



Issue Date July 31, 2003
Audit Case Number 2003-KC-1007

TO: John C. Weicher, Assistant Secretary for Housing-Federal Housing Commissioner, H

Roger E. Niesen

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

SUBJECT: Management Solutions of America, Inc.
8010 Roswell Road, Suite 100
Atlanta, GA. 30350

INTRODUCTION

We have completed an audit of Management Solutions of America, Inc., a Philadelphia Home Ownership Center contractor performing insurance endorsement review procedures. Our objective was to determine if the contractor followed HUD's regulations and their contract terms for reviewing "Late Requests for Endorsement."

During our audit, we tested a representative sample of 155 late loan endorsement files processed by Management Solutions of America, Inc. during the period August 1, 2001 through December 31, 2002. We selected a representative sample so that we could project the results of our review to the universe of 90,364 late loan endorsement files. 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. 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

Management Solutions of America, Inc. endorsed mortgages that did not contain the documentation required to insure loans submitted for endorsement more than 60 days after closing. For 51 of the 155 files we tested, the files did not contain the information required for endorsement. Based on these results, we are 90 percent confident that Management Solutions of America improperly endorsed between 24,127 and 35,784 late loans during the period from August 2001 through December 2002. Management Solutions of America's quality control procedures regarding late endorsements were not adequate to ensure that HUD's guidelines were followed.

The improper late endorsement of the 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

The Philadelphia Home Ownership Center awarded a contract to an external contractor to provide endorsement services for the Philadelphia office from July 1, 2001 through June 30, 2002. The scope of the work was to "perform Insurance Endorsement Processing Services on an as needed basis for the U.S Dept. of HUD Philadelphia Home Ownership Center."

Management Solutions of America is currently under contract with HUD to perform insurance endorsement processing at the Philadelphia Home Ownership Center. They received a contract in 2001 for one year at the Philadelphia Home Ownership Center with two available option years. They were contracted to perform a maximum of 676,000 endorsement reviews each year of the contract.

FINDING 1

Mortgages Were Endorsed Without Required Documentation

Management Solutions of America, Inc. endorsed mortgages that did not contain the necessary documentation for endorsement when the loans were submitted more than 60 days after closing. For 51 of the 155 files we tested, the necessary documentation was omitted and the loans should not have been endorsed. Management Solutions of America does not feel that there is any contractual requirement to treat late endorsements differently than those submitted on time and they do not feel that the errors are significant enough to take extra measures to identify and

correct the inadequacy of the process. The improper endorsement of the 51 mortgages valued at \$7,004,323 increased the risk to the Federal Housing Administration insurance fund.

Section C.2.(f) paragraph 2 of the contract between Management Solutions of America and the Philadelphia Homeownership Center requires the contractor to maintain updated knowledge of Federal Housing Administration programs through Handbooks, Mortgagee Letters, and HUD Notices that are posted on HUD's Internet Web page or the Philadelphia Home Ownership Center's Internet Web page, including, but not limited to, the most current editions of HUD Handbook 4165.1. According to HUD Handbook 4165.1 Chapter 3, late request for endorsement procedures apply if a mortgage is submitted to HUD more than 60 days after closing. The files for late endorsements must include 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; 3) a payment ledger reflecting all payments, including the payment due in month of submission if it is due before the 15th on the month of submission; and 4) a certification that the lender did not provide the 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.

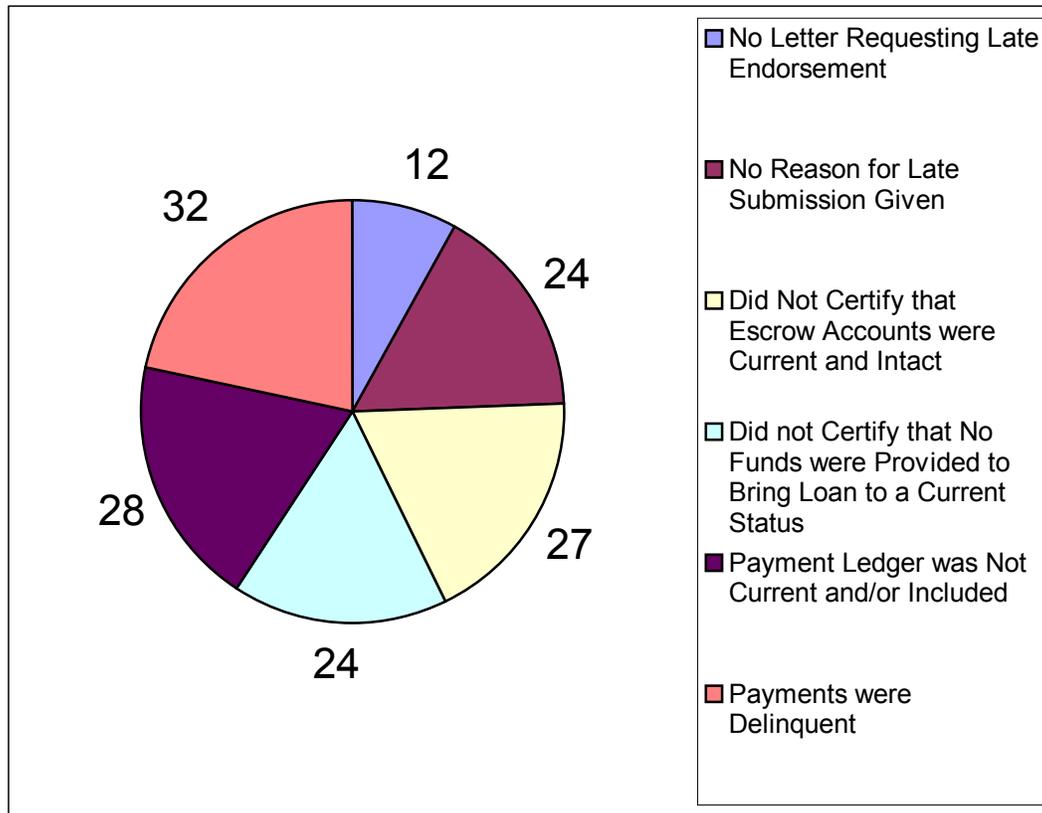
Additionally, the Home Ownership Center provided modified criteria to the contractor requiring the contractor to: 1) review the files for a current payment history, 2) ensure that there are no delinquent payments, and 3) ensure the existence of the late letter. Also, contrary to the HUD Handbook, the modified criteria allows the contractor to approve a loan with a late letter even if the letter does not contain a corrective action statement. We used this additional criteria in our review of the files, and as a result, we did not take exception with any files containing a letter that did not indicate actions taken to prevent future occurrences of late submissions.

Management Solutions of America endorsed mortgages that did not contain the necessary documentation for endorsement when the loans were submitted more than 60 days after closing. Of the 155 late endorsement files we manually reviewed, looking for the documentation required by HUD Handbook 4165.1, 51 files, or 33 percent did not have the required documentation and should not have been endorsed. We projected this error rate to the universe of late endorsement files from July 2001 through December 2002 (90,364), and are 90 percent confident that the rate of occurrence of errors in the universe is between 26.7 percent and 39.6 percent. This means Management Solutions of America, Inc. improperly endorsed between 24,127 and 35,784 files during this period.

For this test, we considered a loan to be ineligible for endorsement if it met any of the following five significant (1-5) or one procedural criteria (6):

1. Files that did not have a letter requesting late endorsement.
2. Files with a letter that did not certify that escrow accounts were current and intact.
3. Files with a letter that did not certify that no funds were provided by the lender to bring the loan current.
4. Files that did not include a current payment ledger.
5. Files in which one or more of the payments were delinquent.
6. Files with a letter that did not provide a reason for the late submission.

The following chart shows the number of deficiencies we identified during our reviews. There are more than 51 deficiencies shown because many of the loans contained more than one deficiency. The results of our file reviews are further detailed in Appendix A.



Management Solutions of America experienced a high percentage of improperly endorsed late submissions because they do not feel that there is any contractual requirement to treat late endorsements differently than those submitted on time, and they do not feel that the errors are significant enough to take extra measures to identify and correct the inadequacy of the process. However, since Management Solutions of America is required to process loans in accordance with HUD’s Handbook requirements, it needs to develop and implement procedures that will ensure loans submitted for late endorsement are processed properly.

Management Solutions of America should not have endorsed the 51 mortgages, valued at \$7,004,323, that we identified during our testing. Approving any loans that do not comply with HUD’s requirements increases the risk to the Federal Housing Administration insurance fund. HUD should take appropriate action against Management Solutions of America for approving these loans and should pursue indemnifications for the loans from the originating lenders.

AUDITEE COMMENTS

Management Solutions of America said they were following HUD's guidance when reviewing 17 of the 51 files in the finding. They said they were verbally instructed to handle cases in a certain manner. However, at the exit conference they were asked to leave the room while OIG and the Home Ownership Center discussed the issue and were later informed that the Home Ownership Center stated, "if it's not in writing, it didn't happen."

OIG EVALUATION OF COMMENTS

We conducted two exit conferences on the same day; one with Management Solutions of America on this external report and the other with the Philadelphia Home Ownership Center for a related internal report addressed to the Center. The exit conference for the external was conducted first, and the Home Ownership Center elected to not let Management Solutions' representatives remain during the internal exit conference. This is what Management Solutions' comments are referring to when they state they were asked to leave the room. During the exit conference with Management Solutions of America, they were informed that the Philadelphia Home Ownership Center's position is that the Center did not provide any additional guidance to the auditee other than to allow processing when a corrective action statement was not present. Management Solutions of America was unable to provide written documentation to support authorized deviation from the HUD Handbook other than that stated. Since deviations from the Handbook are required to be in writing, we concluded that Management Solutions of America improperly endorsed the 17 loans in question.

AUDITEE COMMENTS

Additionally, Management Solutions of America disputes the cause of the finding. Management Solutions believes that the audit report suggests that they made a deliberate and conscious decision to ignore HUD regulations, rules and procedures relative to handling late requests for endorsements. The audit report states, "Management Solutions of America does not feel that there is any contractual requirement to treat late endorsements differently than those submitted on time and they do not feel that the errors are significant enough to take extra measures to identify and correct the inadequacy of the process." Management Solutions believes that the following statement would be a more accurate assessment; "Management Solutions of America feels that we were erroneously instructed to handle Late Requests for Endorsement in the fashion in which they were handled thereby compelling us not to focus on any differentiation between Late Requests for Endorsement and the endorsement process in general."

OIG EVALUATION OF COMMENTS

We believe that the cause as stated in the report is accurate. That cause was extensively discussed with and agreed upon by Management Solutions representatives at the exit conference. The new cause, as proposed by Management Solutions, only addresses the 17 loans referred to above. It does not address the remaining 34 loans that were also identified as problematic. Our audit concluded that late endorsements have unique requirements and require special review procedures to determine if they are properly applied. After extensive discussions and interviews

with Management Solutions representatives, we concluded that they believed as long as they met standards for all endorsements, late endorsements were not a problem and did not require any different review procedures.

AUDITEE COMMENTS

Management Solutions of America stated that the draft audit addresses discrepancies that occurred in the first 6 months of contract performance. They said HUD training guidelines were being followed from the initial training, and HUD conducted extensive training in February related to late endorsements. Management Solutions immediately adopted these changes and implemented a checklist as a quality control measure. Management Solutions provided estimated percentages that indicate that the error rate after this training was 9.2 percent and within the acceptable 10 percent error rate.

OIG EVALUATION OF COMMENTS

We agree that training was provided in February 2002. Although the auditee says they had an acceptable error rate, we could not determine how they calculated their rate to reach that conclusion. Our calculations, which we discussed with Management Solutions management, indicated an error rate of 41.57 percent prior to the training and 21.21 percent after the training. Since 21.21 percent is still significantly above 10 percent, and the same type errors occurred before and after the training we did not conclude that the problem has been corrected.

AUDITEE COMMENTS

Management Solutions of America believes the audit process is flawed. Their basis for this contention is that out of more than 100 findings of improper application of rules and regulations in the preliminary audit, 70 percent could not be sustained in a review of the findings by their staff.

OIG EVALUATION OF COMMENTS

As we explained to the auditee during the exit conference, the 70 percent error rate they attribute to the auditor resulted from us reassigning responsibility for a certain type of problem from the auditee to the Home Ownership Center after we became aware that the problem resulted from guidance provided by the Center. The problem with the Center's guidance came to our attention during the normal audit process when we presented the questioned files to the auditee for an explanation. After the cause of the problem was identified and determined not to be the responsibility of the auditee, we removed these files from the auditee's list of questioned files and wrote a separate report to the Home Ownership Center.

AUDITEE COMMENTS

Management Solutions of America believes that we are required to design our audits to accomplish the following objectives:

- Provide the agency with “specific documentation of areas where performance of members of the agency create negative results in the appropriation of funds.”
- Provide the agency with “specific documentation of areas where... the application of rules and regulations create financial burden to the agency.”
- Provide the agency with “specific documentation of... comlicity and failure to perform with due diligence.”
- “Discover deficient performance as documented in evaluation reports.”
- “Selectively address areas not covered in randomized sampling quality assurance undertakings.”

Management Solutions believes that if the auditor fails to carry out this mission, the audit is flawed. Such is the case if the auditor fails to address the performance of the government contractor as being consistent with agency instructions. Further, Management Solutions believes that a government audit is not designed or intended to create harm for a government contractor performing according to government instructions.

OIG EVALUATION OF COMMENTS

OIG not the auditee is responsible for establishing audit objectives and, in accordance with Government Auditing Standards, we applied due professional care in establishing our objectives. The objective of our audit was to determine if the contractor followed HUD’s regulations and their contract terms for reviewing “Late Requests for Endorsements.” We found that Management Solutions of America’s contract directs them to adhere to HUD’s Handbook guidance. Our finding clearly illustrates that they did not follow handbook requirements. Further, the Auditee asserts that our audit failed to address compliance with agency instructions. As stated in the report, the Home Ownership Center provided modified criteria to the contractor and we reviewed the files accordingly. Thus, our decision to not take exception with any files that did not contain a corrective action statement as required by the Handbook. We believe the audit achieved our audit objective in accordance with our authority and responsibility under the Inspector General Act.

AUDITEE COMMENTS

Management Solutions of America offered the following recommendations:

1. “Detail the contributing factors of HUD program staff in providing verbal instructions in variance with published rules and regulations to which Management Solutions of America is obligated to apply
2. Redo Audit
3. Direct HUD program officials and the contracting officer to eliminate any reporting under performance evaluation on the national database of risk of Management Solutions of America based upon the assertion of financial loss that, in fact, as was reported during our meeting, developed as only one endorsement of all files found.”

OIG EVALUATION OF COMMENTS

We provided recommendations that are appropriate to address the conditions we found. Verbal instructions provided by HUD staff are addressed in the report. As previously mentioned, the report specifies that the files were reviewed in accordance with the modified criteria provided by the Philadelphia Home Ownership Center. There is no reason to redo the audit as it met our audit objectives. Management Solutions is free to pursue with the HUD program staff any recommendations that they believe will improve the late endorsement process.

RECOMMENDATIONS

We recommend the Assistant Secretary for Housing-Federal Housing Commissioner:

- 1A. Seek indemnification from the respective mortgagees for any of the 51 improperly endorsed loans (see Appendix A) for which required significant documentation cannot be produced or where the documentation, when produced, indicates a deficiency according to Handbook procedures.
- 1B. Ensure Management Solutions of America develops and implements procedures that provide adequate assurance that late submissions are endorsed in accordance with HUD Handbook requirements.
- 1C. Take appropriate administrative action against Management Solutions of America, Inc. This should include recouping a portion of its processing fees based on the projected error rate for the period from August 2001 through December 2002 (24,127 – 35,784 loans).

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 Management Solutions of America, Inc 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 item is a significant weakness (See Finding 1):

- Management Solutions of America's procedures do not ensure that late submissions are endorsed in accordance with their unique requirements.

APPENDIX A

FHA #	No Letter Requesting Late Endorsement	No Reason for Late Submission Given	Did Not Certify that Escrow Accounts were Current and Intact	Did not Certify that No Funds were Provided to Bring Loan to a Current Status	Payment Ledger was Not Current and/or Included	Payments were Delinquent	Mortgage Amount
061-2261929			X	X	X	X	\$57,000.00
061-2310441					X	X	\$86,700.00
061-2365162	X	X	X	X	X	X	\$82,000.00
061-2388922						X	\$69,355.00
061-2504743			X				\$119,110.00
241-5897846		X		X			\$74,900.00
241-6191213			X				\$172,450.00
241-6198155		X					\$114,647.00
241-6279431	X	X	X	X	X	X	\$189,957.00
241-6295511	X	X	X	X	X	X	\$151,500.00
241-6331762			X				\$101,829.00
241-6333179					X	X	\$228,172.00
241-6465823		X					\$118,958.00
241-6508007	X	X	X	X	X	X	\$155,561.00
241-6644991	X	X	X	X	X	X	\$125,504.00
249-4323201					X	X	\$193,471.00
249-4332970			X	X	X	X	\$140,390.00
249-4403047	X	X	X	X			\$138,800.00
261-7935826					X	X	\$168,261.00
262-1324998		X					\$58,000.00
341-0737570			X	X	X	X	\$135,050.00
351-3896622		X					\$104,176.00
351-4044703		X			X	X	\$164,277.00
351-4091539			X	X			\$133,406.00
351-4134397					X	X	\$108,145.00
352-4242719		X					\$166,663.00
352-4281481			X	X			\$246,137.00
352-4284623			X	X	X	X	\$133,213.00
352-4420114			X	X			\$164,836.00
352-4451770			X	X			\$137,837.00
372-3116833	X	X	X	X	X	X	\$65,975.00
372-3154020		X					\$24,555.00
374-3564544	X	X	X	X			\$260,000.00
374-3571750		X			X	X	\$415,693.00
374-3589830			X	X			\$177,200.00
374-3603780			X	X		X	\$172,150.00

FHA #	No Letter Requesting Late Endorsement	No Reason for Late Submission Given	Did Not Certify that Escrow Accounts were Current and Intact	Did not Certify that No Funds were Provided to Bring Loan to a Current Status	Payment Ledger was Not Current and/or Included	Payments were Delinquent	Mortgage Amount
374-3676010						X	\$238,525.00
411-3171793						X	\$75,875.00
411-3319693					X	X	\$83,489.00
412-4579924	X	X	X	X	X	X	\$98,455.00
413-3639543		X	X		X	X	\$159,659.00
413-3681099			X		X	X	\$159,659.00
441-6439420	X	X	X	X	X	X	\$69,730.00
441-6549589					X	X	\$59,430.00
441-6556719	X	X	X	X	X	X	\$130,469.00
441-6559931		X					\$118,066.00
441-6798727				X	X	X	\$107,843.00
541-5910019	X	X	X	X	X	X	\$74,298.00
541-5960464		X					\$123,119.00
548-3751153					X	X	\$170,978.00
548-3834439					X	X	\$178,850.00
TOTALS	12	24	27	24	28	32	\$7,004,323.00

SCHEDULE OF QUESTIONED COSTS AND FUNDS PUT TO BETTER USE

<u>Recommendation Number</u>	<u>Type of Questioned Cost</u> <u>Ineligible 1/</u> <u>Unsupported 2/</u>	<u>Funds Put to Better Use 3/</u>
1A		\$7,004,323

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.



Management Solutions of America, Inc.

July 9, 2003

U.S. Department of Housing and Urban Development
Great Plains Office of Regional Inspector General
For Audit, 7AGA
Gateway Tower II-5th Floor
400 State Avenue
Kansas City, Kansas 661010-2406

Re: Audit Case 2003-KC-

Dear Roger Niesen:

As mentioned during our meeting on May 28, 2003, we are distressed by the inaccurate assertions embodied in the above mentioned draft memorandum and continue to dispute the validity of your findings.

Management Solutions of America, Inc. has in good faith worked along side HUD representatives for the past 24 months, as has been substantiated by several HUD officials. Our professional working relationship with HUD mirrors the insurance endorsement review procedures outlined in our contract section C. Description/ Specifications/Work Statement and because of this fact your findings are extremely paradoxical.

For the past 24 months, HUD has randomly selected a representative sample of our work every month for review. Per our contract, it states specifically, Section C. 4. "The result of the randomly sampled cases shall be considered to be representative of the contractor's overall performance under the contract". It is our understanding and HUD's understanding that the selections were used to determine the accuracy, quality and completeness of our reviews. The GTR/GTM's have provided feedback during our monthly discussions on our performance as it related to HUD's regulations and contract terms. As mentioned during our meeting, the procedures for reviewing "Late Requests for Endorsement" was discussed during one of the early review meetings and we were verbally instructed to handle our cases in the manner in which we have related to the Auditors, a fact substantiated by OIG officials.

On May 28, 2003 at the Exit Conference MSA representatives were ask to leave the conference room while the OIG conducted a separate meeting with HUD. When ask to return to the room alone later a new doctrine was introduced "if it's not in writing, it didn't happen." This refers to verbal direction given to MSA staff, by Government

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Representatives in regards to processing Late Endorsements. As a result, seventeen files were added to our list of files improperly endorsed. These files were considered improperly endorsed because of a paragraph omitted from the Late Letter. When in reality, if these files had been rejected and returned to the lender, a new late letter would have been generated to include the missing statement and the file would then have been endorsed. This is the exact reason for the direction given MSA by HUD staff. The letter represents an expense to HUD for labor, postage and packaging. The letter does not alter the documents in the file, it may solely lack the indication as to why the lender submitted the file late or what they would do in the future to send them in on time.

"Finding 1" is totally in error. The suggestion is that MSA made a deliberate and conscious decision to ignore HUD regulations, rules and procedures relative to handling late requests for endorsements. This is an egregious action on the part of the auditor! There is no denying that HUD staff provided MSA with specific verbal instructions on how to handle these late requests for endorsement. This audit report must not suggest that there was a negligent approach on the part of MSA staff to its obligations. We refute "Finding 1" and restated under the graph on page 5 as assertions that have been misrepresented. Your memorandum states, "Management Solutions of America does not feel that there is any contractual requirement to treat late endorsements differently than those submitted on time and they do not feel that the errors are significant enough to take extra measures to identify and correct the inadequacy of the process." This is ludicrous. To the contrary, the performance of this contractor on this and other HUD contract awards establishes this contractor's commitment to following rules, regulations and laws; we have never superimposed our interpretation of law, rules and regulations over those posted by HUD without specific instructions from a HUD official. Our position is, "Management Solutions of America feels that we were erroneously instructed to handle Late Requests for Endorsement in the fashion in which they were handled thereby compelling us not to focus on any differentiation between Late Requests for Endorsement and the endorsement process in general.

The draft audit addresses discrepancies in review that accrued in the first 6 month of contract performance. Training guidelines from HUD were being followed from the initial training. An extensive training was conducted in February by HUD related to late endorsements. This was due to changes in methodology and protocol. MSA immediately adopted these changes and implemented a checklist as a Quality Control measure.

Your audit is based on an 18-month review of 155 files, this averages 8.6 per month. In the post 10 months after the Late Endorsement training this amounts to 86 files and an error rate of 9.2% in the amount of \$1,009,875.00. This error rate for **only** late endorsements falls within the Acceptable Performance Level (APL) in our contract,

Section C.4 (b.) of 90%. Our error rate for **all** endorsed cases has never been below 5% each month of contract performance and is usually in the 1-2% range.

It is our position that this Audit does not address our contract obligations and the satisfaction of the agency which we are under direct guidance from, does not address where a contractor operates under guidance by a governmental agency, and how this operation differs from in place rules and regulations, the audit must provide explanatory notes to define the performance as in conformance with governmental representatives instructions. The audit explanatory notes must reflect the accurate application of controlling rules and regulations upon receipt of training in the application of these and the specific requirements to adjust operations to accommodate training specifics.

Audit documentation that attributes significant cost to the government in disallowance for improperly endorsed loans is not appropriate when the loss is directly tracked to the instruction provide the government contractor, MSA. In no case were these losses associated with deficient performance of MSA in the disregard of rules and regulations other than those set aside by staff of HUD in the 6 months performance prior to training to alter process and procedures. The audit must assign the responsibility to the source.

In addition, the audit process appears to be flawed. Basis for this contention is that out of more than 100 findings of improper application of rules and regulations in the preliminary audit, 70% could not be sustained in a review of the findings by the staff of MSA. This speaks to the issue of the lack of training and preparedness of the auditor charged with the performance of the audit. Observation is that the assigned auditor was not dedicated to the work assignment; her flawed approach to the audit resulted from her lack of understanding of the technical processes involved.

The preliminary audit is flawed in its failure to address the root cause of the deficiencies addressed as government contractor performance. The government contractor did not fail to perform its statement of work according to instructions provided for performance and the contract for services.

There is no mention that this performance did not meet the intent of the contract Statement of work and did not incorporate the appropriate guidelines, rules and regulations that were desired. The audit report did not differentiate between the performance after the extensive training session wherein the rules were altered, and MSA was provided different instructions for contract performance.

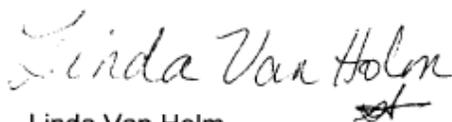
The audit is designed to provide the Oversight Committee members, the Administration and the Administrator of the Agency with specific documentation of areas where performance of members of the Agency create negative results in the appropriation of funds, the application of rules and regulations that create financial burden to the agency, and complicity and failure to perform with due diligence. The audit is designed to discover deficient performance as documented in evaluation reports, and to selectively address areas not covered in randomized sampling QA undertakings. If the auditor fails to carry out this Mission, the audit is flawed. Such is the case if the auditor fails to address the performance of the government contractor as being consistent with Agency instructions.

A government audit is not designed or intended to create harm for a government contractor performing according to government instructions. This audit worded as it is, is without benefit of the explanatory notes, places MSA at risk in the analysis of past performance evaluations for this Agency and other federal agencies and their contracting officers and evaluation panel members. This is contrary to the intent and purpose of an audit commissioned for review of operating procedures of an agency and contract support services associated with those audited operating procedures.

Management Solution of America recommendations:

1. Detail the contributing factors of HUD program staff in Providing verbal instructions in variance with published rules and Regulations to which MSA is obligated to apply
2. Redo Audit
3. Direct HUD program officials and contracting officer to eliminate any reporting under performance evaluation on the national database of risk of MSA based upon the assertion of financial loss that, in fact, as was reported during our meeting, developed as only one endorsement of all files found.

Sincerely,



Linda Van Holm
CEO
Management Solutions of America, Inc.