately trained to perform their duties and Choice emphasized quantity of work performed over the quality of work.
- Choice did not emphasize late endorsements until March of 2001 when they trained employees on how to determine if a loan file was late and how to review payment histories.
- The written policies and procedures for late endorsements Choice distributed to its employees were not adequate. They were hand written, did not contain enough detail and were difficult to understand. For example, there was no reference to HUD Handbook 4165.1, which fully explains the required contents of the late letter and payment history. During our review, Choice prepared a typed version of the procedures that were more detailed and easier to understand. However, this version was not distributed to employees until July 2002, 24 months after the two-year contract was let.
- Choice Enterprises' written Quality Control Plan did not ensure that loan files were complete. Important checklists were missing, incorrectly labeled or not labeled at all, and requirements for employee skill levels were vague and incomplete.
- There were discrepancies between the written quality control plan and the actual procedures performed. For instance, although required by the plan, formal weekly employee evaluations were not done, and regular training and testing schedules were not kept.

The improper endorsement of the 75 mortgages valued at \$6,567,024 increased the risk to the Federal Housing Administration insurance fund.

AUDITEE COMMENTS

Excerpts from Choice Enterprises' comments on our draft report follow. Appendix C contains the complete text of the comments except for attachments that are not necessary to understand the comments.

SUMMARY: Choice Enterprises endorsed mortgages that did not contain the documentation required to insure loans submitted for endorsement more than 60 days after closing:

Response: Choice Enterprises was informed by the HUD Denver Home Ownership Center Government Technical Representative that Resubmissions, late payment requests and reasons for Notice Of Rejections were regularly and/or as a rule, returned with documents missing, and as such Choice Enterprises staff were not allowed to reject again for new reasons inclusive of late payments. Further, HUD Staff from the Denver Home Ownership Center processed resubmissions previously rejected by Choice Enterprises, as well, and used the Choice Enterprises Contract Manager's identification number. In addition, per the Government

Technical Representative, those resubmissions many times contained requests specific to and known only by HUD staff.

Initially, only HUD Staff processed resubmissions. Around May 2002, HUD started allowing Choice Enterprises to process Resubmissions on a regular basis. The OIG Auditor told Choice Enterprises, the majority of incorrect files were Resubmissions. As, both Choice Enterprises and HUD worked on Resubmissions and HUD used Choice Enterprise's identification number it has not been demonstrated that the 75 files in question were completed/processed by Choice Enterprises.

OIG EVALUATION OF AUDITEE COMMENTS

Although Choice attributes not following procedures to instructions from the Government Technical Representative, Choice had nothing in writing to support the deviations, and the Government Technical Representative disputed Choice's position. As a result, without written documentation to support a deviation from acceptable procedures, we based our conclusions on HUD's handbook requirements that Choice agreed to in its written contract. Also, Choice misunderstood the statement made by the auditor concerning resubmissions. The auditor said the majority of the 75 improper endorsements were not resubmissions. However, even if they were resubmissions, Choice did not have support to show they were directed to deviate from required procedures. The Government Contract Representative and the Computerized Homes Underwriting Management System (CHUMS) coordinator said that only the contractor was authorized to use the Choice Enterprises identification number. They said under some special circumstances a HUD employee may have been required to complete the endorsement process when Choice employees faced a computer related problem when trying to endorse the loan; however, Choice employees were responsible for the file reviews. In those few circumstances HUD employees left the Choice Enterprises identification number in the file so that Choice Enterprises would get paid. In all other instances HUD employees used their own Computerized Homes Underwriting System identification number. The number of endorsements recorded in the Computerized Homes Underwriting Management System with Choice Enterprises' identification number determines the contractor's compensation for the loan files they review and subsequently endorse. It is the contractor's responsibility to ensure accuracy for all loans they process under the terms of their contract. Our sample universe only included loans with Choice Enterprises' identification number.

AUDITEE COMMENTS

SUMMARY: Choice Enterprises written management controls for late endorsements were not adequate to ensure HUD guidelines were followed.

Response: On contract initiation, July 18, 2000 HUD's Government Technical Representative and Government Technical Monitor provided procedures training to Choice Enterprises staff. The training consisted of reviewing the Insurance Endorsement Checklist and explaining how each procedure worked. The training was verbal and was not documented, other than the Checklist. As a documented training procedure did not exist, on approximately July 28th, Choice Enterprises introduced a Pre-Endorsement Review Process/Procedure to be used by its

employees. The Pre-Endorsement Review Process/Procedure was reviewed and its accuracy verified by the Government Technical Representative, but she discouraged its implementation as she believed it was too cumbersome, difficult to follow and that the hands-on training methodology that the Government Technical Representative and Government Technical Monitor provided was sufficient. As a result, Choice Enterprises did not implement the tool.

OIG EVALUATION OF AUDITEE COMMENTS

The audit report addresses the written policies and procedures used by Choice Enterprises during our audit period. The auditee did not make the auditor aware of Choice Enterprises' experience with the introduction of the procedure referenced above. However, the fact that the Government Technical Representative discouraged the use of this particular procedure does not absolve Choice Enterprises from the responsibility to develop adequate written management controls and to process late endorsement requests correctly. Although the Government Technical Representative discouraged the use of the procedure, Choice still was responsible to properly endorse loans according to the Handbook requirements. If Choice felt the tool was necessary to ensure accuracy, Choice still had the option to use it or to develop a less cumbersome control.

AUDITEE COMMENTS

FINDING 1:

Choice Enterprises written Quality Control Plan lacked the organization and completeness of an effective policy.

Response: On February 22, 2001, Choice Enterprises submitted a revised Quality Control Plan to the Contract Officer. Procedures as to how and the timing to check for the "Late Submission Letter/Payment History" were addressed.

OIG EVALUATION OF AUDITEE COMMENTS

The quality control plan we reviewed was the revised plan submitted to HUD in February 2001. The plan does not contain procedures that are to be followed for individual loan reviews of loans that are submitted late. Additionally, we concluded the quality control plan lacked organization and was not complete. Important checklists were missing, incorrectly labeled or not labeled at all.

AUDITEE COMMENTS

Employees were not adequately trained to perform their duties.

Response: The contract states in General Requirements II. B. that the contractor must provide ongoing training of its employees and that HUD reserves the right to review the contractors training plan. The Contract does not define the components (other than ongoing training), structure, format or form of the training plan thereby leaving its structure, format and form in the jurisdiction of the contractor as to what it feels is adequate/sufficient to train its employees. It is

the contractors determination that it complied with the governments contract requirements, did not engage in willful misconduct and acted in "good faith" in executing its training program to the extent that was practical in view of the work and environmental constraints and conditions that existed during the term of the contract.

All Choice Enterprises employees received training before their first day of work.

Employees, beginning on date of hire, were provided hands-on On-the-Job-Training in those operations that were specific to their assignment.

Employees, based on their date of hire, were trained using the training tool. Their retention of the information, was evaluated on an ongoing basis by the following three methods:

- a. All employees hired before January 2002 were tested using the three Employee Skills Assessment tools.
- b. Daily observation of the work performance of all employees.
- c. The quality control inspection procedure of 10 percent of the previous day's output evaluated for compliance to endorsement procedures.

OIG EVALUATION OF AUDITEE COMMENTS

The report does not question Choice Enterprises' training plan or that training was provided. The report questions the timing and consistency of the training and Choice's implementation of their plan. Based on interviews with Choice employees and the results of our tests, we determined Choice Enterprises did not fulfill the contract component of "ongoing training". In an interview conducted July 11, 2002 the Contract Manager stated "Most of the time, the employees are trained as the workload allows. A lot of their training is impromptu, done mostly when HUD has made changes that the employees need to know about." Further, she said they are due for a training session, because their last one was over 6 months ago, and they had some new employees come on in November 2001 that need training. Additionally, five of seven Choice employees that we interviewed said they did not receive enough training before they were expected to perform the job and only received impromptu training thereafter when the Home Ownership Center made changes. The Choice employees did not receive training on late endorsements until around the middle of 2001 (approximately one year after the contract inception). Two employees who were employed before the training was given, said they were told to automatically enter "yes" when the computer prompted them to look at the payment histories to see if the payments were current.

The report does not dispute that employees were tested or observed daily. The report addresses the lack of the tests being given on a cyclical or periodic basis. The report concludes that the quality control inspection procedures were not always performed as stated in the plan. Additionally, our audit tests were directed specifically at "late endorsement" procedures. Although the quality control plan required Choice to evaluate 10 percent of the previous day's output, it only required Choice to evaluate "late endorsement" procedures every 13th week.

AUDITEE COMMENTS

Choice Enterprises emphasized quantity of work performed over quality of work:

Response: This is a presumptive finding that does not demonstrate any factual basis as normally determined by documented evidence versus hearsay.

Like any other organization engaged in productive activities, Choice Enterprises in its production process, established production standards.

OIG EVALUATION OF AUDITEE COMMENTS

Our audit test results show an error rate of approximately 25 percent (75 errors divided by 297 sample items). We believe the high error rate is primarily due to management emphasizing quantity over quality. We arrived at this opinion after observing the following facts:

- During our audit, the contract manager told us that “Employees’ salaries graduate based on performance (quantity of files reviewed). If they drop below a certain level, they will fall back into a lower pay bracket.”
- Five out of seven employees we interviewed felt the performance standards (quantity) were too high.
- Two employees said on more than one occasion they were advised to circumvent a control.

These items illustrate an approach that emphasizes production quantity over quality. During our audit, we did not identify mitigating factors to ensure Choice would maintain adequate quality levels.

AUDITEE COMMENTS

Choice Enterprises did not emphasize late endorsements until March of 2001.

Response: Choice Enterprises’ employees were trained by HUD staff to follow 4165.1 on July 24, 2000. The Government Technical Representative and Government Technical Monitor said to use the Washington, D.C. Computerized Homes Underwriting Management System database to notify of late payments. On June 1 and 4, 2001 the Contract Manager answered employees’ questions, in the presence of the Government Technical Representative/Government Technical Monitor, during formal training sessions. On September 15, and September 20, 2001, HUD staff advised the Contract Manager that the Washington database indicator was not always working.

OIG EVALUATION OF AUDITEE COMMENTS

Choice misstates a Computerized Homes Underwriting Management System function as “. . . to allow the Washington, D.C. Computerized Homes Underwriting Management System database to notify of late payments in the system . . .” The Computerized Homes Underwriting Management System function in question identifies loans that require the contractor to verify that all loan payments are current by reviewing the payment histories submitted with the loan

files. This function is a prompt to the user known as the "Current Payments" prompt. The database system does not notify of "late payments in the system." In addition, the Government Contract Representative said she did not report the alleged breakdown of this function because she was not sure it was not the contractor's error. The Computerized Homes Underwriting Management System Coordinator said she was not notified of a breakdown in the function and did not have any evidence of a problem at the Denver Home Ownership Center or any system-wide problems dealing with this function. The Choice Enterprises Contract Manager stated that up until March 2001, the review of payment histories was not a priority.

AUDITEE COMMENTS

The written policies and procedures for late endorsement that Choice Enterprises distributed to its employees were not adequate.

Response: The contractor believes the written policies and procedures distributed to its employees for late endorsement, were distributed in "good faith" and considered adequate by the contractor in view of the work and environmental constraints and conditions that existed during the term of the contract. This procedure, though handwritten, was approved and signed by the Government Technical Representative.

OIG EVALUATION OF AUDITEE COMMENTS

Prior to October 2001 there were no written procedures other than a checklist. After that date, there were handwritten procedures, however, they did not adequately explain the steps employees were required to perform to determine if a case binder was submitted for late endorsement, or what to do if it was. The Government Technical Representative signed the handwritten document. However, as we stated previously, the contractor is still responsible for conducting their reviews according to the HUD Handbooks. The handwritten instructions did not contain a reference to the procedures prescribed in the Handbook.

AUDITEE COMMENTS

The Choice Enterprises written policies and procedures did not contain a reference to HUD Handbook 4165.1

Response: Choice Enterprises, after two attempts to set written late payment procedures in place consistent with HUD Handbook 4165.1 requirements, was told by the Government Technical Representative that with HUD Denver Home Ownership Center's restrictions being somewhat different, the Center could allow the Washington Computerized Homes Underwriting Management System database to trigger a Notice Of Rejection. In addition, Choice Enterprises was advised that where there were no late fees involved, to contact or send the file to the Government Technical Representative as a HUD return so as to allow HUD to determine if it was to be a Notice Of Rejection.

OIG EVALUATION OF AUDITEE COMMENTS

Choice indicates they were allowed to alter procedures and use the Computerized Homes Underwriting Management System. As previously explained, the Computerized Homes Underwriting Management System does not determine automatically if a loan file needs to be rejected, it only identifies loans that require further review. The contract states in Section C.II.F, pg. 29, "The Processing and Underwriting Division will issue formal guidance and changes to meet new or changing program requirements related to the insuring/endorsement process." The Government Technical Representative did not present the contractor with formal guidance that would prevent the contractor from following HUD Handbook 4165.1 as required by the contract. A loan file designated as a HUD return would be processed by the Home Ownership Center employees and would not have been in our universe of loans endorsed by the contractor. A reference to the Handbook procedures would have alerted Choice employees to the specific requirements for reviewing the additional documentation required in the loan file for late loan endorsements.

AUDITEE COMMENTS

The Quality Control plan did not ensure that loan files were complete.

- a) **Important checklists were missing:** The auditor has not indicated which important checklists were missing and the authority that would determine them as being important. In addition, the contractor endorsed files according to the checklist provided by HUD and was unaware of other checklists that the contractor was required to use.
- b) **Checklists were incorrectly labeled or not labeled:** The auditor did not indicate which checklists were incorrectly labeled or which checklists should have been present that were not labeled. Therefore we cannot respond to these items.

The government did not establish a requirement or define, other than the "Late Endorsement Checklist", which, where, when, how and/or why checklists were to be labeled for any topic/operation to include late endorsement.

OIG EVALUATION OF AUDITEE COMMENTS

The audit report refers to the checklists contained in Choice Enterprises' Quality Control Plan. For example, the Quality Control Plan refers to a checklist to be used for testing employees as Attachment XXX. Attachment XXX does not exist within the Quality Control Plan document. Similarly, the plan references attachments that are not numbered or do not have any identifying reference within the document. The Choice Enterprises' Quality Control Plan appears to be an incomplete draft with placeholders (XXX) used as attachment reference numbers. Without an accurate quality control plan, HUD lacks assurance loan files are complete.

AUDITEE COMMENTS

Requirements for employee skill levels were vague and incomplete.

Response: Employee skill levels were demonstrated by their error rate. The individual employee error rate was monitored by the HUD Quality Control check, the Choice Enterprises Quality Control check, the Choice Enterprises Notice Of Rejection review, and feedback from the HUD Government Technical Representative. The individual employee error rate was documented by the HUD Quality Control check. HUD established a 10 percent error rate. Choice Enterprises communicated both verbally and in documented form its minimal acceptable quality levels which was 1.0 percent. Such communications were delivered to employees during employee meetings.

OIG EVALUATION OF AUDITEE COMMENTS

This item is in reference to the Quality Control Plan's completeness as a document that outlines, for HUD, the policies and procedures the contractor proposes to use during the term of the contract. This item does not refer to the Choice Enterprises practices in place. Additionally, the HUD quality control check only determined if data was entered into the Computerized Homes Underwriting Management System accurately, and did not determine whether the review was performed correctly. Our review of Choice Enterprises Quality Control plan concluded that it does not contain specifics on length of training or required level of knowledge. The plan states that "the first training will occur on March____, 2001 and re-occur in quarterly increments thereafter per the following schedule." No schedule was provided anywhere in the plan. The employee skill levels required to satisfactorily do their job was never defined within plan.

AUDITEE COMMENTS

There were discrepancies between the written Quality Control plan and the actual procedures performed:

a) although required by the plan, formal weekly employee evaluations were not done

Response: All employees received day-to-day evaluation in performing requirements identified in the Statement of Work from the Project manager and their more experienced coworkers.

b) regular training were not kept

Response: All employee's received regular training via daily monitoring of their performance by the Project Manager and instruction given when and where required.

c) regular testing were not kept

Response: All employee's performance was tested informally through their daily work performance, the Choice Employee and HUD quality control inspection procedures of 10 percent of the previous day's output evaluated for compliance to endorsement procedures. In the event of errors, employees were advised, queried as to their understanding the procedure and retrained as required.

The Contractor's employee evaluation, training and testing practices though considered not fully in compliance with its stated procedures were influenced by environmental constraints and conditions that existed during the term of the contract.

OIG EVALUATION OF AUDITEE COMMENTS

Although the contractor monitored 10 percent of the employees' daily performance, they only monitored late endorsement procedures every 13th week. The "Late Submission Letter/Payment History" control test is one of the rotated tests scheduled for every 13th week. As stated on the Quality Control checklist, the standard Quality Control check is for form inclusion, accuracy and signatures but does not assure a review is completed correctly. The auditors were not made aware of, nor did we detect, any environmental constraints or conditions that would have prohibited Choice Enterprises from ensuring their employees were regularly tested. The Contract Manager said training was influenced by the workload. If that was the case, then the contractor should have increased staff in order to meet the workload deadlines and fulfill the training requirements of the contract.

RECOMMENDATIONS

We recommend the Assistant Secretary for Housing-Federal Housing Commissioner, Chairman, Mortgagee Review Board:

- 1A. Takes appropriate administrative action against Choice Enterprises.
- 1B. Seeks indemnification of the 75 improperly endorsed loans (see Appendix A) from the respective mortgagees.

MANAGEMENT CONTROLS

Management controls include the plan of organization, methods and procedures adopted by management to ensure that its goals are met. Management controls include the processes for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

We determined that the following management controls of Choice Enterprises were relevant to our audit objectives:

- The policies and procedures to ensure only eligible loans submitted late for endorsement are endorsed.

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

Based on our review, we believe the following items are significant weaknesses (See Finding 1):

- Employees were not adequately trained and were not provided with adequate written policies and procedures for "late" endorsement procedures.
- Choice's Quality Control Plan did not adequately ensure that the proper procedures were followed for "late" endorsements.

APPENDIX A

FHA CASE FILES FROM FINDING 1

		No Letter Requesting Late Endorsement	Did not Certify that Escrow Accounts were Current & Intact	Did not Certify No Funds were Provided to Bring the Loan Current	No Payment Ledger was Included	The Payment Ledger was not Current	Payments were Delinquent	
FHA #								Mortgage Amount
1.	4937027777					x		\$ 83,686.00
2.	4213767020		x	x				\$ 37,085.00
3.	4936954919						x	\$ 135,182.00
4.	4917222769		x			x		\$ 77,388.00
5.	2221560441	x	x	x	x	x		\$ 67,954.00
6.	4926153948						x	\$ 42,883.00
7.	4222470297	x	x	x				\$ 47,408.00
8.	4926019832	x	x	x				\$ 57,956.00
9.	4955886406	x	x	x				\$ 59,935.00
10.	4936966693			x		x	x	\$ 132,457.00
11.	4213757647		x	x				\$ 70,939.00
12.	4926017145	x	x	x	x	x		\$ 126,501.00
13.	4917190065					x		\$ 105,900.00
14.	2213178408					x		\$ 114,929.00
15.	4917204867					x		\$ 136,010.00
16.	4213744984	x	x	x	x	x		\$ 49,988.00
17.	4213725717				x	x		\$ 52,584.00
18.	4222474303						x	\$ 42,597.00
19.	0312894406	x	x	x				\$ 79,200.00
20.	4937036569	x	x	x	x	x		\$ 79,550.00
21.	4222484585	x	x	x				\$ 48,567.00
22.	4917344873	x	x	x				\$ 111,756.00
23.	2213284695	x	x	x				\$ 130,000.00
24.	3612506361		x					\$ 84,931.00
25.	4222440759		x	x				\$ 59,529.00
26.	4926042337	x	x	x				\$ 113,071.00
27.	4936872623			x				\$ 98,814.00

		No Letter Requesting Late Endorsement	Did not Certify that Escrow Accounts were Current & Intact	Did not Certify No Funds were Provided to Bring the Loan Current	No Payment Ledger was Included	The Payment Ledger was not Current	Payments were Delinquent	
FHA #								Mortgage Amount
28.	4942711351	x	x	x				\$ 79,907.00
29.	4917312178	x	x	x	x	x		\$ 86,565.00
30.	4926032743		x	x				\$ 80,692.00
31.	4936874778			x		x		\$ 89,806.00
32.	4936822026		x	x				\$ 123,524.00
33.	4955842615			x				\$ 129,011.00
34.	4926098263					x	x	\$ 130,798.00
35.	4955961507						x	\$ 60,037.00
36.	4926087073	x	x	x				\$ 55,988.00
37.	4955783277					x	x	\$ 143,201.00
38.	4942731529		x	x				\$ 58,400.00
39.	4955776420		x					\$ 122,510.00
40.	4926042599		x	x				\$ 33,139.00
41.	4955911966	x	x	x				\$ 130,526.00
42.	4955830623			x				\$ 69,476.00
43.	2213298353				x	x		\$ 97,230.00
44.	4917373878	x	x	x	x	x		\$ 123,068.00
45.	0312893932		x	x				\$ 86,250.00
46.	4955848509	x	x	x	x	x		\$ 135,018.00
47.	4956044825	x	x	x				\$ 125,774.00
48.	4926267721					x		\$ 133,117.00
49.	4213785569	x	x	x				\$ 125,234.00
50.	4213718541		x	x				\$ 58,007.00
51.	4917319596					x		\$ 107,414.00
52.	4936897342	x	x	x	x	x		\$ 58,058.00
53.	4917401521	x	x	x			x	\$ 100,424.00
54.	4926051713		x	x				\$ 125,037.00
55.	4936890843	x	x	x	x	x		\$ 93,532.00
56.	4942677991		x					\$ 66,584.00
57.	4955780772	x	x	x				\$ 100,079.00

		No Letter Requesting Late Endorsement	Did not Certify that Escrow Accounts were Current & Intact	Did not Certify No Funds were Provided to Bring the Loan Current	No Payment Ledger was Included	The Payment Ledger was not Current	Payments were Delinquent	
FHA #								Mortgage Amount
58.	0312790827	x	x	x	x	x		\$ 96,650.00
59.	2213317128	x						\$ 58,484.00
60.	4955884151		x					\$ 119,211.00
61.	4222453486	x	x	x				\$ 48,111.00
62.	4925884192					x		\$ 84,245.00
63.	4926046295			x				\$ 97,864.00
64.	4222417630		x					\$ 73,993.00
65.	4917215491					x		\$ 64,452.00
66.	4926031045	x	x	x	x	x		\$ 61,245.00
67.	4926037661	x	x	x				\$ 102,535.00
68.	4955846016	x	x	x				\$ 110,533.00
69.	2213332069	x	x	x				\$ 65,890.00
70.	2213256659			x				\$ 86,813.00
71.	3612492545					x		\$ 36,976.00
72.	4213698788					x		\$ 93,163.00
73.	4222456259		x					\$ 83,686.00
74.	4955823348		x	x		x		\$ 67,367.00
75.	4213746145					x		\$ 40,600.00
Totals		31	48	48	13	30	8	\$ 6,567,024.00

APPENDIX B

SCHEDULE OF QUESTIONED COSTS AND FUNDS PUT TO BETTER USE

<u>Recommendation Number</u>	<u>Type of Questioned Cost</u> <u>Ineligible</u> <u>1/</u> <u>Unsupported</u> <u>2/</u>	<u>Funds Put to Better Use</u> <u>3/</u>
1B		\$ 6,567,024

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

2/ Unsupported costs are costs charged to a HUD-financed or HUD-insured program or activity and eligibility cannot be determined at the time of audit. The costs are not supported by adequate documentation or there is a need for a legal or administrative determination on the eligibility of the costs. Unsupported costs require a future decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of Departmental policies and procedures.

3/ Funds Put to Better Use are costs that will not be expended in the future if our recommendations are implemented. For this review, the funds put to better use consist of loans and guarantees not made because of indemnification.

AUDITEE COMMENTS

CHOICE ENTERPRISES

Db a CBC Staffing and CBC Government Services
DENVER, CO: 950 South Cherry Street, Suite 118 Denver, Colorado 80246
Phone: (303) 756-4088 Fax: (303) 756-3430 Email:
CBC.Exec.Search@worldnet.att.net

OMAHA, NE: 6653 Sorensen Pkwy Omaha, Nebraska 68152
Phone: (402) 571-8140 Fax: (402) 571-5027 Email: CBC.ITZME@worldnet.att.net

February 9, 2003

Roger Niesen
Regional Inspector General for Audit
U.S. Department of Housing and Urban Development
Office of the Inspector General for Audit
Great Plains District, 7AGA
Gateway Tower II - 5th Floor
400 State Avenue
Kansas City, Kansas 66101-2406
Subject: Contractor Audit Response
Audit Case Number: 2003-KC-

Dear Mr. Niesen:

Please accept the following in response to your correspondence of January 7, 2003.

It is Choice Enterprise's position that it complied with the governments contract requirements to the best of its abilities in performing its contract with the Department of Housing and Urban Development to provide insurance endorsement services. I hereby state that the company did not engage in willful misconduct and acted in "good faith" in the performance of its duties under the contract to the extent that was practical in view of the work and environmental constraints and conditions that existed during the term of the contract.

I hereby certify that the statements given by me in this response are correct to the best of my knowledge and hereby authorize their investigation if required.

Signed

Jack L. Choice
President

SUMMARY

1. Choice Enterprises endorsed mortgages that did not contain the documentation required to insure loans submitted for endorsement more than 60 days after closing:

Response: Choice Enterprises was informed by HUD Denver HOC GTR that Resubmissions, late payment requests and reasons for NORs were regularly and/or as a rule, returned with documents missing, and as such Choice Enterprises staff were not allowed to NOR again for new reasons inclusive of late payments... Further, HUD Staff from Denver HOC processed Resubmissions previously Rejected by Choice Enterprises, as well, and used the Choice Enterprises Contract Manager's CE ID. In addition, per GTR ~~xxxxxxxxxx~~ ~~xxxxx~~, those resubmissions many times contained requests specific to and known only by HUD staff.

Initially, only HUD Staff processed resubmissions. Ocurring around May 2002, HUD started allowing Choice Enterprises to process Resubmissions on a regular basis. This decision was made because HUD did not have enough financing to provide regular files to the company. It was stated to Choice Enterprises, by the Auditor that the majority of incorrect files were Resubmissions. As, both Choice Enterprises and HUD worked on Resubmissions and HUD used Choice Enterprise's CE ID it has not been demonstrated that the 75 files in question were completed/processed by Choice Enterprises.

2. Choice Enterprises written management controls for late endorsements were not adequate to ensure that HUD guidelines were followed.

Response: On contract initiation, July 18, 2000 HUD representatives ~~xxxxxxxxxx~~ ~~xxxxxxxxxx~~ (GTR) and ~~xxxxxxx~~ ~~xxxxxxxxxx~~ (GTM) provided procedures training to Choice Enterprises staff. The training provided consisted of reviewing the Insurance Endorsement Checklist and explaining how each procedure worked. We were advised to make notes on the Checklist and personal tablets on the instruction that we received. The training was verbal and did not have a documented procedure, other than the Checklist. As a documented training procedure did not exist, on approximately July 28th, Choice Enterprises introduced a Pre-Endorsement Review Process/Procedure to be used by its employees. See Attachment A. The procedure clearly addressed procedures as to how to process "Late payments", see item "RIGHT SIDE OF FORM: - CHUMS 2 LATE SUBMISSION LETTER/PAYMENT HISTORY.

The Pre-Endorsement Review Process/Procedure was reviewed and its accuracy verified by ~~xxxxxxx~~ ~~xxxxxxxxxx~~, the GTR but she discouraged its implementation as she felt that the tool was too cumbersome, difficult to follow and that the hands-on training methodology that they provided was sufficient. As a result of the GTRs discouragement, Choice Enterprises did not implement the tool.

FINDING 1:

ITEM 1: Choice Enterprises written Quality Control Plan and written policies and procedures, that should have ensured files are complete, lacked the organization and completeness of an effective policy.

Response: *On February 22, 2001 Choice Enterprises submitted a revised Quality Control Plan to ~~xxxxxx xxx~~, the Contract Officer. See Attachment B. Procedures as to how and the timing to check for the "Late Submission Letter/Payment History" were addressed. In addition, employees were trained to follow 4165.1 on the following dates:*

July 24, 2000 It was emphasized by HUD Staff—GTR/GTM to allow the CHUMS' Washington database to notify of a late payment in the system while chumming.

March 12, 2001 It was emphasized and reiterated by the GTR that HUD's CHUMS system had an automated indicator on when to NOR. It was further realized and stated by the GTR that since lender's payment history's were so different to contact her and/or send the file to her to determine payment history. Copies of the various payment history's were given out to Chummers only.

On June 1 & 4, 2001 the Contract Manager answered employee questions in the presence of GTR/GTM during formal training sessions.

On September 15, 2001 and September 20, 2001 the Contract Manager formally reviewed (via group meeting) late payment procedures with affected employees as Washington's database indicator was not always working.

On October 5, 2001 written procedure as to how to process "late payments" were introduced to all affected employees by the Contract Manager. Such procedures were validated by the GTR who signed off on the procedure.

On December 28, 2001 the Contract Manager emphasized to all affected employees to remain focused and aware of "late payment process procedures as errors had been discovered. The Contract Manager, on an ongoing basis, advised employees of process errors as detected via its 10% quality control check or when the GTR/GTM returned files with errors.

ITEM 2: Employees were not adequately trained to perform their duties.

Response: *The contract states in General Requirements II. B. that the contractor must provide ongoing training of its employees and that HUD reserves the right to review the contractors training plan. The Contract does not define the components (other than ongoing training), structure, format or form of the training plan thereby leaving its structure, format and form in the jurisdiction of the contractor as to what it feels is adequate/sufficient to train its employees. It is the contractors determination that it complied with the governments contract requirements, did not engage in willful*

misconduct and acted in "good faith" in executing its training program to the extent that was practical in view of the work and environmental constraints and conditions that existed during the term of the contract. The Choice Enterprises training program submitted to and accepted by HUD and the company's performance thereunder follows:

Employee Training:

1. Employee Orientation: Prior to date of hire, all Choice Enterprises employees will be required to attend a company provided orientation session. The orientation is a comprehensive review of all Contractor policies, programs and systems affecting employees in the execution of the contract. Topics covered include but are not restricted to, employer/employee expectations, company history, contract parameters overview, company benefits, time reporting, payroll processing, attendance guidelines and the contractor's quality assurance plan. In addition the employee will receive training/orientation in the following:

- Scope of Work.
- General Requirements
- Special Requirements
- Government Furnished Property
- Contractor Furnished Equipment
- Publications and Documents
- Workload Estimate
- Special Contract Requirements
- Quality Control Procedures
- Quality Assurance
- Safety and Fire Prevention -

Employees receive a handbook that includes all topics of the orientation at the end of the orientation.

Choice Enterprises Performance: *All Choice Enterprises employees received training in the above topics before their first day of work. In addition all employees, once hired, were given a copy of the Choice Enterprises Employee handbook which provided documented information about the above information.*

2. Insurance Endorsement Process Key Functions: There are eleven key activities required in order to complete one insurance endorsement, as defined below. **Note.** Completion of Operation 3 - Proofing - drives the insurance endorsement process. All other operations are responsive to the number of files proofed in a given time frame. The following chart outlines the eleven endorsement operations:

3. Operations

- Operation 1: Management:** Daily management activities.
- Operation 2 : Quality Control:** 10% daily inspection of the total number of MIC

	files produced
Operation 3: Proofing :	Reviewing files/binders for conformance to the HUD Pre-Endorsement Review Check-List.
Operation 4: NOR - Proof:	100% daily inspection /review/proof of all NOR (rejected/non-endorsed) Files...Note: Verifiable NOR'd files are returned to the Lender and non-verifiable (incorrectly NOR'd files) are MIC'd/data entered into the CHUMS system.
Operation 5: NOR - Chum:	Data Entry of approved reviewed NOR files.
Operation 6. Pre-NOR - Proof :	100% daily review of all returned NOR files.
Operation 7. Pre-NOR - CHUM:	Data Entry of approved reviewed PRE-NOR files.
Operation 8: Chums:	Verifying/correcting/revising and entering file information into the computer.
Operation 9: Set-up:	File drop-off and pick-up from mailroom, file sorting and distribution to operators and previous days file completion reconciliation.
Operation 10: Filing:	Annotating and placing completed files into boxes for archiving.
Operation 11: Logging;	Logging completed files (NOR's, MIC's, REV's) onto File Completion log sheet.

4. Employee Skills/Tasks Training: Choice Enterprises staff will provide training, to the new hired employees, in all the procedures, tools and information, of operations 2-11 inclusive of every task specific to and/or associated with providing insurance endorsement services as required by the Government. To insure that the employee has knowledge of all aspects of the job that impact on performance, the Contractor will supplement any/all training provided by HUD as defined above.

Choice Enterprises Performance: *Employees, beginning on date of hire, were provided hands-on OJT in those operations listed above that were specific to their assignment.*

In order to insure their knowledge of and ability to apply the key elements and principles of their job, with exception to the management operation, all employees will be trained in the procedures of the jobs/operations that they perform. Training will be provided using a Training Tool specific to the operation. The Training Tool is a dual purpose instrument in that it first is used to train the employee in the specific requirements of the job and then used to test the employee in order to determine their grasp and retention of the information.. See example Attachments A1, A2, A3, CHUMS tests, Attachment B - Proofing Process and Requirements test.

Choice Enterprises Performance: *Employees, based on their date of hire, were trained using the training tool. Their retention of the information, was evaluated on an ongoing basis by the following three methods:*

- c. All employees hired before January 2002 were tested using the three Employee Skills Assessment tools identified above.*
- d. Daily observation of the work performance of all employees.*
- e. The quality control inspection procedure of 10% of the previous day's output evaluated for compliance to endorsement procedures.*

5. Employee Cross Training: Selected employees will be cross trained in key/critical operations in order to insure their ability to perform the operation should the need occur.

Choice Enterprises Performance:

- a. All employees, save for the Set-up Operator, were cross trained to perform operations 3, 6 and 7, as listed in item 3 above.*
- b. Three employees were trained in operations 9 through 11, listed in item 3 above.*
- c. All employees, with the exception of two, were trained in operations 10 and 11, listed in item 3 above.*
- d. Three employees were cross-trained in items 4 and 5, listed in item 3 above.*
- e. Three employees were cross-trained in item 2, listed in item 3 above*
- f. All employees, save for Ana Hernandez, were cross-trained in item 2, listed in item 3 above.*

6. Ongoing Training Contractor provided training will be continued until such time as the new hired and/or current employees demonstrate competency in performing all aspects of their positions. In order to accomplish this, all new employees will be assigned to Mentors who will be responsible for providing day-to-day guidance/direction in performing requirements identified in the SOW. Mentors will be an experienced operator that have demonstrated skills in performing procedures in the SOW to a quality and quantity level that meets HUD requirements as well as have demonstrated skills in imparting operations/procedures information to individuals in a manner in which they can understand/comprehend or grasp.

Choice Enterprises Performance:

- a. The formal mentor-ship program was not put into practice, however, all employees received day-to-day guidance/direction in performing requirements identified in the SOW from the Contract Manager and their more experienced coworkers.*
- b. All employee's performance was monitored through daily observation of their work performance.*
- c. All employee's performance was monitored through the quality control inspection procedure of 10% of the previous day's output evaluated for compliance to endorsement procedures.*

7. **In-Process Change Training:** Training will be provided to employees at the time that a procedures change occurs. In-Process-Change training will be provided by HUD staff and/or the Contract or Alternate Contract Manager.

Choice Enterprises Performance: *All employees received In-Process training at the time that a procedure change occurred. Training was provided by HUD staff and/or the Contract or Alternate Contract Manager.*

8. **Employee Skills Testing:** During the course of their employment all employees will be skill tested. The intent of the testing will be to insure that the employee maintains currency in terms of the knowledge required in order for them to perform their jobs satisfactorily. Participation as well as satisfactory performance on the tests will be considered a condition of continued employment. Employee skills testing will occur as follows:

a. **Ongoing Skills Testing:** after completion of 30 and 90 days of employment and annually thereafter, employees will be tested on specific scope of work requirements.

b. **In-Process Change Testing:** Employees will be tested two days after contract in-process changes. Employees will acknowledge receipt of all training received via the Training Checklist which includes the employees name, date of training, the specific training received by operation, i.e., NORs, Proof, HECM, 203k, etc. Employees will acknowledge their receipt of training via their signature after which the employee will be held accountable for performing the operation per the change. See Attachment C. In-Process Change Training Received Check-off list.

Choice Enterprises Performance: *Employees were not tested two days after contract in-process changes specifically but their knowledge of the change was monitored via:*

- a. *Daily observation of employee work performance.*
- b. *The quality control inspection procedure of 10% of the previous day's output evaluated for compliance to endorsement procedures.*

The In-Process Change Training Received Check-off list was not implemented therefore employees did not acknowledge their receipt of training via their signature. Their knowledge of the change was monitored via:

- a. *Daily observation of their work performance.*
- b. *The quality control inspection procedure of 10% of the previous day's output evaluated for compliance to endorsement procedures.*

ITEM 3: Choice Enterprises emphasized quantity of work performed over quality of work:

Response: *This is a presumptive finding that does not demonstrate any factual basis as normally determined by documented evidence versus heresy.*

Like any other organization engaged in productive activities, Choice Enterprises in its production process, established production standards. The purpose of the production standards were to:

- a. Set employee expectations as to their work requirements.*
- b. Set employer expectations as to work requirements of its employees.*
- c. Establish procedures so as to determine staffing requirements.*
- d. Establish procedures so as to evaluate employee performance.*
- e. Identify employer operational/production costs.*

The Choice Enterprises employee performance standards were determined by observing and monitoring employee performance and employee feedback to affects on stress. The objectives of the performance standards as well as its staffing level practices was to accomplish the product turn-around requirements of the contract (two day turn-around) without compromise to quantity or quality.

HUD established a 10% error rate. Choice Enterprises communicated both verbally and in documented form its minimal acceptable quality levels which was 1.0 percent. Such communications were delivered to employees during employee meetings. See agendas, attachments C.

ITEM 4: Choice Enterprises did not emphasize late endorsements until March of 2001 when they trained employees on how to determine if a loan file was late and how to review payment histories.

Response: Choice Enterprises employees were trained by HUD staff to follow 4165.1 on Dates: July 24, 2000. It was emphasized by HUD Staff (GTR/GTM) for Chummers to allow the Washington, DC CHUMS database to notify of late payments in the system while chumming. On March 12, 2001 It was emphasized and reiterated by the GTR that HUD's CHUMS has an automated indicator on when to NOR. It was further realized and stated by GTR that since lender's payment history's were so different to contact and/or send the file to her in order to determine payment histories. The GTR also implemented the practice that only copies of the various payment histories were to be given out to the Chummers. On June 1 & 4, 2001 the Contract Manager answered employees questions, in the presence of GTR/GTM, during formal training sessions. On September 15, 2001 and September 20, 2001 the Contract Manager was advised by HUD staff that the Washington, DC database indicator was not always working. This information was immediately conveyed to affected Choice Enterprises staff by the Contract Manager. On October 5, 2001 the Contract Manager issued written "late payment" procedures to affected employees. The procedures were validated by the GTR who also signed the written procedure.

On December 28, 2001 the Contract Manager emphasized to all affected employees to remain focused and aware of "late payment process procedures as errors had been discovered. The Contract Manager, on an ongoing basis, advised employees of process

errors as detected via its 10% quality control check or when the GTR/GTM returned files with errors.

ITEM 5: The written policies and procedures for late endorsement that Choice Enterprises distributed to its employees were not adequate.

Response: The contract does not state that the contractor must have written policies and procedures for late endorsement. The Contract does not define the components structure, format or form of any written procedures required of the contractor thereby leaving its structure, format and form in the jurisdiction and abilities of the contractor as to what it feels is adequate written policies and procedures in any subject matter. As such, it is the contractor's determination that it exceeded the government's requirements. The contractor feels that the written policies and procedures distributed to its employees for late endorsement, though a) handwritten, b) considered lacking in detail and c) difficult to understand, as determined by a source unknown to the Contractor, were distributed in "good faith" and considered adequate by the contractor in view of the work and environmental constraints and conditions that existed during the term of the contract. This procedure, though handwritten, was approved and signed by the GTR on 10/02/2001.

ITEM 6: The Choice Enterprises written policies and procedures did not contain a reference to HUD Handbook 4165.1

Response: Choice Enterprises, after two attempts to set written late payment procedures in place consistent with HUD Handbook 4165.1 requirements, was told by the GTR that with HUD Denver HOC's restrictions being somewhat different than that indicated, Chummers were to allow the Washington CHUMS database to trigger the NOR. In addition, Choice Enterprises was advised that where there were no late fees involved to contact or send the file down to the GTR as a HUD return so as to allow HUD to determine if it was to be a NOR.

ITEM 7: Choice Enterprises prepared a typed version of the procedures that were more detailed and easier to understand, however, the version was not distributed to employees until July 2002, 24 months after the two-year contract was let.

Response: Please see response in Items 4, 5, and 6 above.

ITEM 8: The Choice Enterprises QC plan did not ensure that loan files were complete.

Response: Special Requirements III of the contract states that the contractor shall determine whether files submitted for insurance endorsement are in compliance with HUD requirements. This includes review of the submitted FHA Case Binder and ensuring CHUMS reflects accurate data. Only complete files shall be endorsed and shipped to the federal records center.

Choice Enterprises was informed by HUD Denver HOC GTR that Resubmissions, late payment requests and reasons for NORs were regularly and/or as a rule, returned with documents missing, and as such Choice Enterprises staff were not allowed to NOR again for new reasons inclusive of late payments... Further, HUD Staff from Denver HOC processed Resubmissions previously Rejected by Choice Enterprises, as well, and used the Choice Enterprises Contract Manager's CE ID. In addition, per GTR ~~xxxxxxxxxxxx~~, those resubmissions many times contained requests specific to and known only by HUD staff.

Initially, only HUD Staff processed resubmissions. Ocurring around May 2002, HUD started allowing Choice Enterprises to process Resubmissions on a regular basis. This decision was made because HUD did not have enough financing to provide regular files to the company. It was stated to Choice Enterprises, by the Auditor that the majority of incorrect files were Resubmissions. As, both Choice Enterprises and HUD worked on Resubmissions and HUD used Choice Enterprise's CE ID it has not been demonstrated that the 75 files in question were completed/processed by Choice Enterprises.

c) **Important checklists were missing:** *The auditor has not indicated which important checklists were missing and the authority that would determine them as being important. In addition, the contractor endorsed files according to the checklist provided by HUD and was unaware of other checklists that the contractor was required to use.*

d) **Checklists were incorrectly labeled:** *The auditor has not indicated which checklists were incorrectly labeled therefore can not respond to this item.*

The government did not establish a requirement or define, other than the "Late Endorsement Checklist", which, where, when, how and/or why checklists were to be labeled for any topic/operation to include late endorsement.

e) **Checklists were not labeled at all:** *The auditor has not indicated which checklists should have been present that were not labeled.*

The government did not establish a requirement or define which, where, when, how and/or why checklists were to be labeled for any topic/operation to include late endorsement.

ITEM 9: Requirements for employee skill levels were vague and incomplete.

Response: *Employee skill levels were determined to be demonstrated by their error rate. The individual employee error rate was monitored by the HUD QC check, the Choice Enterprises QC check, The Choice Enterprises NOR review and feedback from*

the HUD GTR. The individual employee error rate was documented by the HUD QC check. HUD established a 10% error rate. Choice Enterprises communicated both verbally and in documented form its minimal acceptable quality levels which was 1.0 percent. Such communications were delivered to employees during employee meetings. See agendas, attachments C,

ITEM 10: There were discrepancies between the written QC plan and the actual procedures performed, for instance

d) although required by the plan, formal weekly employee valuations were not done

Response: All employees received day-to-day valuation in performing requirements identified in the SOW from the Project manager and their more experienced coworkers.

e) regular training were not kept

Response: All employee's received regular training via daily monitoring of their performance by the Project Manager and instruction given when and where required.

f) regular testing were not kept

Response: All employee's performance was tested informally through their daily work performance, the Choice Employee and HUD quality control inspection procedures of 10% of the previous day's output evaluated for compliance to endorsement procedures. In the event of errors, employees were advised, queried as to their understanding the procedure and retrained as required.

The Contractor's employee valuation, training and testing practices though considered not fully in compliance with its stated procedures were influenced by environmental constraints and conditions that existed during the term of the contract.

ITEM 11: Employees were not adequately trained and were not provided with adequate written policies and procedures for "Late" endorsements.

Response: As stated in Item 6, after two attempts to set Choice Enterprises' late payment procedures in place as they pertained to HUD Handbook 4165.1, as specified on the Pre-Endorsement Review Checklist, and being told by the GTR that with HUD Denver HOC's restrictions being somewhat different than those indicated in the handbook, Chummers were to allow the Washington, DC CHUMS database to trigger the NOR. In addition, Choice Enterprises was advised that where there were no late fees involved to contact or send the file down to the GTR as a HUD return so as to allow HUD to determine if it was to be a NOR.

Further, Choice Enterprises followed verbal mandates made by HUD Denver HOC GTR and was never given a written local policy. Choice Enterprises acted in good faith to comply with procedures and practices as stated by their GTR.

ITEM 12: Choice Enterprises QC plan did not adequately ensure that the proper procedures were followed for late endorsements.

Response: *The contract states in Special Requirements III. M that the contractor shall have a Quality Control Plan on file and shall supply the GTR/GTM with a copy of the plan prior to contract performance. The plan shall include*

a) a second review of all NORS maintaining the standard that they are mailed within one (1) business day.

Response: *The contractor complied with this requirement.*

b) a daily quality control review of 10% of the previous day's endorsements. that QC log sheets, as specified by the GTR/GTM shall be completed and maintained separately by the contractor and available to the GTR/GTM upon request.

Response: *The contractor complied with this requirement.*

c) that the contractor shall be required to input quality control data into a specific data base.

Response: *The contractor complied with this requirement.*

DISTRIBUTION OUTSIDE OF HUD

Ranking Member, Committee on Government Affairs
(senator_lieberman@lieberman.senate.gov)
Senior Advisor, Subcommittee on Criminal Justice
Resources (Sharon.Pinkerton@mail.house.gov)
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(Andy.Cochran@mail.house.gov)
Senior Counsel, Committee on Financial Services
(Clinton.Jones@mail.house.gov)
Committee on Financial Services
(Kay.Gibbs@mail.house.gov)
U.S. General Accounting Office
(HallW@GAO.GOV)
Chief Housing Branch, Office of Management and Budget
(Fredburn@omb.eop.gov)
Department of Veterans Affairs, Office of Inspector General
(Linda.Halliday@mail.va.gov)
Chairman, Committee on Government Affairs, 172 Russell Senate
Office Building, Washington, DC 20510
Chairman, Committee on Government Reform, 2348 Rayburn Building,
House of Representatives, Washington, DC 20515-4611
Ranking Member, Committee on Government Reform, 2204 Rayburn
Building, House of Representatives, Washington, DC 20515