audit report

OFFICE OF INSPECTOR GENERAL

Issue Date	May 22, 1997
Audit Case Number	97-CH-229-1007

TO: Beverly E. Bishop, Director, Office of Housing, Illinois State Office

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

SUBJECT: Developing Economical and Better Living, Inc.
Single Family Direct Sales Program
Chicago, Illinois

We completed an audit of Developing Economical and Better Living, Inc., a private nonprofit organization, that bought properties at a 30 percent discount under the Single Family Direct Sales Program. The audit was conducted to address the Illinois State Office's concerns regarding numerous programmatic irregularities. The Illinois State Office conducted a monitoring review in September 1996 and identified the following problems: (1) excess resale prices; (2) sales of properties to third party purchasers on the same day the nonprofit organization purchased the properties from HUD with no repairs made; (3) sales of properties to investors instead of qualified low income buyers; and (4) unsold, vacant, and boarded properties. Our audit objectives were to assess the validity of HUD's concerns; and determine whether the nonprofit organization complied with HUD's program requirements.

We concluded the nonprofit organization did not comply with HUD requirements. The nonprofit organization: (1) sold ten homes for amounts greater than allowed on the same day it purchased the homes from HUD; (2) violated HUD's conflict of interest requirements; and (3) did not ensure that the home purchasers met the Program qualifications, resulting in sales to investors;
(4) had an excessive number of unsold, vacant, and boarded up properties. Additionally, the nonprofit organization did not have a functional accounting system to track and record property costs.

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

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

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Executive Summary

We completed an audit of Developing Economical and Better Living, Inc., a private nonprofit organization, that bought properties at a 30 percent discount under the Single Family Direct Sales Program. The audit was conducted to address the Illinois State Office's concerns regarding numerous programmatic irregularities. The Illinois State Office conducted a monitoring review in September 1996 and identified the following problems: (1) excess resale prices; (2) sales of properties to third party purchasers on the same day it purchased the properties from HUD with no repairs made; (3) sales of properties to investors instead of qualified low income buyers; and (4) unsold, vacant, and boarded properties. On July 18, 1996, HUD indefinitely suspended Developing Economical and Better Living, Inc. from participating in the Single Family Direct Sales Program. Our audit objectives were to assess the validity of HUD's concerns; and determine whether the nonprofit organization complied with HUD's Program requirements.

The Single Family Property Disposition Program is intended to reduce the inventory of HUD acquired properties in a manner that expands home ownership opportunities, strengthens neighborhoods and communities, and ensures maximum return to the mortgage insurance fund. HUD approved nonprofit organizations are allowed to purchase properties at a 30 percent discount from HUD's list price. This price incentive is designed to allow nonprofit organizations the opportunity to purchase the property, make the needed repairs, and resell the homes to qualified low-income buyers. HUD restricts the sale price the nonprofit organization can charge the homebuyer. It is anticipated that nonprofit organizations make no more than a ten percent rate of return on the total purchase price and rehabilitation costs.

We concluded the nonprofit organization did not comply with HUD requirements. The nonprofit organization: (1) sold ten homes for amounts greater than allowed on the same day it purchased the homes from HUD; (2) violated HUD's conflict of interest requirements; and (3) did not ensure that the home purchasers met the Program qualifications, resulting in sales to investors; (4) had an excessive number of unsold, vacant, and boarded up properties. Additionally, the nonprofit organization did not have a functional accounting system to track and record property costs.

The Nonprofit Did Not Comply With HUD's Requirements

Developing Economical and Better Living, Inc. did not comply with HUD requirements and made excessive profits on properties sold. The nonprofit organization: (1) sold ten homes for amounts greater than allowed on the same day it purchased the homes from HUD; (2) violated HUD's conflict of interest requirements; and (3) did not ensure that the home purchasers met the Program qualifications, resulting in sales to investors; (4) had an excessive number of unsold, vacant, and boarded up properties. Additionally, the nonprofit organization did not have a functional accounting system to track and record property costs. The nonprofit organization's President said she was not aware of HUD's requirements. As a result, low and moderate income persons did not benefit from the Program's property discounts and the nonprofit organization realized excess profits of $76,161.

We recommend that HUD require Developing Economical and Better Living, Inc. to: provide documentation to support rehabilitation expenses for each property listed in Appendix D of this report or prepay the respective homebuyers' mortgages for the $76,161 excess profits taken; provide evidence to show that the President did not receive a $22,000 personal benefit from the sale of the property located at 11245 Longwood and if no evidence can be provided, recoup the financial benefit received by the President and remit the funds to HUD; establish an adequate accounting system; make required improvements to properties prior to resale; and ensure that homebuyers meet Program qualifications. We also recommend that the Illinois State Office consider imposing administrative sanctions against all officers of Developing Economical and Better Living, Inc..

We presented our draft finding to Developing Economical and Better Living, Inc.'s President and the Illinois State Office. Although the draft finding was issued to the President on February 13, 1997, we did not receive her written comments to the draft finding until March 18, 1997. We held an exit conference on March 21, 1997. The President's written comments were considered in preparing our report. The comments without attachments are included in Appendix B. We provided the Director of Housing, Illinois State Office, with complete copies of the comments with the attachments.

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Introduction

Developing Economical and Better Living, Inc., is a private nonprofit organization that participates in HUD's Single Family Direct Sales Program. It was organized on September 28, 1993 in order to provide low cost housing alternatives to low income persons, and functions as a full service community organization providing affordable housing. Between June 26, 1995 and September 4, 1996, Developing Economical and Better Living, Inc. paid $439,450 to purchase 34 homes from HUD's Single Family Direct Sales Program. The homes were purchased at a 30 percent discount.

HUD's Single Family Direct Sales Program allows approved nonprofit organizations to purchase homes from HUD's inventory at a 30 percent discount of HUD's list price. The homes are located in HUD designated revitalization areas. The discount is intended as an incentive to allow nonprofit organizations the opportunity to purchase homes at a reduced cost, make the needed repairs, and resell the homes to qualified low income buyers. It is anticipated that nonprofit organizations make no more than a ten percent rate of return on total purchase and rehabilitation costs for HUD properties purchased at a 30 percent discount.

HUD's intention is to reduce the inventory of its acquired properties in a manner that expands home ownership opportunities, strengthens neighborhoods and communities, and ensures maximum return to the mortgage insurance fund.

On July 18, 1996, HUD indefinitely suspended Developing Economical and Better Living, Inc. from participating in the Single Family Direct Sales Program.

Audit Objectives

Our audit objectives were to determine if the nonprofit organization complied with HUD's requirements and to assess the validity of HUD's concerns that the nonprofit organization: (1) realized excessive resale prices from the resale of properties; (2) performed purchase and sales closings without making repairs to the properties; (3) sold homes to investors rather than qualified low income purchasers; and (4) had unsold, vacant, and boarded up properties.

Audit Scope And Methodology

To achieve our objectives, we interviewed HUD staff in order to determine the reasons for their concerns. We also interviewed staff at the nonprofit organization in order to assess their housing program and what information the HUD Office provided to assist the nonprofit organization in complying with HUD's requirements. We reviewed HUD property disposition files containing property settlement statements and closing documents related to the properties sold. The nonprofit organization's records reviewed included resale settlement statements, bank statements, cancelled checks, and vendors' invoices to determine if the expenses were property related and adequately supported the payments.

The audit covered the period November 1, 1994 through October 31, 1996. We extended the period as necessary. Our field work was conducted between November 1996 and January 1997. We conducted the audit in accordance with generally accepted government auditing standards. We provided a copy of this report to the President of Developing Economical and Better Living Inc.

Developing Economical and Better Living, Inc. Did Not Comply With HUD's Requirements

Developing Economical and Better Living, Inc., a private nonprofit organization did not comply with the requirements of HUD's Single Family Direct Sales Program for properties it purchased at a 30 percent discount. It sold those properties and made excessive profits on the sales. The nonprofit organization: (1) sold ten homes for amounts greater than allowed on the same day it purchased the homes from HUD; (2) violated HUD's conflict of interest requirements; (3) did not ensure that the home purchasers met the Program qualifications, resulting in sales to investors; and (4) had an excessive number of unsold, vacant, and boarded up properties. Additionally, the nonprofit organization did not have a functional accounting system to track and record property costs. The nonprofit organization's President said she was not aware of HUD's requirements. As a result, low and moderate income persons did not benefit from the Program's property discounts and the nonprofit organization realized excess profits of $76,161.

HUD's Requirements

HUD Notice H 95-89 allows nonprofit organizations to purchase HUD acquired properties at a 30 percent discount of the properties' accepted bids provided they comply with HUD's requirements. The requirements state the properties: (1) are primarily intended to be resold to persons who are at or below 115 percent of the areas median income; (2) may not be sold to investors within one year of HUD's closing; and (3) are intended to be sold to owner-occupant purchasers. Additionally, it is not anticipated that a nonprofit organization should realize more than a six to ten percent rate of return on the sale of a 30 percent discounted property.

HUD Regulation 24 CFR 291.405 (2) requires a private nonprofit organization to have a functioning accounting system that operates in accordance with generally accepted accounting principals, or designate an entity that will maintain a functioning accounting system for the organization. A functional accounting system should be able to track property costs and revenues.

HUD Regulation 24 CFR 291.435 (b) states that no person: (1) who is an employee, officer, agent, or elected or appointed official of the lessee or purchaser of property; (2) who is in a position to participate in a decision making process; or (3) who can gain inside information with regard to the lease or purchase of the property, may obtain a personal or financial interest or benefit from the lease or purchase of the property, or have an interest in any contract or agreement with respect to the property, or the proceeds either for them or for those with whom they have family or business ties, during their tenure or for one year thereafter.

HUD Notice H 95-89 requires nonprofit organizations to have financial resources to handle property related costs.

Homes Were Sold For Excessive Amounts

Developing Economical and Better Living, Inc. purchased 34 properties from HUD at a 30 percent discount. The nonprofit organization sold at least ten of the homes at amounts greater than allowed by HUD realizing excessive profits of $76,161 on the sales.

The nonprofit organization did not have an adequate accounting system to track property related costs. Individual property records were not maintained to support the costs related to each specific property. The nonprofit organization did not have invoices to properly support any rehabilitation work performed on the homes.

The nonprofit organization tracked its expenses by the month in which the work was performed and did not always properly allocate the costs to the corresponding properties. Based on our review of the expenses from January 1994 to October 1996, we could not determine which properties the costs related to. The nonprofit organization could not provide cost documentation or contracts to support how much was spent to repair and market each property.

The ten properties sold at amounts greater than allowed by HUD were sold on the same day the properties were purchased from HUD. By immediately selling the properties, the nonprofit organization could not have made any repairs to the homes. The property appraisals done prior to the HUD sales showed that the properties required repairs.

As a result, ten properties were sold at amounts that exceeded HUD's guidelines. The gross profit earned by the nonprofit organization on these ten properties totaled $97,173, or $76,161 in excess of the amount allowed by HUD. The gross profit rate of return for the ten properties ranged from 33 percent to 77 percent on the sales. HUD regulations allow for a maximum ten percent rate of return on HUD properties purchased at the 30 percent discount. The excess profits ranged from $929 to $15,448 per home. The nonprofit organization made excessive profits totalling $76,161 from the ten homes. See Appendix D for details.

The President of the nonprofit organization said rehabilitation work was performed on many of the sold properties as well as several unsold properties. However, the nonprofit organization did not allocate the expenses to specific properties. The President said she was unaware the expenses should have been itemized per property. Although she said their accountant recommended the nonprofit organization maintain the costs by property, it was not done. The President agreed the nonprofit organization needed a better record keeping system to properly record and track costs. She also said some repairs were made before closing for the properties sold on the same day. However, making repairs before the closing of the HUD sale is not allowed by HUD.

The President said she did not realize the Single Family Direct Sales Program requirements applied to all properties the nonprofit organization purchased from HUD at a 30 percent discount. She thought only the properties the nonprofit organization purchased directly through HUD's Single Family Direct Sales Program applied to the 30 percent requirements. She was unaware that the requirements also applied to properties purchased at a 30 percent discount from HUD's general public newspaper offerings. She said the majority of the properties purchased by the nonprofit organization were acquired from the general public newspaper offerings and the requirements did not apply. However, a 30 percent discount was given on each property; therefore, the requirements were applicable.

When a nonprofit organization does not properly allocate receipts and expenses to a specific property, it cannot calculate an accurate rate of return for that property. As a result, property buyers may have paid more for properties than allowed by HUD.

HUD's intent of selling property to a nonprofit organization at a 30 percent discount is to allow the nonprofit organization to make improvements to bring the properties to acceptable standards for sale to low and moderate income persons. The nonprofit organization is allowed to recover their development costs, plus a ten percent fee to cover the administrative expenses incurred during the process. Therefore, buying and selling the properties on the same day with no improvements being made, does not meet the intent of the Program and normally would not justify the ten percent fee for administrative costs.

Conflict of Interest Requirements Were Violated

Developing Economical and Better Living, Inc.'s President transferred ownership to herself on ten of the 34 properties the nonprofit organization purchased from HUD. The President later sold one of the ten properties located at 11245 South Longwood.

As of January 6, 1997, the President of the nonprofit organization was the owner of record for nine unsold properties the nonprofit organization purchased from HUD. These nine properties were sold to the nonprofit organization and then transferred to the President between zero and 175 days after the purchase from HUD.

The nonprofit organization purchased the South Longwood property from HUD on February 13, 1996 for $70,000. The President had a warranty deed notarized to transfer the property to herself on February 12, 1996 from the nonprofit organization. On February 13, 1996, she received a $63,000 mortgage on the South Longwood property, using the property as collateral. The President sold the South Longwood property on May 3, 1996 for $85,000, reflecting an apparent personal profit of $22,000. The President said that no profit was made on this property because of rehabilitation costs incurred. However, the President did not provide any documentation to support the rehabilitation costs incurred.

The President said she transferred the properties to herself in order to obtain mortgages on the properties. She said that banks would not lend money in the name of the nonprofit organization. The mortgages were obtained to provide funding for the nonprofit organization to purchase additional properties from HUD since the nonprofit organization did not have funds available to purchase the homes itself.

The President said she did not expect the nonprofit organization to receive a 30 percent discount on the South Longwood sale. Therefore, she obtained a mortgage to purchase the property. At the HUD closing, the nonprofit organization received a 30 percent discount and the mortgage funds were used for the purchase.

Subsequent to the issuance of our draft finding, the President transferred ownership of the properties from herself back to the nonprofit organization.

Eligibility of Homebuyers Was Not Properly

Developing Economical and Better Living, Inc. did not assure its homebuyers met the Program qualifications. Property files did not show that homeowners were low and moderate income purchasers as intended by the Program.

We conducted site visits to seven properties sold by the nonprofit organization to assure the homes were occupied by an income qualified purchaser. The site visits revealed that three homes were being used as rental properties and three homes were not occupied. The other property appeared occupied but there was no one at the residence.

We also interviewed a homebuyer that purchased two homes from the nonprofit organization. The owner closed his sales with the nonprofit organization on the same day the nonprofit organization purchased the properties from HUD. The homebuyer purchased the first property from the nonprofit organization in September 1995 and the second in October 1995. Both of the properties are being used for rental purposes. Consequently, homes sold by the nonprofit organization are not fulfilling the Program qualifications.

The President said she believed all buyers were low to moderate income qualified. However, she did not have documentation to support their qualifications. She said many of the applicants were referred to the nonprofit organization from a mortgage company that conducted business with HUD. Therefore, she assumed the referrals met the qualifications.

Auditee Comments

Excerpts from the President's comments on our draft finding follow. Appendix B contains the complete text of her comments.

The nonprofit sold 16 homes. Any excess profit was reported and found acceptable by HUD. The organization has provided proof of rehabilitation of expenses per property.

The President was aware of HUD's requirements according to the HUD notice 94-74 which was distributed upon acceptance into the Program. The nonprofit sold 11 of the 30 percent discounted properties realizing a loss of $532.08 on total sales.

Work was performed on properties prior to closing and the nonprofit received credit for repairs at closing.

Petty cash receipts are valid and accounted for, however, they were not listed for specific properties. Supplies were purchased in bulk and used at various locations. Materials were purchased in bulk and that allocation of expenses were done on a quarterly basis.

The nonprofit did have a functional accounting system and kept costs relating to properties by monthly expenditure. The nonprofit's accounting system tracked property based on contractual agreements of labor purchasing rehab materials in bulk and than relating purchases according to dates. The tracking of cost was established by actual checks that were written (with receipts) in months in which work was performed. The nonprofit tracked its expenses on a monthly basis and allocated its expenses to individual properties after laborers told bookkeeper where receipts should be distributed. Therefore allocated expenses were calculated on a quarterly bases and input into the computer by the organization's bookkeeper as well as kept manually. The organization has purchased software to be able to track properties per project.

The nonprofit's President signs as the grantor of all loans obtained by the nonprofit organization, with all monies going to the nonprofit. Developing Economical and Better Living, Inc.'s President guaranteed the loans on properties it utilized for collateral. This was done in response to loan officers and insurance companies. All loans received were put into the organization accounts. No personal benefit was ever gained from any of the properties obtained from HUD. We have eliminated conflicts of interest by obtaining a line of credit with neighborhood banks.

The nonprofit took applications from all of its purchasers and gave seminars on requirements for HUD's 30 percent discount program as well as required purchasers to sign notarized agreements to comply with rules and regulations according to HUD Notice 94-74. The nonprofit was not asked to provide applications for persons who purchased homes from HUD's 30 percent discount program. However, the President saw the applicant's forms of verification and had gotten notarized statements from each buyer who did not have copies she could keep of their check stubs. Since then the organization has been able to contact most of the buyers and receive this information.

We see no reason to consider imposing sanctions for we have complied with rules and regulations, as well as, contributed to the mortgage insurance fund to reach the National Home Ownership Strategy.

OIG Evaluation of Auditee Comments

The nonprofit organization purchased a total of 36 homes from HUD; however, only 34 homes related to the Single Family Direct Sales Program. Although the nonprofit organization sold a total of sixteen homes, only 13 were applicable to the Single Family Direct Sales Program. Of the 13 Single Family Direct Sales Program properties sold, 10 were sold at excess profit, 2 were sold for prices within HUD's guidelines, and the other property was transferred to and sold by the nonprofit organization's President.

The $532 net loss computed by the nonprofit organization was for all properties it sold, rather than just properties it purchased at a 30 percent discount. For the discounted properties, the computations presented by the nonprofit organization actually reflected an excess profit of $23,292. Also, the Property Ledger sheets submitted by the nonprofit organization reflect that rehabilitation work was performed on only one of the ten properties sold.

The nonprofit organization did not provide any documentation to support its reported development costs for the properties, except for closing statements applicable to the purchase and sale of the properties. None of the closing statements reflected any credits for repairs performed prior to closing. Consequently, the computations provided by the nonprofit organization are not verifiable. Based on the documented development costs provided to us during the audit, the nonprofit organization earned an excess profit of $76,161 on ten properties.

The General Ledger and Property Ledger sheets submitted by the nonprofit organization did not contain adequate detail to trace the reported development costs to supporting documentation. As a result, costs are not identifiable to specific properties and the nonprofit organization's accounting system does not adequately track property costs.

The nonprofit organizations files and response to the findings of this audit had no documentation to support that the nonprofit organization gave seminars to homebuyers on the requirements of the Single Family Direct Sales Program or that it verified homebuyers met the Program income requirements. Additionally during the audit, the President of the nonprofit organization said many applicants were referred to Developing Economical and Better Living, Inc. by a mortgage company that did business with HUD. Therefore, the President assumed that the referrals met Program qualifications and no further verification was conducted by the nonprofit organization.

The nonprofit organization's files did contain signed compliance certifications, however the compliance certifications imply that the nonprofit organization may resell properties purchased under the Program to investors. HUD Notice H 95-89 clearly states that "properties may not be resold to an investor within one year of HUD's closing."

Recommendations

We recommend that the Director, Office of Housing, Illinois State Office, assure that Developing Economical and Better Living, Inc.:

1A. Provides documentation to support the rehabilitation expenses for each property listed in Appendix D or prepay on the respective homebuyers' mortgages for the $76,161 in excess profit taken.

1B. Provides evidence to show that the President did not receive a $22,000 personal benefit from the sale of the property located at 11245 Longwood. Any personal benefit should be recouped from the President and remitted to HUD.

1C. Provides evidence to support the eligibility of homebuyers for the thirteen properties sold that were purchased from HUD at a 30 percent discount, or pays HUD $143,250 for the discount received.

1D. Develops and implements a plan for making required improvements to all unsold properties prior to resale.

1E. Ensures that homebuyers meet Program eligibility requirements.

1F. Establishes an accounting system that will properly track property costs.

We also recommend that:

1G. The Office of Housing consider imposing administrative sanctions including a possible debarment on all officers of Developing Economical and Better Living, Inc. for improperly administering the Program.

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Internal Controls

In planning and performing our audit, we considered the internal controls of the management of Developing Economical and Better Living, Inc. in order to determine our auditing procedures and not to provide assurance on internal controls. Internal controls consist of the plan of organization, methods, and procedures adopted by management to ensure that: resource use is consistent with laws, regulations, and policies; resources are safeguarded against waste, loss, and misuse; and reliable data are obtained, maintained, and fairly disclosed in reports.

Relevant Internal Controls

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

- Accounting system

We assessed the relevant controls identified above.

It is a significant weakness if internal controls do not give reasonable assurance that resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data are obtained, maintained, and fairly disclosed in reports.

Significant Weaknesses

Based on our audit, the following item is a significant weaknesses:

Accounting system. Developing Economical and Better Living, Inc. did not have an adequate accounting system to capture property related costs and revenues (see Finding).

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Follow Up On Prior Audits

This was the first OIG audit of Developing Economical and Better Living, Inc.. The nonprofit organization has not had an independent audit performed.

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Schedule of Questioned Costs

Recommendation Number	Type of Questioned Cost Unsupported 1/
1A	$ 76,161
1B	22,000
1C	143,250
Total	$241,411

1/ Unsupported costs are costs charged to a HUD-financed or insured program or activity whose eligibility cannot be determined at the time of the audit since such costs were not supported by adequate documentation or there is a need for a legal or administrative determination on the eligibility of the costs. The costs require a future decision by HUD program officials. The decision, besides involve a legal interpretation or clarification of Departmental policies and procedures.

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Auditee Comments

February 21, 1997

Mr. Dale L. Chouteau
District Inspector General
U.S. Department of Housing and Urban Development
Chicago Regional Office, Region V
77 West Jackson Blvd.
Chicago, Illinois 60604-3507

Dear Mr. Chouteau:

This letter is in response to your draft finding that resulted from your review of Developing Economical and Better Living, Inc.. We are attaching all documentation to support our efforts in complying with HUD's Single Family Direct Sales Program. This letter is in response to that report. Each comment will address the specific issue contained in your preliminary findings, as well as our responses to your recommendations. As stated in your letter these responses should be safeguarded to prevent premature publication or improper disclosure of the information it contains.

If you have any questions, please contact me at (773) 238-252O.

Sincerely,

Deborah A. Dunn - President

Developing Economical and Better Living, Inc., a nonprofit community service organization did comply with HUD' s requirements for properties it purchased from HUD at a 30 percent discount. The auditor states that:

(1) The nonprofit sold 11 homes for amounts greater than allowed.

The nonprofit sold 16 homes. The following is a list of homes the nonprofit sold and the profit/loss of each home. (see pages 1-16). Any excess profit was reported and found acceptable by HUD. (see letter from HUD's Office of Housing, Michael P. Kulick, Director and Developing Economical and Better Living, Inc. annual report for 1995)

(2) The nonprofit did not have a functional accounting system to track and record costs related to the properties.

The nonprofit did have a functional accounting system and kept cost relating to properties by monthly, expenditure. (se e general ledger).

(3) The nonprofit violated HUD's conflict of interest requirements.

The nonprofit's President signs as the grantor of all loans obtained by the nonprofit, with all monies going to the nonprofit. (see attached bank statements). Petty Cash receipts are valid and accounted for, however, they were not listed for specific properties. Supplies were purchased in bulk and used at various locations.

(4) The nonprofit did not assure the home purchasers met the program qualifications.

The nonprofit took applications from all of it's purchasers and gave seminars on requirements for HUD's 30 percen t discount program as well as required purchasers to sign notarized agre ements to comply with rules and regulations according to HUD notice 94-74 (see attached compliance statements, wh ich is also apart of Developing Economical and Better Living, Inc. application package given to HUD for approval in 1994).

The nonprofit President was aware of HUD's requirements according to the HUD notice 94-74 which was distributed upon acceptance into the program. As a result, low and moderate income persons were brought into homeownership and th e nonprofit sustained a loss of $-532.08 on the sales.

Developing Economical and Better Living, Inc. (homes were sold for excessive amounts).

Developing Economical and Better Living, Inc. purchased 36 properties from HUD. Of the 36 properties 17 were purchased at the 30 percent discount rate. The nonprofit sold 11 of the 30 percent discounted properties. The nonprofit sold 11 of the homes realizing a loss of $-532.08 on total sales. The nonprofit's accounting system tracked property based on contractual agreements of labor purchasing rehab materials in bulk and than relating purchases according to dates. The tracking of cost was established by actual checks that were written (with receipts) in months in which work was performed.

As of January 1997, the nonprofit had sold 13 of the properties it purchased from June 1995 and July 1996. One of th e unsold homes which was being rented was not a part of the 30 percent discount program. The remaining 21 unsol d properties consist of 4 properties purchased at the 30 percent discount rate and 17 properties that were not discounted. The nonprofit tracked its expenses on a monthly basis and allocated its expenses to individual properties after laborers tol d bookkeeper where receipts should be distributed. Therefore allocated expenses were calculated on a quarterly bases and input into the computer by the organization's bookkeeper as well as kept manually. The nonprofit's bookkeeper resigned on November 13, 1996 (see attached-resignation letter) not allowing the computer to be updated . However, the completion of the manual records were recorded through October 1996 during the period the auditor was in our office. The audito r never once asked for our computed records and all manual documents were given upon request.

The 11 properties that were sold were sold at amounts excepted by HUD, and the nonprofit had a total loss of $-532.08 of all sales. (see pages 1-16 for details).

The President of the nonprofit said that work was performed on properties prior to closing and the nonprofit received credit for repairs at closing (see closing statement for job 9 and job 16).

The President of the nonprofit said materials were purchased in bulk and that allocation of expenses were done on a quarterly bases. The President of the nonprofit said that the organization should hire a full time bookkeeper in order to record expenses on a daily bases according to comments made by the auditor.

The President of the organization said that she thought the audit was to consist of only properties purchased from the Single Family Direct Sales Program and in turn sent a letter to the auditor (see attached letter to Michael Nimmick). The only properties that the President stated she did not realize were subject to requirements were properties that were purchased from extended listings even though the President still applied the same compliance to buyers. (see attached compliance statements).

The intent of purchasing properties from the extended listing from HUD was done in response to not being able to receive property from the Single Family Direct Sale Program in the lottery process. However, the organization found that it was able to supply an even lower income bracket with affordable housing by saving properties that no one else saw fit to buy in the regular bidding process. This allowed the organization to provide competitive low pricing on homes that would be maintained through out ownership as well as sweat equity contributed by buyers. Sometimes causing the organization to lose its ten percent allowance.
Developing Economical and Better Living, Inc. (Conflicts of interest requirements were violated)

Developing Economical and Better,Living, Inc.'s President guaranteed the loans on properties it utilized for collateral, this was done in response to loans officers and insurance companies all loans received were put into the organization accounts. The auditor asked all persons in the office, for the President of the organization's address, telephone number and social security number. The President of the organization gave all information when requested by auditor. No personal benefit was ever gained from any of the properties obtained from HUD. (see attached bank statements as well as 1996 audited financial statements).

Developing Economical Better Living, Inc. (homebuyers qualifications were not supported)

The nonprofit was not asked to provide applications for persons who purchased homes from HUD 30 percent discount program. However, the President did tell the auditor that she saw the applicants forms of verification and had gotten notarized statements from each buyer who did not have copies she could keep of there check stubs. (due to an inability to xerox prior to March 1996).

Since than the organization has been able to contact most of there buyers and receive this information. (see attach applications).

Developing Economical Better Living, Inc. (responses to recommendations)

We at Developing Economical and Better Living, Inc. feel we have been not given a fair chance at trying to succeed in the National Homeownership Strategy. We have attended the Continuum of Care Conferences, Affordable Housing Conferences, HUD Homebuyer School Show and the mandatory meeting that was scheduled by HUD on September 23, 1996 in which the HUD notice 95-89 was distributed (see letter that resulted from that meeting). We have had advertising to the public and homebuyer education. We have had an overwhelming response to our advertisement. In April 1996 we requested to become a part of HUD's Bulk Sale Program in order to serve our clients more effectively and was granted that privilege. While never once canceling any contracts we were approved for with HUD. On July 16, 1996 we requested to close a contract that was scheduled to close on August 19, 1996 with HUD attorney's. HUD's attorney advised us that someone by the name of Charles Curtis cancelled the contract. We immediately notified HUD's Director Debra Robinson. Ms. Robinson responded with a cancellation of the organization privileges to participate as well as revoked our ability to retain the 60643 revitalization area until we supplied the following information. (see attached letters as well as responses to all requested items). After supplying all information requested, the Office of Inspector General was called in. Normally when HUD feels an organization needs to be suspended for any reason they seen notification (see attached letter). We received no letter warning us of a suspension nor, did we receive a letter notifying us of cancellation of approved contracts. We sincerely hope that the following responses to your findings will clear up any and all questions that the department of Housing and Urban Development may have.

Since approval in the HUD's Single Family Direct Sales Program November 1994, Developing Economical and Better Living, Inc. has exceeded the norms in educating homebuyers. We have made several accomplishments.

We have received and closed 35 of the 36 properties we bid on.
We have our national housing counseling agency certification.
We have national certification as housing counselors (from pre-rental to default mortgages). We are registered users o f Fannie Mae Desk Top Home Counselors.
We have received our 1996 Community Development and Empowerment Zone Certificate We are presently in the process of renovating 24 units of affordable housing for 30 percent, 60 percent, and 80 percent median income levels.
We have received technical assistance from our local government to become a better community housing developmen t organization.

Responses to recommendations:

1A The organization has provided proof of rehabilitation of expenses per property.

1B The organization has purchased software to be able to track properties per project.

1C We have eliminated conflicts of interest by obtaining a line of credit with neighborhood banks.

1D We have obtained status with Community Home Loan Fund for improvements to properties.

1E We have set-up homebuyers files according to the National Housing Counseling requirements as well as obtained a xerox machine.

1F We see no reason to consider imposing sanctions for we have complied with rules and regulations, as well as , contributed to the mortgage insurance fund to reach the National Home Ownership Strategy.

Listing Of Properties Purchased From HUD And Subsequently Resold

Property Address	**Bid Amount**	**Less: 30 Percent Discount**	**Discounted Purchase Price**
11641 Princeton	$ 24,500	$ 7,350	$ 17,150
1634 N. Laramie	47,000	14,100	32,900
12215 S. Wallace	21,000	6,300	14,700
5401 S. Marshfield	10,000	3,000	7,000
3444 Provincetown	55,000	16,500	38,500
5017 S. Marshfield	15,000	4,500	10,500
7617 Sangamon	49,900	14,970	34,930
12221 Sangamon	4,600	1,380	3,220
8437 Sangamon	34,500	10,350	24,150
15130 S. Vine	35,000	10,500	24,500
8634 S. Colfax	20,000	6,000	14,000
14414 S. Normal	61,000	18,300	42,700
11245 S. Longwood	100,000	30,000	70,000
Totals	$ 477,500	$ 143,250	$ 334,250

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Excess Profit From Property Sales

Property Address	**Net Cost**	**10 Percent Fee**	**Total Cost and Fee**	**Less Sales Price**	**Excess Profit**
11641 Princeton	$ 17,176	$ 1,718	$ 18,894	$ 24,500	**$ 5,606**
1634 N. Laramie	33,877	3,388	37,265	47,000	**9,735**
12215 S. Wallace	14,700	1,470	16,170	26,000	**9,830**
5401 S. Marshfield	7,776	778	8,554	10,375	**1,821**
3444 Provincetown	38,763	3,876	42,639	57,000	**14,361**
5017 S. Marshfield	10,576	1,058	11,634	15,000	**3,366**
7617 Sangamon	34,956	3,496	38,452	53,900	**15,448**
12221 Sangamon	3,246	325	3,571	4,500	**929**
8437 Sangamon	24,150	2,415	26,565	34,500	**7,935**
15130 S. Vine	24,882	2,488	27,370	34,500	**7,130**
Totals:	$210,102	$ 21,012	$231,114	$307,275	**$76,161**

Note: Net Cost represents the discounted price plus the applicable closing costs.

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