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May 6, 1997

**97-FW-123-0801**

MEMORANDUM FOR: Norma F. Cannon  
Director, Contracting Division  
Administrative Service Center, 4AAC

Kenneth W. Beck  
Director, Office of Single Family Housing, 6IHS

FROM: D. Michael Beard, District Inspector General for Audit, 6AGA

SUBJECT: Citizen's Complaints  
Real Estate Asset Manager  
Tulsa, Oklahoma

In response to citizen complaints, we have completed a review of allegations made against Jason Properties, Inc., a Real Estate Asset Manager (REAM) under contract to manage single family real estate for HUD's Tulsa Office. The objective of the review was to find out whether the allegations were valid. The three basic complaints are:

1. The REAM is not paying for the cleanup of houses as required by its contracts with HUD. Instead, the REAM is passing the costs on to HUD.
2. The REAM allowed a Tulsa Office contracting specialist to live in a house under custodial care of the REAM and this specialist was involved in the award of recent contract for which the REAM was the successful bidder.
3. The president of the REAM shared a residence with the Director of Tulsa Office of Single Family Housing who was instrumental in obtaining the contract for the REAM.

We found that one allegation was valid and two were not. The REAM had contractors do its work at HUD's expense without HUD knowing it. The REAM had not permitted a HUD contracting specialist to live in a house during the period it was under the REAM's care, as was alleged. Although the Director of Single Family Housing (now former Director) of the Tulsa Office may have been a friend of the president of REAM, we found no indication she had permanently resided in the same house as the president of Jason Properties. Also, we found no evidence to show she could have swayed the outcome of a contract award or that she would knowingly permit the REAM to pass unauthorized cost to HUD.

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Within 60 days, please provide us with 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. Also, please furnish us copies of any correspondence or directives issued because of this review. Should your staff have any questions, please contact our office at (817) 978-9309.

## Background

The REAM had two contracts<sup>1</sup> with HUD during the time period reviewed. Under the contracts the REAM provided management and related services for single family properties, which are owned by or in the custody of HUD in geographic areas described in the contracts. As full compensation for performance of all service cited in the contracts, HUD paid the REAM fixed fees for each property assigned depending upon the duties required. For example, for the Zone G contract, the fee was \$1,052 for a HUD-owned property assigned to the REAM. The fee for a vacant lot was \$808. The fee was \$93 a month for custodial duties on a non-owned property.

The contracts require the REAM to keep properties clean on the interior and exterior year-round as conditions warrant. The initial services for each property included a detailed cleanup of the interior and exterior of the property.

Upon HUD's authorization, the REAM may do or subcontract for service or repair of items where the cost of a single item or total cost of a series of related items does not exceed \$1,000. HUD will pay for such supplies, materials, equipment, and services as may be necessary for the work. The REAM may subcontract for such work without getting competitive quotes if the price is considered reasonable. But, the REAM must rotate the work among all qualified sources.

The data from HUD's Single Family Acquired Asset Management System database, shows the REAM subcontracted \$482,000 of repairs and services. The REAM used 54 contractors to do the 925 jobs and 92.3 percent of the jobs was charged to general repairs, building supplies, carpentry, masonry, and painting. The remaining 7.7 percent was charged to cleanup, debris removal, and yard maintenance.

Complaints resulted from the concern of other REAM contractors that by not paying for cleanup, Jason Properties could make a much lower offer on REAM contracts than they could. They suspected the Director of Single Family Housing would let Jason Properties keep passing cost on to HUD because of a close friendship with Jason Properties' president. Also, they were concerned that a HUD contracting specialist may have helped the REAM because the specialist

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<sup>1</sup> The two contracts C670S928A001 for Zone G and C670S934A001 for Zones C and H were awarded in 1992 and 1993, respectively for 12-month periods with two 1-year options.

had lived in a house assigned to the REAM for custodial care.

## Scope of Review

To achieve the objective, we talked to complainants, officials of competing real estate asset management firms, contractors, officials of Jason Properties, and HUD office staff. We reviewed HUD's contracts with the REAM. We analyzed data from HUD's Single Family Acquired Asset Management System database. We also reviewed property files of the Tulsa office and the REAM, as deemed necessary. In addition, we reviewed HUD's contract files on the new contract awarded on April 30, 1996. The review was done during the months of March 1996 through October 1996.

To determine the validity of the first complaint above, we compared HUD's work authorization records with the REAM's contractor work requests when available. Contractor invoices did not detail the actual work performed. Also, the REAM did not retain copies of its contractor work requests. Therefore, we reviewed available work requests retained by contractors. The review was to cover work the REAM assigned to contractors during calendar years 1993, 1994, and 1995. We were only able to find 3 contractors that had only 123 work requests from the REAM for the calendar years 1993 through 1995. Another contractor had one work request for 1992 and six for 1996. Of the 130 available work requests, we compared 82 to the HUD Repair Authorizations.

## Results of Review

**Allegation 1:** Jason Properties, Inc., a real estate asset manager (REAM) for HUD's Tulsa, Oklahoma Office, has not paid for cleanup of houses as required by its contracts with HUD. Instead, Jason had contractors do the work and passed the cost on to HUD.

**Finding 1:** The allegation is valid. The REAM, Jason Properties, passed costs on to HUD without HUD's approval.

The REAM passed costs of cleanup and yard mowing on to HUD that HUD had not approved. The costs of these work items should have been covered by the REAM under its contracts. This occurred because the REAM had complete control over what contractors did and how invoices were prepared. Also, Government Technical Representatives (GTRs) in the Tulsa HUD Office did not require the work to be itemized on the invoices from the contractors so that the work included in the invoice could be compared to the work authorized. As a result HUD has paid for at least \$8,146 in cleanup and yard maintenance costs that the REAM should have paid.

Section C of the contracts provides that the REAM shall do initial property cleanup and yard maintenance and keep the interior and exterior of the property cleaned up and neat year-round as conditions warrant. There is no additional compensation allowed for excessive grass growth nor debris removal except when items require special equipment. Exceptions require written approval by HUD.

The REAM subcontracted for property repairs, exterior and interior cleanup, and yard mowing. After the REAM inspected the property, the REAM used its own "Contractor Work Request" form to record needed repairs and services and their estimated total cost. For authorization, the REAM would fill in HUD's "Additional Repair Authorization," a form memorandum. The REAM itemized repair work and service items to be done and entered a total cost that could not be exceeded. The REAM estimated this amount based on all work listed on the REAM's contractor work request. After reviewing the form memorandum, HUD's GTR would authorize the REAM to have the itemized work done by initialling the form.

The REAM subcontracted work with its "Contractor Work Request" that shows items the contractor agrees to do for one amount. The contractors told us, the REAM sets a job price based on its inspection of the property. If a contractor wants the job it agrees to the REAM's price. Otherwise, the REAM gets someone else to do the work. The REAM did not haggle over price and generally held contractors to the agreed price.

After contractors completed the work, the REAM would submit a package to HUD that included an invoice transmittal showing general repairs; an invoice showing only "Repairs per Scope of

Work," "Repairs per Spec's," Complete per Scope of Work," or "Scope of Work;" HUD's additional repair authorization memorandum itemizing the repairs approved by HUD; and the Acquired Property Inspection Report, form HUD-9519. The invoice amount and the total payment would be the amount the contractor agreed to do all work for, including the cleanup and yard mowing items on the "Contractor Work Request," which was not submitted to HUD.

In correspondence to HUD contracting officials in April 1996, the former Director, Single Family Housing of the Tulsa HUD Office stated that the former Chief Property Officer (now deceased) authorized properties to be conveyed to HUD that were not in conveyance condition. In these cases, he authorized the REAM to contract for cleanup services at HUD's expense. The former Director of Single Family Housing stated the policy authorizing the REAM to contract for cleanup services at HUD expense was not in writing. She said she supported the authorization and that the authorization was generally known among the other REAMs. However, we checked with three other REAMs and they told us they were not aware of the authorization. Also, regardless of this authorization, the services should have been properly listed on HUD's repair authorization memorandum.

REAM officials said they did not list all work items on HUD's authorization form as shown on the "Contractor Work Request" because of limited space on the authorization form. However, we found very few HUD authorizations that did not have enough space to list all work items. Further, they said they asked for permission to attach their "Contractor Work Request" form, which does list all work done, to the payment voucher but some Tulsa office official said no. They cannot recall the name of the person nor do they have it in writing. No HUD employee admitted to telling the REAM this. One HUD employee says she had cautioned the REAM about listing work items for approval that the REAM should provide.

REAM officials also say they have not kept "Contractor Work Requests" in their files because they had no reason to keep them, even though requests are the only source describing all the work that was done and paid for by HUD. The contractors' invoices do not list work items because the REAM requires contractors to enter "per scope of work" or something to that effect on the invoice. This refers to HUD's Repair Authorization Memorandum, which the REAM prepares and contractors never see. One contractor said he had his invoice returned when he listed items done on the invoice.

Although the REAM had not kept "Contractor Work Request" documents showing work items assigned to contractors nor had all contractors kept records of what they did, four contractors had kept records of some of the jobs they had done in 1992, 1993, 1994, 1995, and 1996 under the two contracts. We used the records to review 82 jobs charged to general repairs. The review shows 70 jobs or 85.4 percent had work items that HUD had not authorized to be subcontracted. The unauthorized items were for interior and exterior cleanup and yard maintenance, not general repairs. To arrive at the cost of the items, we had the contractors provide cost estimates. These were items the REAM should have provided under its contracts. Yet, HUD paid for all the work. (See the following table for details.)

### Jobs Assigned to Four Contractors and Work Items Not Authorized by HUD

	#1	#2	#3	#4	TOTAL	PERCENT
Year(s) when work was assigned:	1992, 1996	1995	1993	1994, 1995		
Number of jobs:	7	15	21	39	82	
Number of work items:	73	124	108	381	686	
Cost of items:	\$4,915	\$8,065	\$4,625	\$25,387	\$42,992	
Number of Jobs with Unauthorized items:	7	10	15	38	70	85.37%
Number of items not authorized by HUD:	12	17	33	87	149	21.72%
Cost of items not authorized: <sup>2</sup>	\$1,430	\$1,255	\$1,236	\$4,225	\$8,146	18.95%

As the table shows, the cost of items not approved is \$8,146. For the 70 jobs with unauthorized items, the REAM passed on to HUD an average cost of \$116 (\$8,146 divided by 70) a job for services that the REAM should have provided. Because of the limited information available for all the jobs assigned to contractors we could not accurately project all the possible unauthorized cost included in all jobs assigned to contractors. However, if this pattern is true for the 925 jobs assigned to contractors during the 3-year period, the REAM may have passed unauthorized cost of \$91,640 on to HUD<sup>3</sup>.

Since the invoice packages submitted by the REAM did not have a listing of all work actually done by contractors for the invoiced amount, Tulsa Office staff did not know what services they were getting. Also, they apparently did not know whether prices were reasonable since amounts paid included items HUD did not know about. For the 70 jobs with items that HUD had not authorized, HUD paid \$8,146 for 149 unauthorized items. These items were not general repairs but were cleanup, debris removal, and yard maintenance items, which the REAM should have provided according to its contracts.

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<sup>2</sup> Since work requests nor HUD's authorizations showed the price of work items, we had the subcontractors give prices for work items not authorized. The work request showed estimated job cost and listed work items. The authorization showed approved job cost and listed work items.

<sup>3</sup> Total jobs, 925 times 85.4 percent equals the estimated number of jobs with unauthorized items or 790 jobs. These jobs, 790 times \$116, the average cost of unauthorized items on a job, equals the total estimated cost passed on to HUD or \$91,640.

## REAM Comments

The managing broker of Jason Properties, Inc., in his signed written response, dated February 27, 1997, says this finding is without merit and based on a series of falsehoods. He says the repair authorization form used by HUD incorporates by reference the "attached specifications" and these specifications (sometimes called Contractor Work Request) are stapled to the top of every repair authorization that we submit to HUD. The GTR must turn this top specification page to get to the signature line on the repair authorization, the GTR authorizes all work and services detailed on the attached Contractor Work Request. He says they have never ordered work for which HUD paid that was not authorized in writing by our GTR. The specifications remain stapled to the signed repair authorization until the work is completed, inspected, and the invoice submitted to HUD. HUD removes the stapled attachment and to this day refused to process a completed repair authorization or an invoice with this stapled attachment.

He says for properties not in conveyance condition (N.I.C.C.), Jason does the mortgage company requirements under a separate "N.I.C.C. contract with HUD," independent of their REAM contracts. He says they handle most evictions for HUD and identify owners and return their personal property. They always subcontract the work to complete the protection and preservation requirements. He says HUD has never paid them for their services under a N.I.C.C. contract but HUD does pay their contractors.

He says the cleaning and mowing items mentioned in the report all occurred on N.I.C.C. properties. Therefore, these items are HUD's responsibility because the mortgage companies had not conveyed the properties to HUD in conveyance condition and Jason's contract responsibility for the property does not start until HUD has the work done to get the property in conveyance condition.

He says if any money is to exchange (sic) hands, the REAM should be compensated for doing the services required of mortgage companies. (See Attachment for the complete response.)

## OIG Evaluation

We and HUD's staff do not agree with the managing broker's response. HUD staff says the opposite is true, that is, the list of cleaning and mowing work given to the contractor was not shown to nor approved by the GTR. Also, there was not a separate N.I.C.C. contract with HUD.

The auditor discussed the review with the managing broker and the president of Jason Properties on April 4, 1996, and again talked to the president on April 25 and 26. On April 26, 1996, the auditor and the president discussed the fact that they had not listed cleanup and debris removal and yard work for approval, which are items covered under their REAM contract.

As reported the documentation gathered clearly shows Jason Properties had contractors do work that HUD's representative had not approved and HUD paid for this work without knowing it. Jason was able to do this because Jason's staff identified the work needed, got the work approved, assigned it to a contractor, accepted the contractor's work, and reviewed and delivered all documents to HUD for payment of the contractor.

Jason Properties does not have the contractor work requests for 1993, 1994, 1995, and 1996 because they throw them away when they are done with them as the president of Jason Properties told the auditor. The managing broker says he throws his copies away in January of each year.

Jason Properties does not have a contract or other written agreement with HUD apart from the REAM contract.

The managing broker's response does not change the facts of the finding. Accordingly, we see no reason to change our recommendations.

#### Recommendations: We recommend:

- 1A. To ensure invoices from contractors include only authorized work, the Contracting Officer and the current Director of Single Family Housing need to direct the GTRs of the Tulsa Office staff not to accept invoices from contractors that do not list each work item completed and the HUD approved price on the invoice.
- 1B. The Contracting Officer require the REAM to reimburse HUD for \$8,146 paid for the services HUD had not authorized, which are the REAM's responsibility under its contracts with HUD.
- 1C. Instruct the REAM to ensure that only HUD approved subcontracted work is included in work billed to HUD by contractors.



**Allegation 2:** A Tulsa Office contracting specialist lived in a house while it was in the custodial care of the REAM.

**Conclusion:** The allegation is not valid.

The contracting specialist did not live nor work in Tulsa when the REAM had the house. The contracting specialist did rent the house from the owner during a period that the mortgage had been assigned to HUD and was under a forbearance agreement. The specialist made rental payments to HUD. Based on HUD records and discussions with HUD staff the arrangement had been approved by the previous Tulsa HUD Office manager. However, in late 1992 the specialist moved to Oklahoma City and bought a house in El Reno, Oklahoma, which is west of the City. This is almost 2 years before the Tulsa Office assigned the property to the REAM for custodial care in September 1994.

**Allegation 3:** Tulsa's Director of Single Family Housing shared a house with the president of Jason Properties. This director was instrumental in obtaining the latest REAM contract for Jason Properties, Inc.

**Conclusion:** The allegation is not valid.

Based on the information we obtained, the two ladies had not shared the same residence although they are friends. The Director had stayed with her friend for 2 weeks before she left for Denver, which is her current duty station. She accepted a new job as Director of Quality Assurance in the Single Family Housing Program. She also stayed 1 week with her when she returned to Tulsa on personal business.

The Director was not in a position to influence the award of a contract nor did she have insider-information that could have helped one get the contract awarded on April 30, 1996. No one in the Tulsa Office including the Director was involved in the review of proposals nor did they see the proposals. The proposals were reviewed by a contracting specialist in Oklahoma City, who was not the same person discussed in Allegation 2. The contracting officer in Fort Worth, Texas, made the award to the lowest priced and technically acceptable offer. The REAM, whose offer was acceptable, submitted the lowest price of all offers received, which includes the offers of those not technically acceptable. The REAM's price, even when you add costs that the REAM may have passed on to HUD, is still significantly less than the next lowest offer for each of the two areas in the solicitation.

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