



Issue Date	February 22, 1999
Audit Case Number	99-CH-229-1004

TO: Morris E. Carter, Director, Philadelphia Homeownership Center

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

SUBJECT: Detroit Revitalization, Inc.
Section 203(k) Mortgage Insurance Program and Partners For Affordable Homeownership Program
Detroit, Michigan

We completed an audit of the books and records of Detroit Revitalization Inc., a private non-profit organization. We selected Detroit Revitalization, Inc. for audit because of the large number of properties which it rehabilitated under the Section 203(k) Loan Program. Between January 17, 1996 and February 27, 1997, Detroit Revitalization obtained 109 Section 203(k) loans. Eighty-two of these loans were originated by an identity-of-interest mortgage company. It also purchased nine properties at a 30 percent discount and 44 properties at a 10 percent discount under the Partners for Affordable Homeownership Program. The audit objective was to determine whether Detroit Revitalization followed HUD requirements for the Section 203(k) loans and for the properties it purchased from HUD at a 30 percent discount.

Detroit Revitalization did not comply with HUD requirements. It obtained \$80,984 of Section 203(k) loan funds for rehabilitation work which was either not done or unsatisfactorily done. As a result, HUD may have insured loans for excessive amounts and assumed unnecessary risk. Detroit Revitalization also violated HUD's requirements for eight of the nine properties it purchased from HUD at a 30 percent discount. Detroit Revitalization: (1) improperly resold and transferred the ownership of HUD purchased properties to its identity-of-interest mortgage company; (2) ultimately sold the properties to homebuyers by land contracts for excessive amounts when it did not own the properties at the time of the sales; (3) charged excessive interest rates; and (4) violated HUD's conflict of interest requirements.

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 action is considered unnecessary. 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 (312) 353-7832.

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Executive Summary

We completed an audit of the books and records of Detroit Revitalization Inc., a private non-profit organization. We selected Detroit Revitalization, Inc. for audit because of the large number of properties which it rehabilitated under the Section 203(k) Loan Program. Between January 17, 1996 and February 27, 1997, Detroit Revitalization obtained 109 Section 203(k) loans. Eighty-two of these loans were originated by an identity-of-interest mortgage company. It also purchased nine properties at a 30 percent discount and 44 properties at a 10 percent discount under the Partners for Affordable Homeownership Program. The audit objective was to determine whether Detroit Revitalization followed HUD requirements for the Section 203(k) loans and for the properties it purchased from HUD at a 30 percent discount.

We concluded that Detroit Revitalization did not comply with HUD's program objectives and requirements.

Detroit Revitalization Obtained Excessive Funds For Rehabilitation Work

Detroit Revitalization, Inc. a private non-profit organization, obtained excessive funds for rehabilitation work done with Section 203(k) loans. Specifically, Detroit Revitalization paid its identity-of-interest building construction company, RIMCO Building Company, for rehabilitation work which was either not done, or was done improperly. Detroit Revitalization also inappropriately received the funds remaining in the rehabilitation escrow account after the completion of rehabilitation rather than applying these funds to pay down mortgages, as required. As a result, Detroit Revitalization failed to meet HUD's objective to restore and preserve existing housing in an effective, efficient, and economical manner. Also, the low or moderate income persons who purchased the properties may have paid for rehabilitation work not completed or improperly completed

Detroit Revitalization, Inc. Violated HUD's Requirements For Properties Purchased From HUD

Detroit Revitalization, Inc., violated HUD's requirements for eight of the nine properties it purchased from HUD at a 30 percent discount under the Partners for Affordable Homeownership Program. The non-profit organization: (1) violated HUD's resale restrictions when it improperly resold and transferred the ownership of the properties to its identity-of-interest mortgage company, MCA Mortgage Corporation; (2) ultimately sold the properties to homebuyers by land contracts for excessive amounts when it did not own the properties at the time of the sales; (3) charged excessive

interest rates; and (4) violated HUD's conflict of interest requirements. As a result, HUD's objective of providing affordable housing to low and moderate income persons was not met. Detroit Revitalization also generated excessive profits for its identity-of-interest companies. The homebuyers paid excessive amounts of \$105,007 for the properties

We recommend that Detroit Revitalization, Inc.: (1) pay off the Section 203(k) mortgages or pay the mortgages down by the amount of excessive funds obtained for rehabilitation in order to reduce HUD's risks; and (2) provide documentation to support the total costs for each property or reimburse the homebuyers \$105,007 for the excess profit taken for properties purchased from HUD. We also recommend that the Director, Philadelphia Homeownership Center: suspend Detroit Revitalization from participation in HUD Programs if Detroit Revitalization, Inc. does not resolve the recommendations; consider imposing administrative sanctions against its former officers, who were in charge during the audit period; and take administrative sanctions against the Section 203(k) consultant/inspectors who falsely certified on the draw requests that work was done when it was not done

We presented our draft findings and narrative case presentations to Detroit Revitalization, Inc. We held an exit conference with Detroit Revitalization on November 20, 1998. Detroit Revitalization provided written comments to our findings prior to the exit conference. Detroit Revitalization also provided comments with supporting appendices related to the narrative case presentations included in Appendix B of this report. We included excerpts from the comments with the findings and in Appendix B. Appendix C contains the complete text of the comments on the findings. The Appendix does not include Detroit Revitalization's comments relative to the narrative case presentations, or any of the comments or supporting appendices/attachments due to their voluminous nature. The complete response with all appendices was provided to the Director of the Philadelphia Homeownership Center separately.

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Introduction

Detroit Revitalization, Inc. was incorporated in 1994 and obtained its non-profit status from the Internal Revenue Service in 1995. Detroit Revitalization, Inc. was formed by two for-profit companies, MCA Financial Corporation and RIMCO Financial Corporation, to assist in the preservation and revitalization of the City of Detroit's housing stock and to provide quality, affordable housing to Detroit residents. Detroit Revitalization purchased and rehabilitated 109 properties under HUD's Section 203(k) Loan Program. Detroit Revitalization also purchased nine properties at a 30 percent discount and 44 properties at a 10 percent discount under the Partners for Affordable Homeownership Program.

The Section 203(k) Program allows borrowers to combine, in a single mortgage package, the money needed to purchase a home and make home improvements. The Program allows a borrower to finance both the acquisition and rehabilitation of a property with one loan.

Under the Partners For Affordable Home Ownership Program, HUD allows nonprofit organizations to purchase homes from the HUD inventory at a 10 percent or 30 percent discount of HUD's appraised value. The homes purchased at a 30 percent discount are located in a HUD designated revitalization area. HUD restricts the sale price the nonprofit agency can charge the home buyers for homes purchased at a 30 percent discount. The sale price is restricted to the net development cost plus ten percent of the net development cost. There are no restrictions on the sales price for homes purchased at a 10 percent discount.

Detroit Revitalization, Inc. is located at 100 Talon Center, Suite 100, Detroit, Michigan. Its books and records are located at the office of RIMCO Management Company, its identity-of-interest management company. RIMCO Building Company, another identity-of-interest company acted as the general contractor for all rehabilitation work. David Wick is the President of Detroit Revitalization, Inc. and Barbara Hill is the Executive Director. Thomas P. Cronan was the President and Steven Ogden was the Executive Director during the audit period.

Audit Objectives

Our audit objectives was to determine whether Detroit Revitalization, Inc., a nonprofit agency, complied with HUD's program objectives and requirements relating to HUD's Section 203(k) Loan Program and Partners for Affordable Homeownership Program.

Audit Scope and Methodology

We randomly selected twelve of the 82 properties for which Detroit Revitalization, Inc. obtained Section 203(k) loans from its identity-of-interest mortgage company, MCA Mortgage Corporation. We also reviewed the nonprofit organization's records related to nine properties which it

purchased from HUD at a 30 percent discount. These records included: property settlement statements, cost summary sheets, invoices, and property transfer records. We reviewed these records to assess Detroit Revitalization's compliance with HUD's requirements.

A HUD Construction Analyst/inspector inspected the twelve 203(k) properties to determine whether all the rehabilitation work which was certified to be done was actually done and the completed work was done in a workmanlike manner. The HUD inspector also inspected one of the nine properties purchased at a 30 percent discount to estimate the cost of the work.

For the Section 203(k) properties, we reviewed the rehabilitation specifications (work write ups), cost estimates, rehabilitation loan agreements, draw requests, change orders, bank escrow accounts, and property inspection reports.

We conducted a title search for all properties at the Office of the Wayne County Register of Deeds, to determine the recorded sales or purchase transactions.

We interviewed HUD staff, RIMCO Management Officials, and Detroit Revitalization's employees to determine how the non-profit operated. We also interviewed the homebuyers of the properties.

Our audit covered the period of January 1995 through December 1997. We extended the period when necessary. We conducted the audit at Detroit Revitalization, Inc. between January 1998 and September 1998.

The audit was conducted in accordance with generally accepted government auditing standards. We provided a copy of this report to the Executive Director of Detroit Revitalization, Inc.

Detroit Revitalization, Inc. Obtained Excessive Funds For Rehabilitation Work

Detroit Revitalization, obtained excessive funds for rehabilitation work done with Section 203(k) loans. Specifically, Detroit Revitalization paid its identity-of-interest building construction company, RIMCO Building Company, for rehabilitation work which was either not done, or was done improperly. Detroit Revitalization also inappropriately received the funds remaining in the rehabilitation escrow account after the completion of rehabilitation rather than applying these funds to pay down mortgages, as required. As a result, Detroit Revitalization failed to meet HUD's objective to restore and preserve existing housing in an effective, efficient, and economical manner. Also, the low or moderate income persons who purchased the properties may have paid for rehabilitation work not completed or improperly completed.

HUD Requirements

Mortgage Letter 94-11 states that the Section 203(k) Program is the Department's primary program for the rehabilitation and repair of single family properties. As such, it is an important tool for community and neighborhood revitalization and expanding home ownership opportunities. The Program allows non-profit borrowers to purchase and rehabilitate properties by obtaining a single mortgage to finance both the acquisition and the rehabilitation of the properties at a long term (or adjustable) interest rate.

Mortgage Letter 96-52 states that a nonprofit must act on its own behalf and is not, either knowingly or unwittingly, under the influence, control, or direction of any outside party seeking to derive profit or gain from the proposed project, such as a landowner, real estate broker, contractor, builder, lender, or consultant.

The Rehabilitation Loan Agreement is an agreement between the borrower and lender that is a part of the initial Section 203(k) mortgage package. The Rehabilitation Loan Agreement requires the borrower to complete all improvements on the property in accordance with the specifications (work write ups) as accepted by the lender. The Agreement also requires that any changes in the specifications must be approved in writing, prior to the beginning of the work.

The Agreement states that any funds remaining in the rehabilitation escrow account after the completion of rehabilitation work must be paid down on the unpaid principal balance. In no case will any savings result in cash being paid to the borrower.

Draw Requests For Rehabilitation Funds Contained A Warning

Detroit Revitalization, Inc., the borrower, certified on draw requests for rehabilitation funds that the money withdrawn for the rehabilitation work was for the actual costs of rehabilitation. The borrower, general contractor, RIMCO Building Company and the Section 203(k) consultant/inspector also certified that all work and improvements were completed in a workmanlike manner and in accordance with the specifications (work write ups). The draw requests contained a warning that HUD will prosecute false claims and statements under 18 U. S. C. 1001, 1010, 1012, and 31 U. S. C. 3729, 3802, and conviction may result in criminal and/or civil penalties.

Section 203(k) Consultants/Inspectors Incorrectly Certified That The Work Was Done Properly

The Section 203(k) consultants/inspectors hired by Detroit Revitalization, Inc. incorrectly approved the release of the rehabilitation escrow funds for the completed work. The inspectors certified on the draw requests that certain work was completed when it was not done. In some instances, the inspectors certified that the work was completed in a workmanlike manner when it was not done properly. Five different inspectors inspected the twelve properties reviewed by us. Two inspectors inspected four properties each, one inspected two properties and two inspectors inspected one property each. The lender approved the disbursements from the rehabilitation escrow accounts based on the inspectors recommendations that the escrow funds be released because all work in the specifications had been completed in a workmanlike manner.

Loans Were Originated And The Properties Repaired By Identity-of-Interest Companies

Between January 17, 1996 and February 27, 1997, Detroit Revitalization, Inc. repaired and purchased 109 properties under HUD's Section 203(k) Program. Of the 109 properties purchased under the Section 203(k) Program, 82 of the loans were underwritten by MCA Mortgage Corporation, an identity-of-interest lender. All of the properties were repaired by an identity-of-interest construction company, RIMCO Building Company. All the

repairs certified to have been completed were either not done or were done improperly.

Repairs Were Not Properly Completed

Detroit Revitalization, Inc. paid RIMCO Building Company, its identity-of-interest construction company, for rehabilitation work which was either not completed or improperly completed. We randomly selected twelve of the 82 properties whose loans were underwritten by MCA Mortgage Corporation to review. We reviewed Detroit Revitalization's files and conducted inspections for the twelve properties to determine whether the identity-of-interest building company properly repaired the properties. Between April 14 and May 6, 1998, a HUD inspector from the Michigan State Office inspected these twelve properties to determine whether the costs were reasonable and if the repairs were properly completed.

The HUD inspector determined that RIMCO Building Company did not properly repair and rehabilitate the properties, although RIMCO Building Company and the Section 203(k) consultant/inspectors had incorrectly certified that all work and improvements were completed properly and in accordance with the specifications (work write ups). The HUD inspector also determined that there were no change orders or work modifications for the work that he found was not done and had been certified to be completed. The inspections showed a consistent trend in which RIMCO failed to do the required repairs per the work specifications, made unsatisfactory repairs, and/or charged excessive costs. The trends were in the areas of: (1) installation of new doors and windows; (2) interior and exterior painting; and (3) obtaining proper city permits. In addition, Detroit Revitalization approved payments of excessive amounts to RIMCO Building for miscellaneous items, including the installation of hot water tanks, roof repairs, electrical, and plumbing work.

Installation of new doors and windows

The specifications for eleven of the twelve properties required the installation of new exterior entry and storm doors, interior doors, and/or windows. Although the draw requests approved by Detroit Revitalization, RIMCO Building Company, and the Section 203(k) consultant/inspector indicated the work was completed, our

inspections found that the required number of doors and windows were not always installed. For example:

- The specifications for 14301 Maiden required the installation of one new steel entry front door and two new metal storm doors for the side and the back of the house for \$775. The specifications also required the installation of four interior doors: one for the bathroom, two for the bedrooms, and one hall closet for \$1,100. None of the required new doors were installed.
- The specifications for 7725 Archdale required the installation of four new aluminum windows and two new doors for \$845. No new windows and doors were installed.

Interior and exterior painting

The specifications for all twelve properties required painting after properly preparing the surfaces by scraping, priming, and removing lead based paint. Although the draw requests approved by Detroit Revitalization, Inc., RIMCO Building Company, and the 203(k) consultant/inspector indicated the work was properly completed, our inspections showed that RIMCO did not scrape and properly prepare the surfaces, used a thin coat of paint, and often painted over rotted wood. For example:

- The specifications for 12468 Barlow required the painting of interior walls and trim, and exterior wood trim for \$2,870 after properly preparing the surfaces. Our inspections showed that both the interior and exterior paint was peeling because the surfaces were not properly prepared. The paint on the interior walls and ceilings was peeling excessively throughout the house. On the exterior, RIMCO painted the porch ceiling and overhang over rotted wood instead of replacing the rotted wood.

City permits

RIMCO Building Company's estimated cost of city permits was \$7,851 for the twelve properties we selected. The permits were paid for by Detroit Revitalization, Inc. with HUD funds. In some instances, there was no evidence that

city permits were obtained or costs incurred. The allowable costs of permits supported by documentation was \$3,961 of the estimated \$7,851. We questioned \$3,890 because there were no proof that costs were incurred. The permits are required for electrical, plumbing, heating, and building repair work.

Miscellaneous items

The specifications for six of the twelve properties required plumbing repairs, roof repairs, electrical, and heating, and other building repairs. Although the draw requests approved by Detroit Revitalization, Inc. and RIMCO Building Company indicated the work was completed according to the specifications, our inspections found that the work was not completed in a satisfactory manner and excessive amounts were paid to RIMCO Building Company. For example:

- The specifications for 12468 Barlow required the installation of a hot water tank for \$600. The tank was installed but it was not installed according to the city code and the cost of installation was excessive. The tank was installed on a particle board pad which is a fire hazard. We estimated the cost of installation to be about \$300.
- The specifications for 18612 Dwyer required the installation of vinyl tile with ¼ inch underlayment in the kitchen and top landing for \$420. The work was not completed in a workmanlike manner and according to the specifications. The tiles were installed, but it did not appear that underlayment was installed because bent nail heads on the floor were popping up through the tiles. The homeowner said she had to place rugs on the floor so her kids did not step on the nails.
- The specifications for 7725 Archdale required installation of insulation in the second floor attic for \$675. The HUD inspector said the work was not done.

The following table shows the excessive amounts paid to RIMCO Building Company and Detroit Revitalization, Inc. and charged to the properties for the rehabilitation work that was either not done or was done improperly. Detroit

Revitalization, Inc., RIMCO Building Company, and the Section 203(k) consultant/inspector all signed the draw request from the Rehabilitation Escrow Account and they all certified to HUD that the work was completed in a workmanlike manner. As a result, Detroit Revitalization failed to meet HUD’s objective to restore and preserve existing housing in an effective, efficient, and economical manner. Appendices B-1 through B-12 summarizes in detail the amounts paid for work not done or unsatisfactorily done. RIMCO was paid \$38,733 and Detroit Revitalization \$4,187 for work not done; RIMCO was paid \$37,614 and Detroit Revitalization \$450 for unsatisfactory work.

Property Address	Total Amount Paid For Rehab	Amount Paid For Work Not Done	Amount Paid For Unsatisfactory Work	Total Excessive Amount Paid
19414 Albany	\$ 22,952	\$ 3,996	\$ 2,194	\$ 6,190
7725 Archdale	22,433	6,356	4,251	10,607
12468 Barlow	13,402	3,893	4,851	8,744
19712 Beland	16,124	285	361	646
18612 Dwyer	23,951	2,827	2,127	4,954
8908 Faust	21,466	3,955	5,942	9,897
17200 Fairport	18,607	2,606	1,260	3,866
5901 Harrell	20,292	4,806	4,815	9,621
13864 Liberal	11,833	1,176	1,488	2,664
14565 Liberal	21,461	2,730	5,228	7,958
14301 Maiden	25,464	3,993	1,754	5,747
5574 Nottingham	25,482	6,297	3,793	10,090
Totals	\$ 243,467	\$ 42,920	\$ 38,064	\$ 80,984

Funds Remaining In The Escrow Account Were Not Applied To Pay Down The Mortgages

Detroit Revitalization, Inc. did not use the funds remaining in the escrow accounts after the completion of the rehabilitation work to pay down the mortgages, as required by HUD. The total amount deposited in the escrow accounts at the beginning of rehabilitation was \$243,467. The consultants approved \$202,210 for draws from the accounts based on the Section 203(k) consultants’ inspection reports and Detroit Revitalization’s draw requests. Detroit Revitalization inappropriately received the remaining balance of \$41,257 in the escrow accounts, rather than applying the balances to pay down the mortgages. For example:

The rehabilitation work for the property at 5574 Nottingham was completed on July 27, 1997. Based on the consultant's inspection report and the draw requests, MCA Mortgage released \$20,872 out of \$25,482 from the escrow account. Instead of reducing the mortgage amount by \$4,610 (\$25,482 less \$20,872), Detroit Revitalization was paid this amount on February 4, 1998.

Auditee Comments Detroit Revitalization's comments on our draft finding follow. Appendix C contains the complete text of the comments. Appendix C does not include Detroit Revitalization's comments to the narrative case presentations in Appendix B or the appendices/attachments due to their voluminous nature. The complete response was provided to the Director of the Philadelphia Homeownership Center separately.]

As explained in greater detail below, it is important to note that the OIG draft findings focus on the earliest transactions engaged in by Detroit Revitalization, Inc., involving organizational structures and programs no longer used by Detroit Revitalization, Inc.

Detroit Revitalization is concerned that publication of negative audit findings, even if stale and inaccurate, could have a significant adverse effect on its ability to meet its goal of materially contributing to the renaissance of the City of Detroit. For this reason, we request that you carefully review the material we are providing in this letter before reaching any final conclusions regarding any alleged violations or recommended sanctions.

OIG Evaluation of transactions that occurred between September 1995 and December 1997. A few of the transactions occurred in 1998. This is a very recent period and can hardly be called stale.

Auditee Comments

Detroit Revitalization rehabilitated 109 properties under HUD's Section 203(k) Loan Program. Eighty-two of the 109 loans were underwritten by MCA Mortgage Corporation, an identity-of-interest lender. Detroit Revitalization also purchased from HUD, nine properties at a 30 percent discount and 44 properties at a 10 percent discount under the Partners for Affordable Homeownership Program. We limited the scope of our audit to the 82 properties whose loans were

Finding 1

underwritten by MCA Mortgage Corporation and the properties purchased from HUD at a 30 percent discount.

Based on a careful review of Detroit Revitalization's comments and responses, we believe our findings are accurate and factual, and need to be published so that appropriate corrective actions can be implemented.

~~Auditee Comments~~ On October 11, 1995, the Director of the Detroit HUD Office, Single Family Housing Division, the Chief of Single Family Production, and the Chief of Real Estate Owned, met with executives of Detroit Revitalization, Inc., MCA Mortgage Corporation, and RIMCO Building Company regarding Detroit Revitalization's interest in the FHA 203(k) program. The discussion centered around Detroit Revitalization's desire to utilize the 203(k) Program to rehabilitate numerous properties acquired from related entities and contract with RIMCO Building Company for rehabilitation work and real estate sales expertise. MCA Mortgage Corporation would be the 203(k) lender for some of the cases, along with other local lenders. The relationships between MCA Mortgage Corporation, RIMCO Building Company and Detroit Revitalization, Inc. were fully disclosed and explained to HUD in an attempt to determine if their affiliation would impact on the use of the program. The HUD officials told us that the relationships would not present a conflict of interest.

~~Original Evaluation of~~ 52 which prohibits identity of interest relationships was issued after the October 11, 1995 meeting. The majority of the loans we reviewed were originated after the issuance of the Mortgagee Letter. Consequently, the identity of interest relationships were clearly prohibited on the loans. Nonetheless, the relationships and affiliations between MCA Mortgage Corporation, RIMCO Building Company, and Detroit Revitalization, Inc. would not have impacted the use of the programs in any way if all the repairs and the rehabilitation work was done in accordance with the specifications (work write ups) and in a workmanlike manner. Because of the identity of interest relationship between Detroit Revitalization, Inc. and MCA Mortgage Corporation, Detroit Revitalization, Inc. inappropriately received the remaining funds in the escrow accounts after all rehabilitation work was completed. The remaining funds in

the escrow accounts should have been applied to pay down the mortgages.

Auditee Comments: The Office of Inspector General regarding this issue proceeds from the false assumption that the sum of \$243,467 was released from the rehabilitation escrow account of the 12 homes discussed in the draft report.

The actual amount of draws approved and paid on the subject 12 homes was \$202,210. For reasons unknown to Detroit Revitalization, the auditor apparently did not review or correctly interpret the actual, approved draw requests to see what was actually approved and paid for by Detroit Revitalization, Inc.

Based upon the information provided to Detroit Revitalization, Inc., it would appear that the auditor did not properly examine the actual, approved draw requests, or interview the HUD Consultants who approved same, in comparing the work actually performed to the amounts set forth on the original consultant estimates. Utilizing that procedure resulted in erroneous conclusions in that it does not account for work substitutions made in the field, as approved by the HUD Consultant, and/or substitutions required by City of Detroit inspectors, and again approved by the HUD Consultant. It further does not account for items not approved and, therefore, never paid. Thus the failure to examine approved draw requests, coupled with the failure to interview the HUD Consultants who approved same, has unfortunately led to a number of erroneous conclusions in the draft findings.

WIG Evaluation of amount of work not done or unsatisfactorily done, based on the actual draw requests and the inspection reports approved by the Section 203(k) consultant/inspectors. The draw requests approved by the inspectors approved totaled \$202,210.

Auditee Comments

We stated in the finding that \$243,467 was released from the escrow accounts. This was the total amount deposited in the escrow accounts for rehabilitation work. Detroit Revitalization paid itself and RIMCO Building Company \$202,210 based on the draw requests. However, Detroit Revitalization inappropriately received the balance of \$41,257 remaining in the escrow accounts after the completion of the rehabilitation work, rather than applying the balances to

paydown the mortgages. HUD requires that any funds remaining in the escrow accounts after the completion of rehabilitation work must be applied towards reducing the mortgage amounts. For example:

For the property at 5574 Nottingham, the rehabilitation work was completed on July 27, 1997. Based on the consultant's inspection report and the draw requests, MCA Mortgage released \$20,872 out of \$25,482 from the escrow account. Instead of reducing the mortgage amount by \$4,610 (\$25,482 less \$20,872), Detroit Revitalization was paid this amount on February 4, 1998.

Auditee Comments, Inc. contacted and requested HUD Consultant Stephen Gullett, who performed the original inspections on four of the subject homes, to re-inspect those four homes. Detroit Revitalization, Inc. further requested Mr. Gullett to provide a written report regarding his findings in response to the draft findings on each of those four properties. Mr. Gullett's reports are included with our response.

One of the overall implications of the draft findings is that its then affiliated entity, RIMCO Building Company, was overpaid for work either not completed or completed in a substandard manner. The fact is, of the \$202,210 released from the rehabilitation escrow accounts on the subject 12 homes, the amount of \$195,879 was paid to independent, unaffiliated subcontractors and/or for direct material costs. In addition to those direct, out-of-pocket expenditures to third parties, we are informed that RIMCO Building Company incurred labor costs in the amount of \$40,474 in connection with these 12 homes, for a direct total cost to RIMCO in the amount of \$236,353. The notion that RIMCO either charged or was paid excessive amounts is simply not borne out by the actual facts.

WGC Evaluation of Gullett's, written reports provided by Detroit Revitalization. The inspector did not provide valid rebuttals to any of the conditions cited in the finding. In fact, he agreed with the work items we said were not completed. However, he disagreed with the HUD inspector's determination that certain work was not done satisfactorily and in a workmanlike manner. The HUD

Auditee Comments

inspector, during his inspections, found that certain repairs were not done satisfactory, and he stated his reasons why the work was not satisfactory. Mr. Gullet's reports provided no basis for us to invalidate the HUD inspector's conclusions.

We did not audit RIMCO Building Company, the identity-of-interest contractor, therefore we could not verify how much RIMCO paid the subcontractors. We only verified how much was paid to RIMCO Building Company or Detroit Revitalization, Inc. for the actual work done. HUD regulations state that the rehabilitation escrow funds can only be paid upon completion of the proposed rehabilitation work in accordance with the specifications and draw requests. If there was any monies spent for an item which was not in the specifications or in a change order, this money cannot be paid from the escrow account. There is no valid correlation between RIMCO's costs and the value of the work that Detroit Revitalization, RIMCO, and the consultant certified was performed. RIMCO could have paid top dollars for work not done or improperly done.

Auditor Comments: In some instances, work recommended by the HUD Consultants in the work write-up was not performed, this work was not paid for and additional work determined to be more appropriate was substituted with the knowledge, consent, and approval of the HUD Consultants. Payment was only received on completed work either as indicated in the write-up or as later modified. It was the practice of the HUD Consultants to informally adjust the work to be performed without preparation of a Request for Change form, where such consultant believed that the change was not material and there was no overall increase in the rehab cost.

For example, at 19414 Albany, the existing exterior side door was refurbished in place of the installation of a new door. The savings realized in refurbishing the door was utilized in providing a new storm door. This was possible because many of the items listed on the original work write-ups were recommendations and not requirements. Thus, instead of replacing the exterior door, refurbishing it and adding the storm door was acceptable to the HUD Consultant/Inspector.

Another example of an incorrect assumption by the OIG is the statement that the kitchen cabinets were not painted on 19414 Albany. Although the original work write-up called for painting the kitchen cabinets, the actual work performed

exceeded the original work write-up. Instead of painting the cabinets, they were cleaned, sanded, and refinished with varnish.

In each instance, all required permits were paid for and obtained from the City of Detroit.

Original Evaluation Detroit Revitalization's statement that it only received payment on completed work either as indicated in the specifications (write-up) or as later modified, our inspections showed that Detroit Revitalization received payments for work that was not completed and never modified with a change order. Detroit Revitalization's comments indicate it was the policy to informally adjust work specifications without preparing a Request for Change form to support the changes made. Consequently, we had no documented basis to determine or assess the work modification made.

For 19414 Albany, Detroit Revitalization states that an existing exterior side door was refurbished in place of the installation of a new door. The specifications required the installation of a new door. There was no change order written for any modifications. The HUD inspector determined that a new door was not installed, although three parties (Detroit Revitalization, RIMCO Building, and the 203(k) consultant/inspector) had certified on the inspection report and the draw request that the door was installed.

Regarding the kitchen cabinets, we did not make any assumptions in stating that they were not painted, as required by the specifications. We merely stated the facts. Detroit Revitalization admitted that the cabinets were not painted although it, along with RIMCO and the consultant certified that the cabinets were painted. The HUD construction inspector found the cabinets were only cleaned. He found no evidence that the cabinets were also sanded and refinished with varnish.

Although Detroit Revitalization was paid \$740 for permits for 19414 Albany, Detroit Revitalization did not provide any evidence that it incurred this cost and obtained the permits.

Auditee Comments approve a disbursement from the rehabilitation escrow accounts without a HUD-Approved Inspector approving the release with a signed draw request which attested to the fact that all completed work was done in a workmanlike manner. In

addition, each property was separately inspected by the City of Detroit Building and Safety Engineering Department and in each case issued a Certificate of Approval that the premises were satisfactory for occupancy and that no violations were found under established inspection procedures. Furthermore, at the time of sale of the property to a homeowner, in many instances the homeowner contracted for yet another independent inspection and closed the transaction on that basis. In each case, the homeowner purchased the property on an as is basis at an agreed to price without promise of additional work being performed in the future.

It is alleged by the OIG that Detroit Revitalization, Inc. paid RIMCO Building Company, its identity-of-interest construction company, for rehabilitation work which was improperly completed. The majority of repairs and rehabilitation work was performed by independent, third-party subcontractors. Detroit Revitalization relied upon the dual inspection process to ensure that all work was performed in a workmanlike manner. It should be noted that the OIG performed its inspections approximately two years after rehabilitation and that some deterioration is to be expected.

OIG Evaluation of
Additional
Auditee Comments

On the HUD-Approved Inspector/consultant approving the draw request, the lender also depended on Detroit Revitalization, Inc. and RIMCO Building Company's certification that the work was done according to the specifications and in a workmanlike manner. As shown by the finding, this was not always true.

Detroit Revitalization stated, in its response, that the City of Detroit also conducted an occupancy inspection and in some instances, homeowners contracted for inspections before buying the house. The City inspections only certify that the home was fit for occupancy. The City and the homeowner did not do the inspection to determine whether the repairs and rehabilitation was done according to the specifications for Section 203(k) loans. They also did not certify to HUD or the lender that the work was done according to the specifications.

Although, the majority of repairs may have been performed by third party subcontractors, RIMCO Building Company paid the subcontractors and was ultimately responsible for the work. It was RIMCO Building Company, Detroit Revitalization, Inc. and the 203(k) consultant/inspector who certified to HUD that

Finding 1

the work was done in a workmanlike manner when it was not. During our inspections, the HUD inspector took into account that some time elapsed between our inspections and the completion of rehabilitation.

Auditee Comments the OIG had not consulted the inspectors regarding any of the allegations raised in the draft finding. We find this omission quite unusual from both an audit and logical perspective given the fact that the 203(k) consultant/inspector is HUD approved, was responsible for preparation of the work write-up and any changes thereto, determined cost estimates, inspected completed work and approved all draw requests.

As noted above, we requested Stephen Gullett to re-inspect the four properties on which he acted as the 203(k) HUD Consultant. We supplied him with the details of the work that the OIG alleges was not done, done improperly or for excessive cost. Mr. Gullett visited each property and a report of his results are enclosed. In summary, where work was not done, he states that these were recommendations and not requirements and as such allowed other work to be done instead, although in many cases no written Request for Change form was prepared.

OIG Evaluation of it would have served any purpose to contact the inspector/consultant who prepared the work write-up and completed the inspections. The write-up, the cost estimates, the change orders and the inspection reports were very clear and straightforward. We did not need any explanations for any items. In addition to the consultant, Detroit Revitalization, Inc. and RIMCO Building Company, the general contractor also certified that the work was done.

Auditee Comments

We reviewed Mr. Gullett's, Section 203(k) consultant/inspector, reports provided by Detroit Revitalization, Inc. with its response. The inspector did not provide valid rebuttals to any of the conditions cited in the finding.

The HUD inspector, during his inspections, found that certain repairs that were certified by the 203(k) consultant/inspector to have been done were not done. For example, for 7725 Archdale, a specification required the installation of a storm door for \$225. We found that although certified by Mr. Gullett that the door was installed and certified by Detroit Revitalization that \$225 was the actual amount paid for the work, the door was not installed. Mr Gullett agreed in his report that the door was not installed but said that the

installation of the door was a recommendation and not a required item. The specifications prepared by Mr. Gullet did not mention which work items were recommendations and which were required items. All work specified in the specifications is a requirement unless modified by a change order. There was no change order.

Auditee Comments: prior to the commencement of the audit pertaining to these properties, the 203(k) mortgages on seven of the 12 cited properties were paid in full upon sale to qualified home buyers, thus eliminating any risk to HUD. As to the remaining five properties which remain mortgaged and where HUD perceives a risk, Detroit Revitalization, Inc. maintains that there is little or no risk to HUD for the following reasons:

The amounts paid by Detroit Revitalization, Inc. to RIMCO Building Company and its subcontractors were appropriate for the rehabilitation work that was completed. The current market value of each property supports the loan. Detroit Revitalization, Inc. has never missed a mortgage payment. All remaining mortgaged homes are rented and occupied.

However, in the spirit of cooperation and as a means of resolution, Detroit Revitalization, Inc. proposes to obtain independent appraisals of the current market value for the five remaining mortgaged properties. Should the current market value be determined to be less than the appraised value on which the mortgage was originally based, Detroit Revitalization will pay down the mortgage loan balance to 90 percent of the current appraised value. This would effectively eliminate any perceived risk to HUD.

DIG Evaluation of Auditee Comments: is incorrect in saying that mortgages on seven of the 12 cited properties were paid in full. HUD records show that only one mortgage for 5901 Harrell, has been discharged. The remaining eleven properties are still insured under the Section 203(k) Program. The mortgage holder for six of the eleven properties is Federal Home Loan Mortgage and not the original mortgagee, MCA Mortgage.

Detroit Revitalization stated that the current market value supports the loan. The question is not whether the current market value supports the loan. The important point is whether the market value of the properties supported the loans at the time they were insured by HUD. At the time of insuring the loans, the maximum mortgage amount

was calculated by taking the As-is appraised value plus the amount to be spent on rehabilitation. If the amount spent on rehabilitation was less than the amount used for calculating the maximum mortgage amount, the mortgage amount had to be reduced by the amount that was not actually spent. Detroit Revitalization did not do this. Consequently Detroit Revitalization obtained mortgages for excessive amounts.

~~Auditee Comments~~, Inc. wishes to note, however, that suspension does not appear to be a remedy within the prerogative of any district office, and is reserved for situations where immediate action is required to protect the public interest, 24CFR24.400(b). Given the dated nature of the transactions discussed in the OIG Draft Findings and the fact that Detroit Revitalization is not currently actively engaged in the programs discussed, suspension could not reasonably be considered an appropriate remedy under these circumstances.

We do not agree with the allegations contained in Draft Finding 1 and believe that Detroit Revitalization, Inc. should be allowed to continue participation in HUD programs.

Detroit Revitalization believes that it properly complied with the 203(k) Program and did not receive excessive funds for the following reasons:

- Ninety-seven percent of the draw proceeds received were paid to independent, third-party subcontractors and material suppliers.
 - In every case where a draw request was approved by the HUD-Approved Consultant-Inspector, the work or substituted work of equal value was performed.
 - All required permits were paid for and obtained from the City of Detroit. All properties were inspected by the City and a Certificate of Approval for occupancy issued.
 - As a result, we do not believe that suspension or any form of administrative sanctions are appropriate.
-

OIG Evaluation of
Auditee Comments

Suspension is a remedy available to a HUD office and is required to protect the integrity of the Section 203(k) Program or any other HUD programs. We are recommending

suspension from the 203(k) Program to assure that Detroit Revitalization cannot abuse the Program in the future.

We believe suspension or other sanctions are warranted because:

- Payments were made for work not done, or poorly done. As stated in the finding, \$80,984 of the \$243,467 paid was for work not done or poorly done. The fact that RIMCO paid 97 percent of the draw receipts to independent, third party subcontractors and material suppliers is not relevant. It merely indicates that RIMCO may have overpaid its subcontractors for poor quality of work.
- Detroit Revitalization in its comments said work modifications were made without change orders. Without documentation of the work modifications, there is no basis to determine the changes actually made.
- Detroit Revitalization and its consultant certified to payments for work which was not done or poorly done.
- Detroit Revitalization paid \$3,890 for city permits when there was no documentation showing the permits were obtained and the costs incurred. We allowed the cost of \$3,961 for permits charged, when Detroit Revitalization's records contained proof that a payment was paid for permits.

Recommendations

We recommend that the Director, Philadelphia Homeownership Center:

- 1A. Require Detroit Revitalization, Inc. to pay off or pay down the mortgages by the amount of excessive funds obtained for rehabilitation in order to reduce HUD's risks.
- 1B. Suspend Detroit Revitalization, Inc. from the participation in the Section 203(k) Program.
- 1C. Take administrative sanctions against the consultant/inspectors who falsely certified on the draw requests that work was done when it was not done.

Detroit Revitalization, Inc. Violated HUD's Requirements For Properties Purchased At A 30 Percent Discount

Detroit Revitalization, Inc., violated HUD's requirements for eight of the nine properties it purchased from HUD at a 30 percent discount under the Partners For Affordable Homeownership Program. Specifically, the nonprofit organization: (1) violated HUD's resale restrictions when it improperly resold and transferred the ownership of the properties to its identity-of-interest mortgage company, MCA Mortgage Corporation; (2) ultimately sold the properties to homebuyers by land contracts for excessive amounts. These sales were improper and not valid because Detroit Revitalization did not own the properties at the time of the sales; (3) charged excessive interest rates; and (4) violated HUD's conflict of interest requirements. As a result, HUD's objective of providing affordable housing to low and moderate income persons was not met. Detroit Revitalization also generated excessive profits for its identity-of-interest companies and the homebuyers paid excessive amounts of \$105,007 for the properties.

HUD's Requirements

HUD Notice H 95-89 allows nonprofit organizations to purchase HUD acquired properties at a 30 percent discount of the properties' value provided they comply with HUD's requirements. The nonprofit organizations are required to have financial resources to handle property related costs.

HUD Notice H 95-89 and the Model Land Use Restriction Addendum signed by Detroit Revitalization, Inc. say, unless an exception is granted in writing by HUD, the initial purchaser (Detroit Revitalization, Inc.): (1) shall resell the property only to a person who intends to occupy the property as his or her principal residence; (2) may not resell the property to an investor within one year of HUD's closing; (3) may not resell the property to any of the purchaser's officers, directors, employees, or the spouse, child, stepchild, parent, or business associate of any of the above; and (4) shall not resell the property for an amount in excess of 110 percent of the net development cost. The net development cost is the total cost of the project, including items such as acquisition cost, architectural fees, permits, survey expenses, insurance, and taxes. However, it does not include overhead expenses and any developer's fee.

HUD Regulation 24 CFR 291.435 (b) says each purchaser of a property must comply with conflict of interest requirements. These requirements say 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. They also may not 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.

Resale Restrictions Were Violated

Detroit Revitalization, Inc., violated HUD's resale restrictions for eight of the nine properties purchased at a 30 percent discount. Between September 1995 and February 1997, it purchased nine properties from HUD for \$89,900, at a discount of \$38,528. Our title search showed that after acquiring these properties, Detroit Revitalization, Inc. conveyed and transferred the ownership of eight properties, through a quit claim deed to its identity-of-interest and profit-motivated mortgage company, MCA Mortgage Corporation. HUD regulations require that a property purchased at a 30 percent discount shall only be resold to a person who intended to occupy it as a principal residence. Our title search also showed that MCA Mortgage Corporation obtained a mortgage for each of these properties from Sterling Bank and Trust.

The records provided to us by Detroit Revitalization, Inc. showed that after acquiring the properties from HUD, and transferring its ownership to MCA Mortgage, Detroit Revitalization, Inc. "sold" four of the properties through land contracts to employees of an identity-of-interest and profit motivated company, RIMCO Management Company and one property to an outside vendor. These land contracts were ultimately assumed by independent homebuyers. The remaining four properties were "sold" to homebuyers directly by Detroit Revitalization, Inc. through land contract agreements.

The land contract sales were not proper and may not be valid because Detroit Revitalization, Inc. did not own the properties when it signed the land contract agreements. Eight of the nine properties were owned by MCA Mortgage Corporation. Our title search showed that these land contracts were not recorded

with the Register of Deeds, Office of Wayne County, Michigan. There is no requirement for a land contract to be recorded with the Register of Deeds. A land contract is a real estate installment selling arrangement whereby the buyer may use, occupy, and enjoy the property, but no deed is given by the seller (so no title passes) until the sale price has been paid. Unless a homebuyer conducts a title search, the buyer would never know whether the purchase was proper and valid.

For example, on September 29, 1995, Detroit Revitalization, Inc. purchased the property at 8021 Ashton, Detroit, Michigan from HUD for \$6,650. The records of the Wayne County Register of Deeds, showed that on October 11, 1995, within 12 days of the initial purchase, Detroit Revitalization, Inc. conveyed and transferred the ownership of the property to MCA Mortgage Corporation through a quit claim deed. It made no improvements to the property. MCA Mortgage Corporation, on the same day obtained a mortgage of \$30,400 from Sterling Bank and Trust. This mortgage was paid off on April 24, 1996.

Detroit Revitalization's records showed that it "sold" the property at 8021 Ashton on January 11, 1996 for \$41,000 through a land contract agreement to an employee of RIMCO Management Company. The land contract agreement showed that the employee made a down payment of \$5,000. There was no documentation provided to show that he actually paid the down payment. On August 21, 1996, another homebuyer assumed the land contract for \$34,900. These records were not recorded with the Register of Deeds because the buyer does not receive title to the property until the land contract is paid off. The land contract agreement was improper and may not be valid because Detroit Revitalization, Inc. did not own the property. The property was owned by MCA Mortgage Corporation.

In another example, on September 29, 1995, Detroit Revitalization, Inc. purchased the property at 15733 Dacosta, Detroit, Michigan from HUD for \$5,600. The records of the Wayne County Register of Deeds showed that on January 11, 1996, Detroit Revitalization, Inc. transferred the ownership of the property to MCA Mortgage Corporation. Detroit Revitalization's records showed that on the same day, January 11, 1996, it also sold the property at 15733 Dacosta for \$29,000 through a land contract agreement to an employee of

RIMCO Management Company. On May 10, 1996, a part time sales agent for RIMCO Realty, another identity-of-interest company, assumed the land contract for \$26,000. The land contract sales were not recorded with the Register of Deeds because the buyer does not receive title to the property until the land contract is paid off. The land contract agreement may not be valid because Detroit Revitalization did not own the property. The property was owned by MCA Mortgage Corporation.

The employees of RIMCO Management Company did not respond to our requests for interviews. We wanted to confirm the information on the land contract documents. We also asked the former President of Detroit Revitalization, Inc. to make these employees available for interviews but he did not. However, Detroit Revitalization's Executive Director and the President told us in a written statement that initially Detroit Revitalization, Inc. lacked the necessary financing and MCA Mortgage agreed to utilize its credit facilities to finance the rehabilitation of the properties. To access and utilize these credit facilities, they said it was necessary to quit claim an interest to MCA Mortgage or to use an interim land contract. The Executive Director and the President of the non-profit said the understanding between MCA Mortgage Corporation and Detroit Revitalization, Inc. was that this was an interim financing arrangement only and that possession and control of the property would remain with Detroit Revitalization, Inc.

However, the explanations do not explain why and how Detroit Revitalization, Inc. could sell the properties by land contracts when it did not legally own the properties. As of April 30, 1998, the properties were owned by MCA Mortgage Corporation. In addition, the need for such a financing arrangement is contrary to HUD's regulations which requires a nonprofit organization to have the financial resources to handle property related expenses prior to acquiring HUD properties. If Detroit Revitalization, Inc. could not obtain its own financing, it should not have purchased the properties from HUD.

Final Homebuyers Were Charged Excessive Amounts

Although Detroit Revitalization, Inc. did not own eight of the nine properties, it improperly sold the properties through land contracts to homebuyers for amounts greater than allowed by HUD. As a result, Detroit Revitalization, Inc. generated excessive profits of \$105,007 for its identity-of-interest

companies, RIMCO Management Company and RIMCO Building Company.

All properties were repaired by the organization's identity-of-interest construction company, RIMCO Building Company. RIMCO Management and RIMCO Realty, other identity-of-interest companies, were paid for the management and sales of the properties.

Detroit Revitalization, Inc. maintained a summary sheet for each property. The sheet listed the costs incurred to purchase, rehabilitate, and resell the properties. The cost items included: the price paid to HUD to purchase the property; acquisition related costs; rehabilitation costs; holding costs; cost of funds; selling costs; and land contract discounts. We disallowed acquisition costs, unsupported rehabilitation costs, cost of funds, and the land contract discounts.

Acquisition costs: We disallowed \$21,600 of acquisition costs charged to the nine properties. Detroit Revitalization, Inc. charged \$2,400 to each property. It did not have documentation to show that these costs were incurred. The former President of Detroit Revitalization, Inc. said in a written statement that acquisition costs consisted of a flat fee of \$2,400 for each property, paid to RIMCO Management Company for the inspections and analytical work in preparing a feasibility report for the purchase decision. He said the work entailed appraisals, as well as an analysis of the rehabilitation costs. There was no documentation to support any completed work.

The initial rehabilitation cost estimates were prepared by the RIMCO Building Company, an identity-of-interest company who also acted as the general contractor for the repairs. The estimates were inadequate and did not describe the scope of the work or show the amount and kind of material required. For example, for 7840 Rutherford, the repair cost estimates showed that the furnace was 10 years old, in good condition, and needed to be cleaned and checked. The cost was initially listed as \$125 and then was crossed out and replaced by \$1,650, the approximate cost of a new furnace. The estimates did not contain any other description. Our inspection showed that no new furnace was installed.

Rehabilitation costs: We disallowed the cost of material and labor which had invoices that did not provide a detailed

description of work. The total disallowed cost was \$52,216 out of \$119,859 charged for rehabilitation. Each property file contained an invoice from RIMCO Building Company, which stated the following: bring electrical, plumbing, heating to code; replace carpet throughout; and paint and patch interior and exterior. Detroit Revitalization did not provide us documentation to support the costs or work listed on the invoices.

On May 6, 1998, a HUD inspector inspected the property at 7840 Rutherford to verify whether the repairs listed on the cost estimates were completed. Detroit Revitalization charged this property \$9,144 for rehabilitation costs and included an invoice of \$5,703 from RIMCO Building Company for which there was no support for work done. We disallowed this invoice leaving \$3,441 as allowable costs. A HUD inspector estimated the total cost of all of the completed repairs to be about \$3,000.

Cost of funds: Detroit Revitalization, Inc. charged \$15,872 to the properties for the cost of funds. This cost was the interest expense for funds borrowed to finance the acquisition and rehabilitation of the properties. Detroit Revitalization calculated this cost for each property using an 11 percent annual interest rate times the net development cost of the property. It did not have documentation to show the actual amount of borrowed funds, the dates they were borrowed and paid off, and from whom they were borrowed.

Land contract discount: Detroit Revitalization, Inc. charged \$13,521 to the nine properties for land contract discounts. The land contract discount is the reduction in the principal amount a financial institution will pay for the land contract if Detroit Revitalization sells the contract to the financial institution. We disallowed this cost because there was no support that this cost was incurred. Even if this cost would occur, it would be disallowed because it would occur after the sale of the property and therefore, would not be an eligible net development cost, as allowed by HUD.

As a result of these disallowance's, Detroit Revitalization, Inc. realized excessive profits totaling \$105,007 as shown in the following table.

Property Address	Costs Claimed	Costs Questioned by OIG	Allowable Costs per OIG	10 Percent Fee	Total Costs and Fee	Less Sales Price	Profit
8021 Ashton	\$ 30,928	\$ 11,149	\$ 19,779	\$ 1,978	\$ 21,757	\$ 34,020	\$ 12,263
15733 Dacosta	\$ 26,053	\$ 10,264	\$ 15,789	\$ 1,579	\$ 17,368	\$ 26,000	\$ 8,632
18274 Evergreen	\$ 34,742	\$ 10,063	\$ 24,679	\$ 2,468	\$ 27,147	\$ 34,000	\$ 6,853
8574 Kentucky	\$ 39,217	\$ 11,013	\$ 28,204	\$ 2,820	\$ 31,024	\$ 41,000	\$ 9,976
5027 Lakeview	\$ 38,880	\$ 15,336	\$ 23,544	\$ 2,354	\$ 25,898	\$ 42,000	\$ 16,102
9301 Pierson	\$ 34,798	\$ 11,563	\$ 23,235	\$ 2,324	\$ 25,559	\$ 41,000	\$ 15,441
7840 Rutherford	\$ 25,103	\$ 10,020	\$ 15,083	\$ 1,508	\$ 16,591	\$ 29,900	\$ 13,309
9349 Stahelin	\$ 48,585	\$ 13,347	\$ 35,238	\$ 3,524	\$ 38,762	\$ 48,500	\$ 9,738
19516 Westbrook	\$ 33,461	\$ 10,454	\$ 23,007	\$ 2,300	\$ 25,307	\$ 38,000	\$ 12,693
Totals:	\$311,767	\$103,209	\$208,558	\$20,855	\$229,413	\$334,420	\$105,007

Homebuyers Were Not Legally Protected and Were Charged High Interest Rates

Detroit Revitalization, Inc. sold all nine properties on land contracts at an 11 percent interest rate. The former President of the nonprofit said the homebuyers would not have qualified for a mortgage, therefore, the properties were sold on land contracts. However, he did not have documentation to prove that the nonprofit tried to obtain mortgages for the prospective homebuyers or that the homebuyers were refused mortgages. In addition, the purpose of the program is to make properties available for homeownership to qualified buyers at affordable prices. Under the land contract terms, the homebuyers did not hold the title and deed to the property and they could be evicted if the monthly payment is over 45 days late. In addition, we believe Detroit Revitalization, Inc. made and is making excessive profits by charging an 11 percent interest rate when the mortgage rates were around 8 percent.

Conflicts of Interest Requirements Were Violated

Detroit Revitalization, Inc. did not comply with the conflict of interest requirements. Detroit Revitalization was formed in 1995 by MCA Mortgage Corporation and RIMCO Financial Corporation. RIMCO Financial Corporation was comprised of five operating companies in the areas of real estate development, construction, real estate management, real estate finance, and real estate broker. RIMCO's operating companies,

RIMCO Management, RIMCO Building and RIMCO Realty were paid by Detroit Revitalization for acquisition costs, rehabilitation costs, and selling costs. Detroit Revitalization initially sold all properties to MCA Mortgage Corporation.

A former President and Chairman of the Board of Detroit Revitalization, Inc., was also the RIMCO Realty broker who sold all nine properties, and was on the Board of MCA Mortgage Corporation. The former Secretary of Detroit Revitalization, Inc. was also the Vice President of MCA Mortgage Corporation. Therefore, all the persons mentioned above had a conflict of interest as defined in HUD's Regulation 24 CFR 291.435.

Auditee Comments

[Excerpts from Detroit Revitalization's comments on our draft finding follow. Appendix C contains the complete text of the comments. However due to the voluminous nature of the comments to the narrative case presentations in Appendix B or its appendices/attachments, Appendix C does not include the comments to the narrative case presentations or the appendices/attachments. The complete response was provided to the Director of the Philadelphia Homeownership Center separately.]

Although Detroit Revitalization transferred record title to the properties to MCA Mortgage Corporation to obtain rehabilitation financing. Equitable title and control remained with Detroit Revitalization at all times, and the transfer of bare legal title to MCA Mortgage Corporation was part of a financing transaction only, in order to provide additional security. The process was intended to be akin to an equitable mortgage, where the title was to be held by the lender as additional security for the financing. The properties were always under Detroit Revitalization's control and were maintained on its balance sheet. These first properties were in fact sold by Detroit Revitalization, Inc. to homeowners who currently hold valid, equitable title to the properties.

Rather than only focusing on low income buyers, Detroit Revitalization also offers home ownership to moderate income renters who are shut out of owning a home because of past credit problems, a lack of credit or other reasons

lenders decline to offer mortgage financing. The sales prices of the homes were not excessive, but at market value.

OIG Evaluation of
Auditee Comments

The transfer of legal title, from Detroit Revitalization, Inc. to MCA Mortgage Corporation means that the properties were legally owned by MCA Mortgage Corporation and Detroit Revitalization, Inc. did not own the properties. When Detroit Revitalization, Inc. did not own the properties, it could not legally maintain these properties on its balance sheet and sell them to homebuyers. Because Detroit Revitalization, Inc. did not hold title to the properties, the sales to the homeowners were not valid and homeowners may not have any rights to the properties.

Detroit Revitalization's Executive Director said that the sales prices of the homes were not excessive, but at market value. HUD's objectives of selling these properties at a 30 percent discount to the nonprofit organization was not that the nonprofit could turnaround and sell these properties at market value and make a profit. Detroit Revitalization signed an agreement with HUD that clearly stated that it shall not resell the property for an amount in excess of 110 percent of the net development cost. The net development costs is the actual cost incurred for the acquisition, rehabilitation, and sale of the property. Overhead costs and profits cannot be included in the net development costs. As shown by the finding, Detroit Revitalization, Inc. sold all nine properties for excessive amounts.

Auditee Comments

HUD's Resale Restrictions: In its first days, Detroit Revitalization, Inc. did not have the financing or contributions in place to effectively fulfill its objectives. In order to begin rehabilitation operations on these first properties, Detroit Revitalization, Inc. turned to one of its founders, MCA Mortgage Corporation, to assist in financing its first rehabilitation jobs. The properties were deeded to MCA Mortgage Corporation to perfect the lender's interest, but it was understood by Detroit Revitalization, Inc. and MCA Mortgage Corporation that this was a financing mechanism only, and that possession and control of the properties remained with Detroit Revitalization, Inc. When these short-term mortgages matured, Detroit Revitalization, Inc. needed additional financing to continue operations. On five of these properties, RIMCO Management Company employees (and

in one case a vendor) aided Detroit Revitalization in financing by signing land contracts on the properties with the understanding that the land contracts would be assumed or paid off when the rehabilitation was completed and a qualified owner occupant could purchase the property.

The statement by the OIG that the President of Detroit Revitalization, Inc. did not make the employees of RIMCO Management Company who aided Detroit Revitalization, Inc. in its financing needs available for OIG interviews is an inaccurate statement. RIMCO Management Company was advised of this request and the employees were asked to fully cooperate with the OIG. The officers of RIMCO Management Company were surprised when the OIG auditors visited its offices to review documents and failed to request interviews with the RIMCO employees in question, although they were present and available to be interviewed by the OIG auditors.

OIG Evaluation of
Auditee Comments

The need for the financing arrangement, as explained by Detroit Revitalization's Executive Director, is contrary to HUD's regulations which requires a nonprofit organization to have financial resources to handle property related expenses prior to acquiring HUD properties. A lender could have given a mortgage loan to Detroit Revitalization, Inc. and perfected its interest by placing a lien on the property. As shown by the finding, Detroit Revitalization, in violation of HUD regulations, transferred the ownership of eight properties to MCA Mortgage who obtained a mortgage for each of these properties from Sterling Bank and Trust. Detroit Revitalization did not provide any documentation to show that funds from these mortgages were given to Detroit Revitalization.

Before going to RIMCO Management Company, we had asked the former President of Detroit Revitalization, Inc. to make particular employees available. Neither officials of RIMCO Management nor the former President of Detroit Revitalization responded to our request. We went to RIMCO's office to review documents pertaining to Detroit Revitalization because RIMCO Management Company kept all the records for Detroit Revitalization, Inc. We did not ask RIMCO officials to make their employees available when we went to RIMCO's office, because RIMCO was not our auditee.

Auditee Comments

Acquisition Costs. As stated in the OIG report, an acquisition fee of \$2,400 was charged to Detroit Revitalization, Inc. for the inspections and analytical work involved in preparing a feasibility report used to make the purchase decision for a given property. The same fee is also charged to MCA-owned entities who purchase the same service from RIMCO Management Company and reflects the high level of expertise incorporated in the following property assessment services:

- Determination of an appropriate purchase price.
- Renovation investment requirements.
- Relative marketability of the property.
- Estimated sale price upon completion of renovation.

Detroit Revitalization, Inc. believes the fee is justified by the quality of the analysis provided. A team of highly experienced professionals perform an estimated 30 hours of work to provide what amounts to a buy/not-buy decision. No amount is paid for reports on those properties in which a decision to not purchase a property is made. Because the success or failure of Detroit Revitalization, Inc. hinges upon making prudent purchase decisions and there is no substitute service of equal reliability, Detroit Revitalization, Inc. believes that the amount of the fee is well earned and justified.

OIG Evaluation of
Auditee Comments

Detroit Revitalization, Inc. did not provide any documentation to show that the acquisition costs were incurred. In its comments, the Executive Director said various property assessment services were conducted like: the determination of an appropriate purchase price; renovation investment requirements; relative marketability of the property; and the estimated sale price upon completion of renovation. There was no documentation to support any completed work except for the initial repair cost estimates prepared by RIMCO Building Company, an identity-of-interest company who also acted as the general contractor for the repairs. As shown in the finding, the repair cost estimates were also inadequate and did not describe the scope of the work or show the amount and kind of material required.

Additional Comments It should be noted again that very little written information was available to Detroit Revitalization, Inc. regarding HUD requirements for the 30 percent discount program. What little information that was provided by Detroit HUD did not prescribe detailed record keeping guidelines.

As a result of the lack of HUD guidelines for record keeping in this program, it was assumed that an invoice provided by the general contractor, RIMCO Building Company, did not have to be supported by all of the invoices paid to RIMCO's subcontractors. It may be helpful to understand how the contract price for the rehabilitation of each home between Detroit Revitalization, Inc. and RIMCO Building Company was established:

- Prior to acquiring a home, Detroit Revitalization, Inc. would request that RIMCO Building Company perform an inspection of the exterior/interior of the home to establish a rehabilitation price.
- RIMCO Building Company would then proceed with the inspection, detailing the necessary repairs and the estimated cost of these repairs. The details were done, keeping in mind that at the completion of the rehabilitation, a Certificate of Approval would have to be obtained from the City of Detroit.
- The mutually agreed upon contract price of a rehabilitation between Detroit Revitalization, Inc. and RIMCO Building Company was established prior to the rehabilitation commencing and was based on the total direct cost estimate per the detail mark-up of 25 percent. This 25 percent mark-up that RIMCO Building Company charged on each rehabilitation is conservative as compared to the industry and would be used to cover all RIMCO's indirect costs of the rehabilitation, including field supervisor and administrative staff wages.

Detroit Revitalization now recognizes that the invoices prepared by RIMCO Building Company do not contain the level of detail satisfactory to the OIG because of the identity-of-interest issue. While a normal billing practice from a general contractor would not include evidence of detailed work performed by subcontractors, because of the identity-of-interest issue, such subcontractor detail is now

being provided for two properties. Due to time constraints in preparing this response, the supporting detail for the remaining properties is being assembled and will be provided in the near future.

The supporting detail for 7840 Rutherford provides evidence for third-party, out-of-pocket costs to RIMCO Building Company for an additional \$2,885 out of the \$5,703 disallowed by the OIG. Detroit Revitalization was not charged for the cost of a new furnace that was not installed as implied in Finding 2. A new furnace was not installed and neither was Detroit Revitalization charged. The remaining \$2,818 was RIMCO Building's gross margin which would include the field supervisor and administrative wages, as well as other general operating overhead.

Because RIMCO Building Company quoted Detroit Revitalization, Inc. a rehabilitation figure based on estimates and guaranteed a certificate of occupancy, it removed the significant risk Detroit Revitalization would have if it acted as its own general contractor. RIMCO Building Company made a modest profit in some cases, but lost money on others.

In fact, RIMCO Building Company lost money in the aggregate for the nine 30 percent discount properties cited by the OIG. For these properties, RIMCO Building Company only received about \$4,000 above what it paid to third-party subcontractors and material suppliers. After subtracting overhead, the gross margin resulted in an actual net loss.

RIMCO Evaluation of Costs are not sufficient to support the allowability of the costs incurred because there was no documentation showing that these costs were actually incurred.

Auditee Comments

RIMCO Building Company, an identity-of-interest company prepared the specifications and cost estimates that showed the cost for a work item to be repaired or replaced. The specifications and the costs estimates were not adequate because they did not show the scope of the work, and the amount and kind of material used. RIMCO then added a 25 percent markup to the estimates to calculate the estimated rehabilitation cost. RIMCO charged the estimated rehabilitation cost to each property regardless of whether the estimated costs were actually incurred or all the work in the

specifications and costs estimates was done. Our inspection of 7840 Rutherford showed that a new furnace which was listed on the specifications and cost estimates was not installed although the property was charged for this cost.

Each property file contained invoices which included invoices from subcontractors, vendors, and RIMCO Building Company. We allowed the costs of all the invoices from subcontractors and vendors. We also allowed the invoices from RIMCO Building Company which contained the description of the work done. As stated in the finding, each property file contained an invoice from RIMCO Building Company, which stated the following: bring electrical, plumbing, heating to code, replace carpet, and paint. We questioned this invoice because of its lack of specificity.

We cannot tell whether the additional invoices provided with Detroit Revitalization's response actually were for the work done on a particular property. RIMCO Building Company does routine maintenance for over 2,000 properties managed by RIMCO Management Company. These invoices could pertain to any property. A HUD inspector inspected the property at 7840 Rutherford on May 6, 1998 and estimated the total cost of these completed repairs to be about \$3,000. We allowed \$3,441 for repairs based on invoices. Thus, the amount supported by invoices (\$3,441) correlated closely with our inspector's cost estimate for the repairs completed.

Auditor Comments to Detroit Revitalization, Inc. was not paid to RIMCO Building Company/MCA Mortgage Corporation on a monthly basis as would be the case in a traditional banking situation. Rather, the interest was accrued by Detroit Revitalization, Inc. as an account payable to RIMCO Building Company/MCA Mortgage Corporation that was paid down in a lump sum with proceeds from the sale of the property.

The cost of funds (interest charge) was calculated for each property as follows:

- Acquisition costs times 11 percent times days owned divided by 365 days.
 - Average rehabilitation/holding costs times 11 percent times days owned divided by 365 days.
-

OCG Evaluation of Detroit Revitalization, Inc. did not provide any documentation to show how much it borrowed for each property, the dates it received the borrowed funds, and from whom they were borrowed.

Auditee Comments

Auditee Comments A discount is the reduction in the principal amount, a financial institution will pay for a land contract in order to obtain its required yield for the perceived risk of the investment. After Detroit Revitalization, Inc. sells a property to an owner-occupant by means of a land contract, the land contract is then sold to a local bank in order to recover Detroit Revitalization's working capital. Although the expense occurs after the property is sold, it is still a real cost to Detroit Revitalization, Inc. of selling the property. The land contract discount is similar to discount points paid by a seller in a sale financed by a mortgage.

OCG Evaluation of A discount is the reduction in the principal amount a financial institution will pay for the land contract if Detroit Revitalization, Inc. sells the contract to the financial institution. We questioned the land contract discount because there was no supporting documentation showing that this cost was incurred. Even if this cost was incurred, it would be unallowable because it would occur after the sale of the property and therefore, would not be an eligible net development cost, as allowed by HUD.

Auditee Comments

Auditee Comments that the land contract sales were not proper and that no title passes to the purchaser in such transactions. These comments exhibit a lack of understanding of the use of land contracts in the State of Michigan as a common vehicle for the purchase of real property, especially by persons who do not qualify for any available mortgage programs.

A land contract is a common method of selling land in Michigan. The primary purpose of a land contract is the sale and purchase of real property. A land contract is an agreement on an installment payment basis over a period of time whereby possession and equitable title are immediately vested in the vendee, and legal title remains vested in the vendor as security for payment of the balance of the purchase price. Possession of the property is generally delivered to the vendee upon execution of the land contract.

As to issues pertaining to title, all perceived problems with record title have been cleared up at this time. As explained elsewhere in this response, the subject properties were

deeded by Detroit Revitalization, Inc. to MCA Mortgage Corporation for financing purposes only. Once the rehabilitation work was completed, and the home sold to a qualified home buyer, the vendee's interest in the land contract was assigned to the qualified home buyer, the vendor's interest was conveyed to Sterling Bank and Trust (Sterling), and MCA Mortgage Corporation quit claimed its interest to Sterling as well. Thus Sterling ended up with record title in all instances, as well as the vendor's interest in the land contracts. Under Michigan law, so long as the vendor subsequently acquires title, the interest of both the vendor and vendee are perfected. All of the vendees currently have proper equitable title, and all of the protections that go along with such status as outlined above.

Based upon the above, it should be clear that there is nothing improper about land contract sales. Detroit Revitalization, Inc. is unaware of any HUD regulations or other program requirements which preclude the use of land contract sales.

OLG Evaluation of land contract sales were not proper because Detroit Revitalization, Inc. was not the legal owner of the properties when it sold them to the homebuyers. If Detroit Revitalization, Inc. was the legal owner of the properties when it sold the properties, there would be nothing wrong in selling the properties by land contract.

Auditee Comments

In its response, Detroit Revitalization, Inc. stated all perceived problems with record title have been cleared and Sterling Bank and Trust holds the titles to the properties. Detroit Revitalization, Inc. did not provide any documentation to prove how the problems of improper sales have been cleared.

Auditee Comments As has been stated previously, the Detroit Office of HUD was fully informed of the relationships Detroit Revitalization had with MCA Mortgage Corporation and RIMCO Building Company and was quite willing to approve a viable buyer and rehabber of HUD real estate owned properties who had potential to handle a significant volume. However, any conflict of interest that existed was eliminated as soon as HUD clarified its position. Detroit Revitalization is unaware of any conflict of interest that currently exists between the officers and directors of Detroit Revitalization, Inc. and MCA Mortgage Corporation or RIMCO Building

Company. The draft report does not state a specific conflict of interest. If the OIG knows of a conflict of interest which still exists, the OIG should inform Detroit Revitalization, Inc. so it may be corrected.

OIG Evaluation of Finding, a conflict of interest existed for the transactions concerning the nine properties in our finding. A specific conflict of interest existed when the broker who sold the nine HUD purchased properties, was also the President and Chairman of the Board of Detroit Revitalization, Inc. We are not aware of any conflicts of interest currently existing, except for the conflicts cited in the finding.

Auditee Comments Detroit Revitalization, Inc. believes that the only cost which is even arguably subject to reasonable debate is the acquisition fee of \$2,400 per property. A fee of \$1,000 can be readily justified by the market fees charged for comparable work: \$600 charged by a HUD Consultant for a work write-up and \$400 for an “as-is” and “as-repaired” appraisal report. In the spirit of compromise and resolution, Detroit Revitalization, Inc. proposes to pay down the land contract balance on the eight applicable properties by \$1,400 each.

OIG Evaluation of the actual costs incurred for each property. As stated in the finding, all unsupported acquisition costs, unsupported rehabilitation costs, unsupported costs of funds, and the land contract discounts are questionable costs. Therefore, we believe Detroit Revitalization needs to reimburse the respective homebuyers \$105,007 for excessive amounts paid for the properties.

Recommendations We recommend that the Director, Philadelphia Homeownership Center, require Detroit Revitalization, Inc. to:

- 2A. Provide documentation to support the total costs for each property or reimburse the respective homebuyer \$105,007 for the excess profit.
- 2B. Impose administrative sanctions against the former Officers of Detroit Revitalization, Inc. who were in charge of the non-profit organization during the audit period.

- 2C. If recommendation 2A. is not satisfactorily resolved, remove Detroit Revitalization, Inc. from participation in HUD Programs.

Management Controls

In planning and performing our audit, we considered the management controls relating to Detroit Revitalization, Inc. in order to determine our auditing procedures, not to provide assurance on the 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.

Relevant Management Controls

Management controls were relevant to our audit objectives:

- Program Operations - Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Validity and Reliability of Data - Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.
- Compliance with Laws and Regulations - Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.
- Safeguarding Resources - Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.

We assessed all of the relevant controls identified above.

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.

Significant Weaknesses the following items are significant weaknesses:

- Compliance with Laws and Regulations: Detroit Revitalization, Inc. did not comply with HUD regulations. It obtained excessive funds for rehabilitation work done under Section 203(k) loans (Finding 1). It also violated HUD's requirements for eight of the nine properties it purchased from HUD at a 30 percent discount (Finding 2).

Follow Up On Prior Audits

This is the first OIG audit of Detroit Revitalization, Inc.

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Schedule Of Questioned Costs

<u>Recommendation Number</u>	<u>Type of Questioned Costs Unsupported</u> <u>1/</u>
2A	\$105,007

1/ Unsupported costs are costs charged to a HUD-financed or 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 cost. 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.

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Introduction to Narrative Case Presentations

Appendices B-1 through B-12 represent twelve case-by-case narrative discussions summarizing and detailing the deficiencies cited in Finding 1 and showing the amounts paid for incomplete work.

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FHA Case No: 261-6403957

Appendix B-1

Property Address: 19414 Albany
 Detroit, Michigan 48234

Cost of Repairs \$22,952

Detroit Revitalization, Inc. paid its identity-of-interest construction company, RIMCO Building Company, excessive fees to rehabilitate the property. A HUD inspector inspected the property on April 21, 1998 and found that RIMCO was paid for repairs that were either not completed or were unsatisfactorily completed. The borrower (Detroit Revitalization, Inc.), the contractor (RIMCO Building Company), and the Section 203(k) consultant/inspector signed the draw request for the release of funds from the Rehabilitation Escrow Account and stated that all completed work had been done in a workmanlike manner. RIMCO was paid a total amount of \$22,952 for the repairs and permits. The HUD inspector estimated that of the \$22,952, RIMCO was paid \$3,996 for work that was not done; and \$2,194 for unsatisfactory and poor quality work, as shown by the following charts.

Items	Amount Paid For Work Not Done
Windows and Doors	\$1,239
Kitchen Cabinets	632
Electrical	145
Porch steps and gate	155
Kitchen Cabinet painting	135
Partition Wall	950
Permits	740
Total	\$ 3,996

Items	Amount Paid For Unsatisfactory Work
Window Painting	\$ 492
Interior Walls Painting	1,384
Kitchen Tiles	200
Tub Glazing	75
Bath Accessories	43
Total	\$ 2,194

Auditee Comments

[A summary of Detroit Revitalization's comments regarding the deficiencies cited above follow. The audit report does not include Detroit Revitalization's verbatim comments to

the narrative case presentations or its appendices/attachments due to their voluminous nature. The complete response was provided to the Director of the Philadelphia Homeownership Center separately.]

We do not agree that the following work listed in the original specifications was not completed:

Install new replacement windows, two south upper, one north upper	\$ 750
Replace all rotted sills at exterior (3)	104
Install new exterior side door	175
Install new hardware on all interior doors	<u>210</u>
Total	\$1,239

The photograph at the start of the construction shows that the upper window on the north side had clearly been removed and therefore, was replaced. Invoices reflect the purchase of replacement window sashes. The rear basement windows were also replaced as well as seven additional window panes that were not required in the original specification of repairs.

As you can see from the before and after photographs the sills in the rear of the house at the start of the construction had already been removed and new sills are in place in the after photos.

We do not agree that the installation of a new exterior side door was not completed and the installation of all new hardware on all interior doors was not completed. The attached invoice reflects the purchase of the exterior door and the interior door hardware was replaced as necessary in order to replace the storm doors.

OIG Evaluation of
Auditee Comments

Detroit Revitalization, Inc. obtained rehabilitation escrow funds based on its, the general contractor's, and the Section 203(k) consultant/inspector's certification that the work was completed according to the specifications (work write ups). The specifications required the installation of new windows, replacement of all rotted exterior sills, installation of a new exterior side door, and installation of new hardware on all interior doors.

We found none of the above work was done as certified. The two south upper and one north upper windows were not new as required by the specifications. Instead, old windows were installed. Detroit Revitalization stated that the picture shows the window on the north side had been removed before the start of rehabilitation and therefore, was replaced. The statement is true. However, the replacement window that was reinstalled was not new as required by the specifications. It only proves that a window was reinstalled and our inspection showed that it was an old window. The fact that Detroit Revitalization had invoices showing the purchase of window sashes and the installation of window panes does not prove that new windows were installed. These could have been used to repair old windows or used on other projects.

Detroit Revitalization provided photographs with its comments and said the photographs showed that new windows sills were installed. We could not tell from the photographs whether new sills were installed. However, the HUD inspector who inspected the house on April 21, 1998 found that old rotted window sills were not replaced with new ones, as required by the specifications.

Detroit Revitalization provided invoices for the purchase of storm doors and hardware for a storm door to prove that an exterior door was installed. The vendor on the invoice for the storm doors was RIMCO Building Company, the general contractor. There was no invoice for the purchase of an exterior door. The specifications required the installation of a new 13/4 inch exterior door and the installation of new hardware on all interior doors. Our inspection showed that the exterior door was an old door and not a new door. A storm door is not the same as an exterior door, as required by the specifications. The property owner told us they purchased their own storm doors and installed them on the side and front. The owner also said that RIMCO Building Company personnel told her that they do not provide storm doors.

Auditee Comments

We do not agree with the OIG statement that work was not completed regarding the kitchen cabinets for \$632. While it is correct that the upper kitchen cabinets were not replaced, and installation of new cabinets was intended, and the materials were on site at the time of the first draw

inspection. HUD consultants are allowed to approve payment for replacement cabinets prior to the actual installation. A change order was approved to exchange the intended installation of kitchen cabinets for additional upstairs buildout funds.

The cabinets were found to be in good condition underneath the damaged finish and dirt. They were cleaned, sanded, and refinished.

OIG Evaluation of
Auditee Comments

The funds for the installation of upper kitchen cabinets for \$632 were disbursed on December 9, 1996 based on certification that the work was completed. Detroit Revitalization, Inc. in its response said that a change order was written to reallocate funds. However, the change order did not mention anything about exchanging the replacement of kitchen cabinets with the upstairs buildout. The change order was for painting and plastering. The change order was also written on May 6, 1997, six months after the funds were paid for the installation of the kitchen cabinets.

Auditee Comments

We do not agree with the OIG statement that the installation of the 20 amp dedicated laundry circuit for \$145 was not installed.

In lieu of the ground fault interrupter plug, 15 outlets were replaced/installed and 7 new switches which were not called for in the original specification of repairs. We feel that this substitution exceeds the value of the original ground fault interrupter installation requirement.

OIG Evaluation of
Auditee Comments

On the draw request for the release of the rehabilitation escrow funds, the borrower, the general contractor and the Section 203(k) consultant/inspector certified that all work was done according to the specifications, including the installation of the ground fault interrupter plug.

Detroit Revitalization, Inc. claims that in lieu of the ground fault interrupter plug, it substituted other work. The Rehabilitation Loan Agreement states that any changes in the architectural exhibits (specifications) must be approved in writing prior to the beginning of the work. Section 203(k) rehabilitation escrow funds can only be paid for work completed in accordance with the approved specifications (work write up) or change orders written before the start of the

work. There were no change orders or any other documentation for the work that Detroit Revitalization claims was substituted.

Auditee Comments

We do not agree with the OIG statement that the repairs to the driveway gates for \$90 and porch steps for \$65 were not completed. Attached please find the invoice for the purchase of gate hinges and a fork latch necessary to repair the driveway gates and the invoice for the porch steps repairs.

OIG Evaluation of Auditee Comments

The invoice for the purchase of gate hinges and a fork latch totaling \$4.50 does not prove that the driveway gates were repaired. Our inspection showed that the gates were not repaired and were dragging.

The invoice submitted by Detroit Revitalization, Inc. for the porch step repair was for \$120 to reset the front steps and tuckpoint the house as needed. The HUD inspector determined that tuckpointing was done but the porch steps were not repaired. It is the responsibility of the borrower and the general contractor to assure that all repairs are completed.

Auditee Comments

We do not agree with the OIG statement that the painting of the kitchen cabinets for \$135 was not completed. This would imply that there was not any work performed on the original cabinets and that they were left in their original condition. As the original cabinets were of good quality and had a reasonable appearance underneath, the damaged varnish and dirt were cleaned, sanded, and refinished.

OIG Evaluation of Auditee Comments

The lender released the escrow funds based on the certification that the cabinets were painted. We found that the cabinets were not painted. They were only cleaned.

Auditee Comments

We do not agree with the OIG statement that the change order for an additional partition wall, painting and drywall for \$950 was not justified because the items were already included in the specifications. The average RIMCO Building Company cost of an attic buildout is \$3,600 in cost. The change order was requested to supplement the attic cost to the extent that funds were thought to be available in the contingency reserve. Requesting the

difference between \$3,600 and the allocated \$600 in the specification of repairs would have been futile as the funds simply were not available. Please find invoices associated with the completion of the attic buildout.

OIG Evaluation of
Auditee Comments

The average RIMCO Building Company cost for an attic buildout is irrelevant. Nothing in the work write up or the change order required an attic buildout. According to HUD regulations, rehabilitation escrow funds can only be paid for work completed according to the specifications. The specifications only required construction of a partition wall. In fact, the inspection report conducted before the writing of the specifications by the Section 203(k) consultant/inspector showed that the house already had an attic buildout. The change order for \$950 which we said was not justified, was for a partition wall, painting, plaster, and drywall. These were already included in the original specifications. Therefore, the change order was not justified. The invoices provided by Detroit Revitalization, Inc. were for \$5,564 for general labor and materials to repair the house. None of the invoices mentioned an attic buildout.

Auditee Comments

The OIG has cited that there was no evidence of permits obtained. We do not agree with the OIG statement that they were not provided with evidence of permits being obtained.

A change order was submitted on November 13, 1996 for the estimated permits needed. This request was approved by the FHA 203(k) HUD Consultant as an allowable expense which was released for payment from the rehab escrow account.

Attached is a copy of the Certificate of Approval issued by the City of Detroit Buildings and Safety Engineering Department on November 6, 1996 once all inspections were passed, violations corrected, and permits obtained.

OIG Evaluation of
Auditee Comments

Detroit Revitalization, Inc. did not provide any evidence that it obtained any permits. It also did not provide any evidence that it incurred any costs for permits.

Auditee Comments

We do not agree with the OIG statement that the window painting of \$492 was of poor workmanship. We also do not agree with the OIG statement that Detroit Revitalization, Inc. obtained excessive funds for the following work:

Interior wall painting	\$1,384
Kitchen tiles	200
Tub glazing	75
Bath accessories	43

An independent FHA 203(k) HUD Consultant was hired to prepare the rehabilitation work write-ups and determine the costs. In establishing cost, the consultant made use of RS Means Residential Cost Data, a reference guide which has been a standard in the building industry for the past 50 years. Likewise, the lender did not approve a disbursement from the rehabilitation escrow account without a HUD approved inspector approving the release with a signed draw request which attested to the fact that all completed work was done in a workmanlike manner. In addition, the property was separately inspected by the City of Detroit Building and Safety Engineering Department and issued a Certificate of Approval that the premises were satisfactory for occupancy and that no violations were found under established inspection procedures.

All funds were approved by the FHA 203(k) HUD Consultant for the acceptable completion of repairs.

 OIG Evaluation of
Auditee Comments

We have no issue with the cost estimates. Our issue is that the work which was done, was not done in a workmanlike manner or the costs charged were excessive for the actual amount of work done. For example, the work write up required the contractor to scrape and paint the windows. We found that the workmanship was poor. The windows were not scraped and primed, but were painted with a thin coat of paint and the paint was peeling.

FHA Case No: 261-6542980

Appendix B-2

Property Address: 7725 Archdale
 Detroit, Michigan 48213

Cost of Repairs: \$22,433

Detroit Revitalization, Inc. paid its identity-of-interest construction company, RIMCO Building Company, excessive fees to rehabilitate the property. A HUD inspector inspected the property on April 15, 1998 and found that RIMCO was paid for repairs that were either not completed or were unsatisfactorily completed. The borrower (Detroit Revitalization, Inc.), the contractor (RIMCO Building Company), and the Section 203(k) consultant/inspector signed the draw request for the release of funds from the Rehabilitation Escrow Account and stated that all completed work had been done in a workmanlike manner. RIMCO was paid \$22,433 for repairs and permits. The HUD inspector estimated that RIMCO was paid \$6,356 for work not completed; and \$4,251 for unsatisfactory or poor quality work, as shown by the following charts.

Items	Amount Paid For Work Not Done
Windows and Doors	\$ 845
Concrete Work	715
Gutters	314
Fence	327
Electrical	920
Tree Removal	100
Plumbing	1,355
Insulation	675
Refinish Wood Floor	138
Permits	967
Total	<u>\$ 6,356</u>

Items	Amount Paid For Unsatisfactory Work
Siding	\$ 921
Roof valley	700
Painting	390
Electrical	165
Partitions	2,000
Closet Door	75
Total	<u>\$ 4,251</u>

Auditee Comments

[A summary of Detroit Revitalization's comments regarding the deficiencies cited above follow. The audit report does not include Detroit Revitalization's verbatim comments to the narrative case presentations or its appendices/attachments due to their voluminous nature. The complete response was provided to the Director of the Philadelphia Homeownership Center separately.]

We do not agree nor disagree with the OIG statement that windows and doors for \$845 were not installed because other work items were substituted. Two windows in addition to those required in the specification of repairs were damaged and required replacement of the glass.

The cleanout and rehabilitation of the home required the use of a dumpster and the labor to clean and fill the dumpster.

The FHA 203(k) HUD Consultant approved the full amount of funds allowed per the specification of repairs upon inspection performed December 2, 1997.

OIG Evaluation of Auditee Comments

The Rehabilitation Loan Agreement states that the rehabilitation escrow funds will be released upon completion of the proposed rehabilitation work in accordance with the specifications and draw request. The lender released the escrow funds based on the certification by Detroit Revitalization, Inc. the borrower, the general contractor and the Section 203(k) consultant/inspector that the windows and doors, as required in the specifications were installed.

Detroit Revitalization, Inc. claims that in lieu of windows and doors, it substituted some other work, such as replacement of glass and obtaining a dumpster. However, there were no change orders or cost estimates for this work. There also were no inspections certifying that any of the substituted work claimed by Detroit Revitalization was done.

Auditee Comments

We do not agree with the OIG draft statement that the concrete step was not reset. The steps were reset, painted, the porch foundation painted, and the wood porch top painted. Please find an invoice for five gallons of gray oil base paint. A new mailbox was also installed. The FHA 203(k) HUD Consultant approved the repairs for the release

of funds at the draw inspection performed on December 2, 1997.

OIG Evaluation of
Auditee Comments

The specifications required the resetting of concrete steps, the replacement of a concrete walk, and the repair of cracks in the wall for a total cost of \$715. The painting of the steps and the installation of a mail box have nothing to do with the work that was required under the specifications. On the draw request for the release of escrow funds, Detroit Revitalization, Inc., the general contractor, and the Section 203(k) consultant/inspector certified that the resetting of concrete steps, the replacement of a concrete walk, and repair of cracks was completed according to the specifications. Our inspection determined that this work was not done.

Auditee Comments

We do not agree nor disagree with the OIG statement that the gutters were not replaced. At the time of the rehabilitation, the gutters were found to be in operable condition. In lieu of replacing the existing gutters, a new kitchen floor was installed. The FHA 203(k) HUD Consultant approved the full amount of funds allowed per the specification of repairs upon inspection performed December 2, 1997.

OIG Evaluation of
Auditee Comments

Detroit Revitalization, Inc. admitted that gutters were not installed as required in the specifications, although it certified in the draw request that gutters were installed. Detroit Revitalization claimed that a new kitchen floor was installed instead of the gutters. There were no change orders for the work modification, as required by HUD or an inspection report showing that a kitchen floor was installed instead of the gutters.

Auditee Comments

We neither agree nor disagree with the OIG statement that the fence was not replaced. These funds were allocated towards the balance of the replacement carpet installed in the bedroom originally scheduled to have been refinished. The FHA 203(k) HUD Consultant approved the full amount of funds allowed per the specification of repairs upon inspection performed December 2, 1997.

OIG Evaluation of
Auditee Comments

Detroit Revitalization, Inc. admitted that the fence was not installed as required in the specifications, although it certified in the draw request that this work was done.

A borrower can only be paid from the escrow funds if the work is done in accordance with the specifications or an approved change order. There were no change orders deleting the fence replacement or increasing the cost of carpeting.

Auditee Comments

We do not agree with the OIG statement that the following work was not done.

East-remove and replace light fixture	\$ 75
Remove 60 amp fuse circuit breaker and replace with 100 amp circuit breaker	<u>845</u>
Total	\$ 920

The exterior light fixture was replaced. The 60 amp circuit breaker was found to be in working order and was sufficient service for the home. The original specification of repairs allowed for four lights to be replaced, eleven light fixtures were replaced. One receptacle and one switch was allowed to be repaired, however all switches, plugs, and covers were replaced throughout the house as well as the basement pull chain outlets, two ground fault interrupters and the service cable and box in order to obtain a City of Detroit Certificate of Occupancy. The FHA 203(k) HUD Consultant approved the full amount of funds allowed per the specification of repairs upon inspection performed December 2, 1997.

**OIG Evaluation of
Auditee Comments**

The HUD inspector determined that the light fixture was very old and not new. Therefore, the inspector concluded the fixture was not replaced.

Detroit Revitalization, Inc. admitted that it did not remove and replace the circuit breaker, as required by the specifications. However, Detroit Revitalization, the general contractor, and the Section 203(k) consultant/inspector certified on the draw request for the release of escrow funds that the work was done.

It is irrelevant what additional work was done that was not in the specifications or change orders. The cost of this work has to be borne by Detroit Revitalization. The rehabilitation escrow funds can only be released for work that was done in accordance with the specifications or approved change orders.

Auditee Comments

We do not agree with the OIG statement that the tree was not cut down. There were two trees at this site and the work write up called for removal of the larger of the two trees. As you can see from the before and after photos the larger tree was removed and the smaller tree pruned dramatically.

The FHA 203(k) HUD Consultant approved the full amount of funds allowed per the specification of repairs upon inspection performed December 2, 1997.

OIG Evaluation of Auditee Comments

The picture submitted by Detroit Revitalization and taken before the start of the rehabilitation work shows only one tree with two branches. One branch was cut down and the other was not cut. The specification required the removal of the whole tree. Given that the tree was still there, the work was not done according to the specifications.

Auditee Comments

We neither agree nor disagree with the OIG statement that the water pipes were not replaced and the steel tub was not reglazed. All of the water pipes in the home were not replaced with copper lines, however, numerous repairs were completed which total comparable value in order to obtain a City of Detroit Certificate of Approval. Examples of alternate repairs are: replacement of the laundry tub and faucet, toilet, kitchen faucet, bathroom faucet, trip waste, and bathtub diverter. The steel tub was not reglazed since there were not any spots worn down to the steel. Instead of reglazing the tub, a new bathroom floor was installed.

The FHA 203(k) HUD Consultant approved the full amount of funds allowed per the specification of repairs upon inspection performed December 2, 1997.

OIG Evaluation of Auditee Comments

Detroit Revitalization, Inc. admitted that the water pipes were not repaired and the tub was not reglazed, as required by the specifications. However, to obtain rehabilitation escrow funds, Detroit Revitalization, Inc., the general contractor, and the Section 203(k) consultant/inspector certified that the work was completed according to the specifications.

It is irrelevant what additional work was done that was not in the specifications or approved change orders. The cost of this work has to be borne by Detroit Revitalization, Inc. The rehabilitation escrow funds can only be released for work that was done in accordance with the specifications or approved change orders.

Auditee Comments

We do not agree nor disagree with the OIG statement that the insulation was not installed. The funds were re-allocated to the replacement of the garage door. The FHA 203(k) HUD Consultant approved the full amount of funds allowed per the specification of repairs upon inspection performed December 2, 1997.

OIG Evaluation of Auditee Comments

Detroit Revitalization, Inc. admitted that insulation was not installed, as required by the specifications. However, to obtain rehabilitation escrow funds, Detroit Revitalization, the general contractor, and the inspector certified that the work was completed according to the specifications.

It is irrelevant what additional work was done that was not in the specifications or approved change orders. The cost of this work has to be borne by Detroit Revitalization, Inc. The rehabilitation escrow funds can only be released for work that was done in accordance with the specifications or approved change orders.

Auditee Comments

We do not agree with the OIG statement that the oak flooring was not cleaned and refinished. This statement would imply that the floors were left in their original condition. The floors were cleaned and carpeted to match the rest of the house in lieu of refinishing the floor. The expense of installing carpeting is comparable to re-finishing and is a reasonable variance.

The FHA 203(k) HUD Consultant approved the full amount of funds allowed per the specification of repairs upon inspection performed December 2, 1997.

OIG Evaluation of Auditee Comments

Detroit Rehabilitation, Inc. certified that the oak floor was cleaned and refinished to obtain the rehabilitation escrow funds. However, it stated that this was not done and instead, the floors were carpeted. HUD requires that a change order must be approved before the start of the work

and the work completed before funds can be eligible for release. Detroit Revitalization did not have an approved change order for the work modification. Therefore, this cost should have been paid by Detroit Revitalization and not paid from the escrow funds.

Auditee Comments

The OIG has cited that there was no evidence of permits obtained and that there was a double payment. We do not agree with the OIG statement that they were not provided with evidence of permits being obtained or that a double payment occurred.

On July 7, 1997 the City of Detroit was paid \$225 for the 4-in-1 housing inspection. On August 21, 1997 the City of Detroit was paid \$170 for a heating permit. On September 30, 1997 the City of Detroit was paid \$78 for a re-inspection fee. On October 2, 1997 the City of Detroit was paid \$69 for a previous outstanding family rental inspection in order to obtain the Certificate of Approval.

These permit and inspection fee payments total \$542 and are actual dollars disbursed. These figures do not include the labor of each trade to complete the request for a permit, the time spent in obtaining the corresponding fee from the city for the work to be completed as noted in the permit, the processing of the permit payment, the actual time and travel to the city to obtain the permits, or the time and travel to obtain the Certificate of Approval.

OIG Evaluation of
Auditee Comments

We determined that Detroit Revitalization, Inc. paid \$1,440 for permits. We allowed the \$473 paid to the City for its inspection and permits. The approved change order allowed for the cost of the 4 in 1 inspection and permits. We did not allow \$898 for inspections or permits because there was no documentation that the costs were incurred. We also disallowed \$69 for a family rental inspection because this expense has no relationship to rehabilitation work or a permit expense. The family rental inspection also occurred before the start of rehabilitation.

Auditee Comments

We do not agree with the OIG statement that Detroit Revitalization, Inc. obtained excessive funds for rehabilitation work. An independent FHA 203(k) HUD Consultant was hired to prepare the rehabilitation work write-ups and determine the cost. In establishing the cost,

the consultant made use of RS Means Residential Cost Data, a reference guide which has been a standard in the building industry for the past 50 years. Likewise, the lender did not approve a disbursement from the rehabilitation escrow account without a HUD approved inspector approving the release with a signed draw request which attested to the fact that all completed work was done in a workmanlike manner. In addition, the property was separately inspected by the City of Detroit Building and Safety Engineering Department and issued a Certificate of Approval that the premises were satisfactory for occupancy and that no violations were found under established inspection procedures.

RIMCO Building Company's inspection of the property showed that the paint was indeed peeling. However, the inspector determined that the paint was peeling from the application of the first layer of paint applied to the cement asbestos tiles prior to rehabilitation to the property.

In addition, the property was separately inspected by the City of Detroit Building and Safety Engineering Department and issued a Certificate of Approval that the premises were satisfactory for occupancy and that no violations were found under established inspection procedures.

The FHA 203(k) HUD Consultant approved the full amount of funds allowed per the specification of repairs upon inspection performed December 2, 1997.

OIG Evaluation of
Auditee Comments

We had no issue with the cost estimates. We accepted the estimates as reasonable. However, the HUD inspector determined that either the amount charged was excessive for the amount and kind of work performed or the workmanship was poor. For example, the specifications required that the siding be repaired, cleaned, scraped, primed, and painted. The HUD inspector found that scraping and painting was not done. The siding was spray painted with a very thin coat of paint and rotted wood was painted over. The paint was also peeling.

FHA Case No: 261-6404220

Appendix B-3

Property Address: 12468 Barlow
 Detroit, Michigan 48205

Cost of Repairs: \$13,402

Detroit Revitalization, Inc. paid its identity-of-interest construction company, RIMCO Building Company, excessive fees to rehabilitate the property. A HUD inspector inspected the property on May 6, 1998 and found that RIMCO was paid for repairs that were either not completed or were unsatisfactorily completed. The borrower (Detroit Revitalization Inc.), the contractor (RIMCO Building Company), and the Section 203(k) consultant/inspector signed the draw request for the release of funds from the Rehabilitation Escrow Account and stated that all completed work had been done in a workmanlike manner. RIMCO was paid \$13,402 for repairs and permits. The HUD inspector estimated that RIMCO was paid \$3,893 for work not done and \$4,851 for unsatisfactory and poor quality work, as shown by the following charts.

Items	Amount Paid For Work Not Done
Windows and Doors	\$ 2,449
Garage Doors	1,109
Permits	<u>335</u>
Total	\$ 3,893

Items	Amount Paid For Unsatisfactory Work
Gutters and Downspouts	\$ 117
Porch	575
Painting	2,870
Doors	494
Electrical	425
Cabinetry	70
Hot water Tank	<u>300</u>
Total	\$ 4,851

Auditee Comments

[A summary of Detroit Revitalization's comments regarding the deficiencies cited above follow. The audit report does not include Detroit Revitalization's verbatim comments to the narrative case presentations or its appendices/attachments due to their voluminous nature.

The complete response was provided to the Director of the Philadelphia Homeownership Center separately.]

The OIG cites that windows and doors for \$2,449 were not installed. The OIG cites that 17 windows were to be replaced and that two new windows were installed but did not fit properly. The specification of repairs called for new storm windows. We agree that new storm windows were not installed on all windows, only three storm windows were replaced.

We agree that the window sills were not replaced, as it was the wood trim around the windows which was rotted and required replacement. All rotten wood trim was properly replaced.

All windows were properly glazed and approved by the City of Detroit and a Certificate of Approval issued on July 8, 1996. Attached please invoice from True Value for the purchase of glazing compound.

The front door was not replaced as it was in good condition. It was painted and a new deadbolt and hardware installed.

In lieu of the above repairs the following items were completed: installation of downspouts; removal of debris and use of a dumpster; two whole windows were replaced and three additional window panes were replaced.

The FHA 203(k) HUD Consultant approved the release of funds on the first draw inspection performed on August 5, 1996.

OIG Evaluation of
Auditee Comments

The specifications required the installation of 17 new storm windows and an exterior door, replacement of all rotted sills, and missing glazing putty. We found that: only two new windows were installed; a new front door was not installed; and rotted sills and missing glazing putty were not replaced.

Detroit Revitalization, Inc. obtained rehabilitation escrow funds based on its, the general contractor's and the inspector's certification on the draw request that all of the work was completed according to the specifications and cost estimates.

According to Detroit Revitalization's response, all the work that was certified to have been completed was not done.

Detroit Revitalization, Inc. claims that in lieu of the work required under the specifications, it completed some other work like removal of debris and use of a dumpster. There were no change orders written for work modifications. According to HUD regulations, escrowed rehabilitation funds can only be paid for the work that is done according to the specifications or change orders, and to which the borrower, the general contractor, and the inspector had certified that it was done. The cost of any work that is not in the specifications or change orders and not certified to be done has to be borne by the borrower, Detroit Revitalization, Inc.

Detroit Revitalization also claims that the City of Detroit issued a Certificate of Approval on July 8, 1996. The City certificate states that the property is satisfactory for occupancy or use. The City did not inspect the property to ensure that the work was done according the specifications.

Auditee Comments

We do not agree with the OIG statement that the garage doors were not installed.

The vehicle door was found to be in repairable condition. The door was repaired, re-hung, primed, and painted. The repairs were found to be acceptable by the City of Detroit and a Certificate of Approval issued on July 8, 1996.

The FHA 203(k) HUD Consultant approved the release of the funds allowed in the garage category on the first draw inspection performed on August 5, 1996. The second page of the draw request form included acceptable variations described as follows: "deletion of pedestrian door with proper framing and siding - ok, repair and rehangng vehicle garage door-prime and paint - ok".

OIG Evaluation of
Auditee Comments

The Section 203(k) consultant/inspector identified in the inspection report that the repairs to the doors were acceptable and no new doors were installed. Detroit Revitalization, Inc., however, received the escrowed rehabilitation funds based on the specifications, as if new doors were installed. Based on the Section 203(k) inspectors inspection report, Detroit Revitalization was only entitled to receive funds for the actual

costs of repairs. Detroit Revitalization did not provide any documentation to show the actual cost of repairs.

Auditee Comments

Please see the receipts for the purchase of gutter and downspout materials totaling \$116 to replace all gutters and half of the six downspouts on this two story house. Labor for installation is not included.

OIG Evaluation of Auditee Comments

The HUD inspector determined that the work was not done in a workmanlike manner, as certified on the draw request. The gutters and downspouts were pieced together with different sizes and shapes. The downspouts were not properly installed and did not have properly spaced lag straps. One downspout had one lag strap when there should have been three.

Auditee Comments

We do not agree with the OIG statement that Detroit Revitalization, Inc. obtained excessive funds for painting, doors, electrical work, cabinetry work, and a hot water tank.

An independent FHA 203(k) HUD Consultant was hired to prepare the rehabilitation work write-ups and determine the costs. In establishing the costs, the consultant made use of RS Means Residential Cost Data, a reference guide which has been a standard in the building industry for the past 50 years. Likewise, the lender did not approve a disbursement from the rehabilitation escrow account without a HUD approved inspector approving the release with a signed draw request which attested to the fact that all completed work was done in a workmanlike manner. In addition, the property was separately inspected by the City of Detroit Building and Safety Engineering Department and issued a Certificate of Approval that the premises were satisfactory for occupancy and that no violations were found under established inspection procedures.

OIG Evaluation of Auditee Comments

The HUD inspector determined that either the work was not done in a workmanlike manner or the costs charged for the amount and type of work was excessive. For example:

- For exterior painting, the surfaces were not properly prepared. The surfaces were not scraped and in some instances, rotted wood was not replaced before painting. In the interior of the house, the paint was excessively

peeling throughout the house because the surfaces were not properly scraped and primed.

- Detroit Revitalization, Inc. charged \$600 for a hot water tank. The HUD inspector determined that the brand of the tank used should not have cost more than \$300. The HUD inspector also found that the tank was installed on a particle board pad which is fire hazard.

Auditee Comments

We do not agree with the OIG statement that the repairs to the porch were not completed properly. The OIG states that “particle board was used for decking material which is not structurally sound and is against code”. The specification of repairs calls for “ a structurally sound porch floor, properly finished” with the comment “repair hole in front porch concrete slab”. The front porch is constructed of brick and concrete and has been repaired and is now structurally sound per the specification of repairs. There is not any particle board in or on the front porch.

OIG Evaluation of Auditee Comments

At the time of our inspection on May 6, 1998, the HUD inspector found that particle board was used for decking material which was not structurally sound and was against the code.

FHA Case No: 261-6404430

Appendix B-4

Property Address: 19712 Beland
Detroit, Michigan 48234

Cost of Repairs: \$16,124

Detroit Revitalization, Inc. paid itself and its identity-of-interest construction company, RIMCO Building Company, excessive fees to rehabilitate the property. A HUD inspector inspected the property on April 29, 1998 and found that RIMCO Building Company was paid for repairs that were either not completed or were unsatisfactorily completed. The borrower (Detroit Revitalization Inc.), the contractor (RIMCO Building Company), and the 203(k) consultant/inspector signed the draw request for release of funds from the Rehabilitation Escrow Account and stated that all completed work had been done in a workmanlike manner. RIMCO Building Company was paid \$14,095 for repairs and permits, based on the draw requests. After the completion of rehabilitation work, Detroit Revitalization inappropriately received the \$2,029 remaining in the rehabilitation escrow account. According to HUD regulations, these funds should have been applied to reduce the mortgage. The HUD inspector could not inspect the interior of the property, consequently he only inspected the exterior. The HUD inspector estimated that RIMCO Building Company was paid \$115 for work that was not done. This included masonry repairs of \$55 and a fence repair of \$60. RIMCO was also paid an excessive amount of \$361 for unsatisfactory work. The specifications required the windows to be scraped, primed, caulked, and painted. The windows were not scraped or primed before being painted. In addition, the inspector estimated that Detroit Revitalization received \$170 for storm windows that were not installed.

Auditee Comments

[A summary of Detroit Revitalization’s comments regarding the deficiencies cited above follow. The audit report does not include Detroit Revitalization’s verbatim comments to the narrative case presentations or its appendices/attachments due to their voluminous nature. The complete response was provided to the Director of the Philadelphia Homeownership Center separately.]

We do not agree with the OIG statement that the masonry repairs of \$55 were not completed. Attached please find the invoice for the purchase of 80 pounds of mortar mix for the repair of the crack in the drive.

OIG Evaluation of Auditee Comments

The invoice for the purchase of mortar for \$5.50 does not prove that the crack in the drive was repaired with vinyl fortified cement mix, as required by the specifications. The

mortar could have been used for some other project. The HUD inspector found that the crack was not filled.

Auditee Comments

We do not agree with the OIG statement that the fence was not repaired for \$60. Attached please find the invoice from Turf Tamers Landscaping for three yards of dirt and the fence repair.

OIG Evaluation of Auditee Comments

The HUD inspector determined that the fence was not repaired as required in the specifications. The invoice is not proof that the work was done according to the specifications.

Auditee Comments

We do not agree with the OIG statement that the storm windows for \$170 were not installed. The storm windows were not installed, the funds were never approved for release from the rehabilitation escrow account by the FHA 203(k) HUD Consultant per the attached draw requests. Detroit Revitalization never received funds, and RIMCO Building Company was never paid for work not completed.

OIG Evaluation of Auditee Comments

It is true that the Section 203(k) consultant/inspector did not approve the release of escrow funds for windows on the draw request. The consultant only approved the draw down of \$14,095 out of the \$16,124 in the escrow account. At the completion of the rehabilitation work, Detroit Revitalization inappropriately received \$2,029, the funds remaining in the escrow account. This included \$170 for the storm windows. The escrow account was established based on the specifications and cost estimates which included the storm windows. At the completion of the rehabilitation work and closing of the escrow account, the identity-of-interest lender paid Detroit Revitalization the remaining balance in the escrow account. According to HUD regulations, the remaining balance in the account should have been applied to reduce the mortgage balance. Consequently, Detroit Revitalization received funds for which no work was done or which was not certified by the Section 203(k) inspector/consultant

Auditee Comments

We do not agree with the OIG statement that Detroit Revitalization, Inc. obtained excessive funds for painting. An independent FHA 203(k) HUD consultant was hired to prepare the rehabilitation work write-ups and determine the costs. In establishing the costs, the consultant made use of RS Means Residential Cost Data, a reference guide which

has been a standard in the building industry for the past 50 years. Likewise, the lender did not approve a disbursement from the rehabilitation escrow account without a HUD approved inspector approving the release with a signed draw request which attested to the fact that all completed work was done in a workmanlike manner. In addition, the property was separately inspected by the City of Detroit Building and Safety Engineering Department and issued a Certificate of Approval that the premises were satisfactory for occupancy and that no violations were found under established inspection procedures.

OIG Evaluation of
Auditee Comments

The specifications required that the windows be scraped and painted. The HUD inspector determined on April 29, 1998 that the windows were not scraped. We did not question the cost estimates. The City's certificate of approval did not say that the work was completed according to Section 203(k) specifications.

Property Address: 18612 Dwyer
 Detroit, Michigan 48234

Cost of Repairs: \$23,951

Detroit Revitalization, Inc. paid itself and its identity-of-interest construction company, RIMCO Building Company, excessive fees to rehabilitate the property. A HUD inspector inspected the property on April 21, 1998 and found that RIMCO Building Company was paid for repairs that were either not completed or were unsatisfactorily completed. The borrower (Detroit Revitalization, Inc.), the contractor (RIMCO Building Company), and the Section 203(k) consultant/inspector signed the draw request for release of funds from the Rehabilitation Escrow Account and stated that all completed work had been done in a workmanlike manner. RIMCO was paid \$7,282 for the repairs and the permits. At the completion of the rehabilitation work, Detroit Revitalization received the \$16,669 remaining in the escrow account. According to HUD regulations, the amount of \$16,669 should have been applied to reduce the mortgage amount. The HUD inspector estimated that RIMCO was paid \$580 and Detroit Revitalization received \$2,247 for work not completed. The inspector also estimated that RIMCO received \$1,557 and Detroit Revitalization received \$570 for unsatisfactory and poor quality work, as shown by the following charts.

Items	Amount Paid For Work Not Done
Windows and Doors	\$ 185
Window Cleaning and Caulking	395
Masonry	320
Fencing	305
Plaster and Painting	242
Plumbing	371
Electrical	207
Kitchen Cabinetry	300
Other Repairs	417
Insulation	85
Total	\$ 2,827

Items	Amount Paid For Unsatisfactory Work
Siding	\$ 150
Painting	1,025
Other Repairs	189
Kitchen Floor	420
Plumbing	170
Electrical	173
Total	\$ 2,127

Auditee Comments	<p>[A summary of Detroit Revitalization’s comments regarding the deficiencies cited above follow. The audit report does not include Detroit Revitalization’s verbatim comments to the narrative case presentations or its appendices/attachments due to their voluminous nature. The complete response was provided to the Director of the Philadelphia Homeownership Center separately.]</p> <p>We do not agree with the statement made by the OIG that doors were not installed. The exterior doors category totaled \$539 by itself and the full amount was approved by the FHA 203(k) HUD Consultant on the first draw request inspection performed on September 19, 1997 as being acceptable for release from the rehab escrow account.</p>
OIG Evaluation of Auditee Comments	<p>Our HUD inspector found that a new rear metal or solid core door for \$185 was not installed, as required in the specifications.</p>
Auditee Comments	<p>We do not agree with the OIG statement that the windows were not caulked and therefore the entire category was not completed. Please review the invoices for caulking.</p>
OIG Evaluation of Auditee Comments	<p>The HUD inspector determined that the old glazing compound was not replaced and the windows were not caulked, as required in the specifications. Detroit Revitalization provided invoices totaling \$29 for caulking material and glazing compound, and another invoice for general labor for \$800. The general labor invoice did not specify that the labor charges were for caulking. It could have been for other work.</p>
Auditee Comments	<p>We do not agree with the OIG statement that Detroit Revitalization was paid for certain work that was not completed. The FHA 203(k) HUD Consultant did not approve any funds for disbursement and funds were never drawn from the rehabilitation escrow account for the following work: masonry; fencing; plaster and painting; plumbing; electrical; kitchen cabinetry; other repairs; insulation; siding and kitchen floor.</p>
OIG Evaluation of Auditee Comments	<p>It is true that the consultant did not approve a release of escrow funds for completion of the work cited above. Detroit Revitalization also did not receive any funds for the above work, based on the draw request.</p>

The consultant only approved the draw down of \$6,542 out of the \$23,951 in the escrow account. The escrow account was established based on the specifications and cost estimate which included all of the above work. At the completion of the rehabilitation work and closing of the escrow account, the identity-of-interest lender paid Detroit Revitalization the remaining balance in the escrow account. According to HUD regulations, the remaining balance in the account should have been applied to reduce the mortgage balance. Consequently, Detroit Revitalization received funds for which no work was done or which was not certified by the inspector/consultant.

Auditee Comments

We do not agree with OIG statement that Detroit Revitalization obtained excessive funds for painting of \$1,025.

An independent FHA 203(k) HUD Consultant was hired to prepare the rehabilitation work write-ups and determine the cost. In establishing the cost, the consultant made use of RS Means Residential Cost Data, a reference guide which has been a standard in the building industry for the past 50 years. Likewise, the lender did not approve a disbursement from the rehabilitation escrow account without a HUD approved inspector approving the release with a signed draw request which attested to the fact that all completed work was done in a workmanlike manner. In addition, the property was separately inspected by the City of Detroit Building and Safety Engineering Department and issued a Certificate of Approval that the premises were satisfactory for occupancy and that no violations were found under established inspection procedures.

All funds were approved by the FHA 203(k) HUD Consultant for the acceptable completion of repairs.

OIG Evaluation of
Auditee Comments

We had no issue with the cost estimates. Our issue is with the quality of the work. The painting was not done in a workmanlike manner. The specifications stated that the work to be done included: scraping, priming, and painting exterior porch railings and ceilings, trim, garage and rear siding. Our HUD inspector found that the surfaces were not scraped and primed. Rusted railings were painted over, and only the tops of the railings were painted. The City's

certification of approval did not say that the work was completed according to Section 203(k) specifications.

FHA Case No: 261-6543639

Appendix B-6

Property Address: 8908 Faust
Detroit, Michigan 48228

Cost of Repairs: \$21,466

Detroit Revitalization, Inc. paid its identity-of-interest construction company, RIMCO Building Company, excessive fees to rehabilitate the property. A HUD inspector inspected the property on April 17 and April 24, 1998 and found that RIMCO was paid for repairs that were either not completed or were unsatisfactorily completed. The borrower (Detroit Revitalization, Inc.), the contractor (RIMCO Building Company), and the Section 203(k) consultant/inspector signed the draw request for release of funds from the Rehabilitation Escrow Account and stated that all completed work had been done in a workmanlike manner. RIMCO was paid a total of \$21,466 for the repairs and the permits. The HUD inspector estimated that of \$21,466, RIMCO was paid \$3,955 for work not done; and \$5,942 for unsatisfactory and poor quality work, as shown by the following charts.

Items	Amount Paid For Work Not Done
Windows and Doors	\$1,750
Masonry	200
Gutters/Downspouts	193
Walks and Garage	220
Vegetation	175
Plumbing	350
Other Repairs	143
Electrical	650
Cabinetry	50
Permits	224
Total	<u>\$3,955</u>

Items	Amount Paid For Unsatisfactory Work
Roof	\$2,100
Painting Exterior/Windows	321
Painting Interior	168
Flooring	350
Plumbing	575
Electrical	388
Heating	2,000
	40
Total	<u>\$5,942</u>

Auditee Comments

[A summary of Detroit Revitalization's comments regarding the deficiencies cited above follow. The audit report does not include Detroit Revitalization's verbatim comments to the narrative case presentations or its appendices/attachments due to their voluminous nature. The complete response was provided to the Director of the Philadelphia Homeownership Center separately.]

We do not agree with the following OIG observations:

- A storm window for \$100 on the south side was not replaced. Please see the attached picture showing two storm windows that were stored in the basement to prevent theft and vandalism.
- A pane of glass for \$60 was not replaced for the storm window. Please find invoices for several panes of glass and labor.
- The west exterior door for \$450 was not replaced. The west exterior door was not replaced; however the lock set was replaced and the door painted .
- The north storm door was not replaced for \$275. The north storm door was not replaced, however, in lieu of this, the garage vehicle entry door was replaced.
- The garage wood entry door for \$450 was not replaced with a steel door and lockset. The garage wood entry door was replaced with a hollow core exterior door, primed, painted, and new lockset installed.
- The lockset to the closet door was not replaced for \$40. Please see attached picture of the closet door showing the new lockset and reinforcer.
- The hollow core door costing \$175 was not replaced. The existing door was repaired, hardware replaced, scraped, and painted.
- The bathroom door costing \$200 was not replaced. The door was not replaced but is was repaired, scraped and painted.

OIG Evaluation of
Auditee Comments

We cannot determine from the picture provided whether these were the correct size windows to fit the ones that were missing, or the date the picture was taken. Moreover, a stored window is not proof that a properly fitted window was installed. Our HUD inspector determined that a storm window was not installed.

Invoices, for several panes of glass are not proof that a window pane was replaced for the storm window. Because RIMCO Building Company, the general contractor manages over 2,000 properties in the Detroit area, we cannot be assured that the invoices were for the windows replaced at this property. Our HUD inspector determined that the window pane was not installed. In addition, there were no inspection reports by the Section 203(k) consultant/inspector verifying that the panes were replaced.

Detroit Revitalization, Inc. noted that five doors costing \$1,550 were not replaced in accordance with the specifications. However, Detroit Revitalization, Inc., the general contractor, and the Section 203(k) consultant/inspector certified that the work was done. It said other work was substituted. However, there were no change orders written for the substituted work.

Auditee Comments

The OIG has cited the re-point and reset concrete steps at the front was either not complete or the workmanship was poor because the steps were deteriorated and the tuckpointing was broken. We do not agree with these findings for the following reason: the concrete steps were replaced rather than reset. See the invoice from Blackie Concrete for the cost to replace the steps and tuck point the porch.

OIG Evaluation of
Auditee Comments

The invoice shows that the vendor charged \$170 for the work although Detroit Revitalization certified that the cost was \$200. However, our HUD inspector determined that either the new steps were not installed or the workmanship was poor. At the time of our inspections, the steps were deteriorated and the tuckpointing was broken. It is the responsibility of the borrower and the general contractor to assure that the work is done in a satisfactory manner.

Auditee Comments

The OIG has cited that the removal and replacement of aluminum gutters and downspouts, with the same on the west and north side of the house, as not completed. It was found that the gutters on the west side were in good condition, and only needed to be re-secured, cleaned, and painted.

OIG Evaluation of Auditee Comments

Detroit Revitalization agreed that gutters and downspouts were not removed and replaced as required by the specifications and certified on the draw requests. According to Detroit Revitalization, they were only re-secured, cleaned, and painted. However, there was no change order for the work modification.

Auditee Comments

The OIG has cited that the removal and replacement of the 3'x8' concrete walk as not being complete. We did not replace the concrete walk; the replacement of the concrete walk was not a required FHA item. The funds were used to tuckpoint the house as needed, seal the downspouts, and tuckpoint the chimney.

OIG Evaluation of Auditee Comments

Detroit Revitalization, Inc. agreed that the concrete walk was not replaced as required by the specifications although Detroit Revitalization certified on the draw requests that the work was done according to the specifications.

It is not relevant whether it was a required FHA item. To obtain the escrow funds, Detroit Revitalization certified that the work was done. Detroit Revitalization claims that it did some other work. According to HUD regulations, funds can only be paid for the work that is done according to the specifications or change orders and that has been certified to be done. There were no change orders for the work modifications. There were also no an inspection reports showing that the modified work was done.

Auditee Comments

The OIG has cited that the removal of one large tree and cutting back of overgrowth of trees at the garage as not complete. Please note that these items were completed more than one year prior to the OIG inspection and it is possible that the current home owners have not kept up with the trimming of the trees and shrubs.

OIG Evaluation of
Auditee Comments

The HUD inspector, during his inspection in April, 1998 determined that the tree was not removed, as required by the specifications.

Auditee Comments

The OIG has cited that the replacement of the kitchen faucet, replacement of one towel bar bracket in the bathroom, and reglazing the 5' tub as not complete. Please see photograph of the kitchen with the new kitchen faucet installed and the invoice to install the faucet. The towel bar bracket was not replaced because the ceramic bracket could not be matched. The towel bar was removed and the tile patched. The steel tub was found to be in fair condition; therefore the laundry tub, faucet, and copper piping to the laundry tub were removed and replaced.

OIG Evaluation of
Auditee Comments

The picture was taken on September 29, 1998, after our inspection. We cannot tell from the picture whether the faucet was new or not. Our HUD inspector determined at the time of our inspection that the faucet had not been replaced, as required by the specifications. The invoices that were provided were written by RIMCO Building Company, the general contractor and the description of work on the invoices did not say that a new kitchen faucet was installed. Detroit Revitalization agreed that the towel bar was not replaced and the steel tub was not re-glazed. To obtain the funds, Detroit Revitalization certified that the work was done. Detroit Revitalization claims that it did some other work. According to HUD regulations, funds can only be paid for the work that is done according to the specifications or change orders and that has been certified to be done. In this case, there were no change orders for work modifications.

Auditee Comments

The OIG has cited the cleaning and painting of the northeast bedroom floors and the repair of the north aluminum awning cover as not complete. The northeast bedroom floor was not painted, it was cleaned and carpeted. The original specification of repairs called for the garage door to be cleaned and painted. Instead the door was repaired. The awning was found to be in an unrepairable condition, therefore the awning was removed and the siding patched.

OIG Evaluation of
Auditee Comments

Detroit Revitalization, Inc. agreed that the work was not completed as required by the specifications and certified on the draw requests. It said other work was performed

instead. However, there were no change orders written for the substituted work.

Auditee Comments

The OIG has cited that the removal and replacement of the current fuse panel with 100 amp circuit breaker as work not done. It was found that the current 60 amp service had enough circuits to service the single family dwelling. In lieu of upgrading the service to 100 amp service, several other electrical repairs were completed to satisfy the City of Detroit requirements.

OIG Evaluation of Auditee Comments

To obtain rehabilitation escrow funds, Detroit Revitalization, the Section 203(k) consultant/inspector, and the general contractor certified that 60 amp. service was removed and replaced with a 100 amp circuit breaker. In its response, Detroit Revitalization says that this was not done, but other electrical repairs were done. However, there were no change orders written for the work modifications, as required by HUD.

Auditee Comments

The OIG has cited that the re-grouting of the tile counter top in the kitchen as not complete. Cezary Construction was paid \$1,000 on January 24, 1997 for rehab labor which included the re-grouting of the kitchen counter.

OIG Evaluation of Auditee Comments

The invoice only shows \$1,000 for general labor costs. It does not mention any grouting. The invoice could be for any kind of labor work performed on this house or elsewhere. The HUD inspector found the re-grouting was not done.

Auditee Comments

The OIG has cited that there was not evidence of permits obtained. On January 16, 1997 the City of Detroit was paid \$225 for the 4-in-1 Housing Inspection. On February 13, 1997 a check was issued to the City of Detroit to secure the heating permit for the installation of a 100,000 BTU gas fired furnace in the amount of \$140. On February 12, 1997 a check was issued to the City of Detroit in the amount of \$111 to secure the plumbing permit for the installation of one toilet, one water heater, one laundry tray and the water distribution system. Attached please find the permits, canceled checks and check registers for all required permits.

The permits and inspection payments are the actual dollars disbursed to the City of Detroit. These payments do not

include the cost of the labor to complete the permit, obtain the permit from the City, processing of the permit payment, time spent scheduling the inspection and the time spent obtaining the Certificate of Approval.

OIG Evaluation of
Auditee Comments

In order to receive the funds from the rehabilitation escrow account, Detroit Revitalization certified that it paid \$700 for the permits. It actually paid only \$476. Therefore, we questioned \$224 for the permits.

Auditee Comments

We do not agree with the OIG statement that excessive funds were received or the workmanship was poor for the following rehabilitation work.

- Removing and replacing the asphalt shingles. The original specifications estimated the costs at \$3,600. The OIG estimated cost is \$1500
- Scraping, priming and painting the garage siding. OIG believed the garage was not scraped. The garage was scraped before it was painted.
- The OIG cited the painting of windows as poor workmanship. OIG alleged no scraping was done and rotted wood was painted. We disagree. The windows had two years of condensation building up which is a large reason for the peeling paint.
- The OIG has cited that no 1/4" underlayment was installed under the kitchen tiles. We do not agree. The tiles were adhering well to the floor.
- Removal and replacement of the gas hot water heater for \$450 as an excessive. OIG estimated cost is \$300.
- Removal and replacement of the furnace with a 70,000 BTU gas fired furnace for \$3,500 as excessive. The OIG estimated cost is \$1,500.
- Installation of three ceiling mount fixtures, 4 electrical receptacles, three battery operated smoke detectors,

An independent FHA 203(k) HUD Consultant was hired to prepare the rehabilitation work write-ups and determine cost. In establishing cost, the consultant made use of RS

Means Residential Cost Data, a reference guide which has been a standard in the building industry for the past 50 years. Likewise, the lender did not approve a disbursement from the rehabilitation escrow account without a HUD approved inspector approving the release with a signed draw request which attested to the fact that all completed work was done in a workmanlike manner. In addition, the property was separately inspected by the City of Detroit Building and Safety Engineering Department and issued a Certificate of Approval that the premises were satisfactory for occupancy and that no violations were found under established inspection procedures.

OIG Evaluation of Auditee Comments

We have no issue with the original cost estimates. However, our HUD inspector determined during his inspection, that the costs charged were excessive based on the material used, the actual work done, or the quality of the work done. For example:

- Detroit Revitalization, Inc. charged \$3,000 for a roof replacement. The inspector estimated that based on the type of shingles used and labor required to install them, the cost should have been \$1,500.
- The garage surface was not scraped and primed, as required.
- The windows were not scraped before new paint was applied and rotted wood was painted over.
- The HUD inspector found that the kitchen tiles were not adhering well because no underlayment was installed as.
- The HUD inspector estimated that the hot water heater should have only cost about \$300 and not the \$450 that Detroit Revitalization charged.
- Based on the type of furnace installed, the HUD inspector estimated the cost to be \$1,500 and not \$3,500 as charged by Detroit Revitalization, Inc.
- The HUD inspector also determined that the cost of electrical fixtures, receptacles, and smoke detectors was excessive.

FHA Case No: 261-6479077

Appendix B-7

Property Address: 17200 Fairport
Detroit, Michigan 48205

Cost of Repairs: \$18,607

Detroit Revitalization, Inc. paid its identity-of-interest construction company, RIMCO Building Company, excessive fees to rehabilitate the property. A HUD inspector inspected the property on April 14, 1998 and found that RIMCO was paid for repairs that were either not completed or were unsatisfactorily completed. The borrower (Detroit Revitalization, Inc.) the contractor (RIMCO Building Company), and the Section 203(k) consultant/inspector signed the draw request for release of funds from the Rehabilitation Escrow Account and stated that all completed work had been completed in a workmanlike manner. RIMCO was paid \$18,607 for the repairs and the permits. The HUD inspector estimated that of \$18,607, RIMCO was paid \$2,606 for work not completed; and \$1,260 for unsatisfactory and poor quality work, as shown by the following charts.

Items	Amount Paid For Work Not Done
Windows and Doors	\$ 300
Plumbing	668
Basement	473
Other Repairs	430
Permits	<u>735</u>
Total	\$ 2,606

Items	Amount Paid For Unsatisfactory Work
Window Painting	\$ 923
Cabinetry	150
Plumbing	<u>187</u>
Total	\$ 1,260

Auditee Comments

[A summary of Detroit Revitalization’s comments regarding the deficiencies cited above follow. The audit report does not include Detroit Revitalization’s verbatim comments to the narrative case presentations or its appendices/attachments due to their voluminous nature. The complete response was provided to the Director of the Philadelphia Homeownership Center separately.]

The 203(k) Consultant approved all items in the doors-exterior category for the release of funds. We do not agree with the finding that a new metal pre-hung door was not installed. Please see the photo, a new white metal door was installed.

OIG Evaluation of
Auditee Comments

The HUD inspector found there was a door but it was an old door and not a new door. The specifications required the installation of a new door.

Auditee Comments

The OIG cited the following as work not completed: (1) install basement floor drain covers for \$26; (2) install missing valve handle at hot water tank for \$13; (3) install trip valve on first floor bath sink and tub for \$179; and (4) re-activate upper tub for \$450.

We do not agree with the OIG's findings for the following reasons: (1) the basement floor drain covers, valve handle on the hot water tank, the trip valve on the 1st floor bath sink, and the tub are requirements of the City of Detroit Building and Safety Engineering Department to obtain a Certificate of Acceptance, which was issued on September 23, 1996 after the dwelling passed the City inspections; (2) these items were required items by the FHA 203(k) HUD Consultant and were approved for release from rehabilitation escrow on the first and second draw inspections; (3) please see attached RIMCO work orders for plumbing to bring the house to City code and completing the repairs as per the 203(k) specification of repairs; and (4) the upper tub was found to be too costly to re-activate, with the FHA 203(k) HUD Consultants approval the funds were used to replace the kitchen tile.

OIG Evaluation of
Auditee Comments

The City inspection and the RIMCO Building Company's work order to bring plumbing up to code is not proof that the work in the specifications was done. We did not verify whether the installation of the drain covers, the valve handle and the trip valve were City code requirements, but the HUD inspector found that these were not installed. Detroit Revitalization did not provide any proof, such as, work orders from RIMCO Building Company or invoices from subcontractors that would indicate that the drain covers, valve handle, and trip valve were installed. In addition, Detroit Revitalization, Inc. admitted that

work to reactivate the upper tub for \$450 was not done. Detroit Revitalization certified on the draw request that the work was done.

Detroit Revitalization, Inc. claims that in lieu of the work required under the specifications, it completed other work. Escrowed rehabilitation funds can only be paid for the work that is done according to the specifications or change orders and to which the borrower, the general contractor, and the Section 203(k) consultant/inspector had certified that it was done. There were no change orders written for work modifications. The cost of any other work that is not in the specifications and not certified to be done has to be borne by the borrower, Detroit Revitalization.

Auditee Comments

The OIG cited that the following work was not done: remove storage area under basement stairs; “scab” broken floor joist next to column behind furnace; repair sub-floor under bath; install “blockers” at ends of floor joist; repair cracked floor joist running into staircase; and tuck point girder pocket next to water meter. We do not agree with the OIG’s findings for the following reasons: these items were required items by the FHA 203(k) HUD Consultant and were approved for release from rehabilitation escrow on the first and second draw inspections; please see attached invoices for the labor and materials from Artistic Concepts and Locke Lumber; and see the attached picture of the basement with the lumber ready for installation.

OIG Evaluation of Auditee Comments

The invoice from Artistic Concept says only that the remaining balance owed is \$1,000. It does not say what kind of work was done. The invoices from Locke Lumber are for nails, screws, panels, and wood. These materials could be used for any kind of repair for this house or for any other house managed by RIMCO Management. RIMCO Management was not the general contractor. It is a property management company that manages over 2000 homes in Detroit. The invoices do not prove that the work was done. Our HUD inspector found that the work was not done.

Auditee Comments

The OIG cited that the adjustment/repair of the vehicle gates and tear out of front basement stairs, frame in floor, tile closet floor, install closet hardware, repair door and paint as not complete. We do not agree with the OIG’s findings for the following reasons: these items were required

items by the FHA 203(k) HUD Consultant and were approved for release from rehabilitation escrow on the first and second draw inspections; please see attached invoices from R&M Better Home Improvement, Turf Tamers and RBC for the labor and materials to repair and replace the fencing. Please see Artistic Concepts and Locke Lumber invoices for the labor and material to remove the second staircase to the basement and install a closet.

OIG Evaluation of
Auditee Comments

None of the invoices state that the work to repair vehicle gates, basement stairs, floor frame, remove the second staircase to the basement, or the installation of closet hardware and floor tiles on the closet floor was done. The invoices from R&M Better Home Improvement and Turf Tamers are for fence repairs. The invoices from RIMCO Building Company are for fencing materials, such as, posts and chain link. The invoice from Artistic Concept only says, interior for \$1,305. It does not say anything else. The invoices from Locke Lumber are for nails, screws, panels, and wood. These materials could be used for any kind of repair for this house or for any other house managed by RIMCO Management. The invoices from Locke Lumber are made to RIMCO Management which is a property management company that manages over 2000 homes in Detroit. The invoices do not prove that the work was done. Our HUD inspector found that the work was not done.

Auditee Comments

The OIG has cited that there was no evidence of permits obtained. A change order was submitted for \$740 for the estimated permits needed. This request was approved by the FHA 203(k) HUD Consultant on September 13, 1996 as an allowable expense which was released for payment from the rehab escrow account.

Attached is a copy of the Certificate of Acceptance issued by the City of Detroit Buildings and Safety Engineering Department on September 23, 1996 once all inspections were passed, violations corrected and permits pulled.

OIG Evaluation of
Auditee Comments

The change order was for the 4-in-1 housing inspection, and permits for plumbing, heating, and electrical work. Detroit Revitalization, Inc. did not provide any documentation that payments were made for these items, or if payments were made, how much was paid.

The Certificate of Acceptance issued by the City of Detroit Buildings and Safety Engineering Department is neither a 4-in-1 inspection or a permit. It is a certificate stating that the property is satisfactory for occupancy.

Auditee Comments

The OIG cited the amount of \$923 for basic window maintenance as being of poor workmanship because the paint on the windows was cracking and peeling, and the window had rotted wood. The OIG also cited the installation of the new counter top as poor workmanship because the counter top is split.

We do not agree with the OIG statement that Detroit Revitalization, Inc. obtained excessive funds for rehabilitation work. An independent FHA 203(k) HUD Consultant was hired to prepare the rehabilitation work write-ups and determine the cost. In establishing the cost, the consultant made use of RS Means Residential Cost Data, a reference guide which has been a standard in the building industry for the past 50 years. Likewise, the lender did not approve a disbursement from the rehabilitation escrow account without a HUD approved inspector approving the release with a signed draw request which attested to the fact that all completed work was done in a workmanlike manner. In addition, the property was separately inspected by the City of Detroit Building and Safety Engineering Department and issued a Certificate of Approval that the premises were satisfactory for occupancy and that no violations were found under established inspection procedures.

OIG Evaluation of Auditee Comments

We did not question the reliability of the cost estimates. The HUD inspector found that the workmanship was poor and the work was not done in a workmanlike manner. For example, the paint on the windows was cracking and peeling. In some places rotted wood in the windows was painted over.

Auditee Comments

The OIG cited securing the laundry tub to the floor for \$17 and the installation of a hot water tank for \$470 as excessive costs. The OIG estimated cost is \$300.

We do not agree with the OIG statement that Detroit Revitalization, Inc. obtained excessive funds for rehabilitation work. An independent FHA 203(k) HUD Consultant was hired to prepare the rehabilitation work

write-ups and determine the cost. In establishing the cost, the consultant made use of RS Means Residential Cost Data, a reference guide which has been a standard in the building industry for the past 50 years. Likewise, the lender did not approve a disbursement from the rehabilitation escrow account without a HUD approved inspector approving the release with a signed draw request which attested to the fact that all completed work was done in a workmanlike manner. In addition, the property was separately inspected by the City of Detroit Building and Safety Engineering Department and issued a Certificate of Approval that the premises were satisfactory for occupancy and that no violations were found under established inspection procedures.

OIG Evaluation of
Auditee Comments

The HUD inspector determined that for the kind of work done and the type of hot water tank installed, the cost was excessive. The City did not inspect the house to determine whether the costs were reasonable. Its inspection was conducted to determine if the house was satisfactory for occupancy.

FHA Case No: 261-6437054

Appendix B-8

Property Address: 5901 Harrell
 Detroit, Michigan 48213

Cost of Repairs: \$20,292

Detroit Revitalization, Inc. paid its identity-of-interest construction company, RIMCO Building Company, excessive fees to rehabilitate the property. A HUD inspector inspected the property on April 21, 1998 and found that RIMCO was paid for repairs that were either not completed or were unsatisfactorily completed. The borrower (Detroit Revitalization, Inc.), the contractor (RIMCO Building Company), and the Section 203(k) consultant/inspector signed the draw request for release of funds from the Rehabilitation Escrow Account and stated that all completed work had been done in a workmanlike manner. RIMCO was paid a total amount of \$20,292 for the repairs and permits. The HUD inspector estimated that of the \$20,292, RIMCO was paid \$4,806 for work not done; and \$4,815 for unsatisfactory and poor quality work, as shown by the following charts.

Items	Amount Paid For Work Not Done
Doors and Windows	\$ 2,150
Porch	1,060
Removal of Garage	648
Plumbing	300
Electrical	114
Permits	331
Other Repairs	203
Total	\$ 4,806

Items	Amount Paid For Unsatisfactory Work
Downspouts	\$ 93
Painting Exterior	716
Painting Interior and Plaster	420
Windows	240
Doors	1,970
Electrical	496
Plumbing	90
Cabinetry	750
Other Repairs	40
	\$ 4,815

[A summary of Detroit Revitalization's comments regarding the deficiencies cited above follow. The audit report does not include Detroit Revitalization's verbatim comments to the narrative case presentations or its appendices/attachments due to their voluminous nature. The complete response was provided to the Director of the Philadelphia Homeownership Center separately.]

The OIG has cited the following as not complete:

- install two fixed metal storm windows and four double hung storm windows on the south, and install seven metal storm windows on the west;
- remove and replace door on the west;
- replace door on landing, install new lockset, prime and paint;
- install, prime, and paint entry door from foyer;
- remove and replace entry door in kitchen with new lockset and deadbolt.

We do not agree with the OIG's findings for the following reasons:

- The storm windows were not replaced, however the \$600 was directed to pay for the installation of two new storm doors;
- The west door was replaced with a 2'8"x6'8"x1 3/4" solid core exterior door, it was primed, painted, and a new lockset installed;
- The landing door was repaired, primed, painted, and a new lock set installed;
- The existing foyer door was re-hung, primed, painted, and a new lock set installed as required in the original specification of repairs and a new lock set was installed;
- The entry door was repaired, primed, painted, and a new

lockset installed.

Any cost savings incurred by repairing doors rather than replacing was allocated to the rehabilitation of the garage rather than to demolition.

OIG Evaluation of
Auditee Comments

Detroit Revitalization stated that other repairs were substituted for work which was not done, except for the door on the west which was replaced per the specifications. The HUD inspector during his inspection found that the replaced door on the west was old, not new. The specifications required the installation of a new door. In addition, there were no change orders for the substituted work. However, Detroit Revitalization, the general contractor, and the Section 203(k) consultant/inspector certified on the draw request that the work included in the specifications was completed.

Auditee Comments

The OIG has cited the following as not complete: remove and replace west concrete cap and brick sides; and add 21 linear feet of metal hand railing to the east side of the porch. We do not agree with the OIG's finding because the concrete cap stones were replaced and the porch was tuck pointed as needed. Also the brown metal guard rails were replaced with black metal guard rails and a hand railing. Please see the invoices.

OIG Evaluation of
Auditee Comments

None of the invoices show that the concrete cap stones were removed and replaced, the porch was tuck pointed as needed, or that brown metal rail guards were replaced with black metal guard rails and a hand railing. The invoices are for general labor and driveway repairs.

Auditee Comments

The OIG has cited that the tear down and hauling of the garage was not complete. It was found that the garage was in fair enough condition to rehabilitate rather than demolish. The garage was repaired and the cost to rehabilitate the garage far exceeded the cost allocated by the specification of repairs.

OIG Evaluation of
Auditee Comments

Detroit Revitalization, Inc. as the borrower, the general contractor, and the Section 203(k) consultant/inspector all certified on the draw request that the work listed on the specifications (i.e. tear down and hauling of the garage) was completed. The HUD inspector found the garage was still

there. Detroit Revitalization says other work was done in place of the work that it certified to. There were no change orders for the modified work.

Auditee Comments

The OIG has cited the installation of one double tub sink in the kitchen as not complete. It was found that the existing sink could be reconditioned rather than replaced and the funds not used could be re-directed towards the additional plumbing repairs.

OIG Evaluation of Auditee Comments

Detroit Revitalization as the borrower, the general contractor and the Section 203(k) consultant/inspector all certified on the draw request that the work listed on the specifications (i.e. the installation of tub was done). The HUD inspector found the work was not done. Detroit Revitalization says other work was done in place of the work that it certified to. There were no change orders for the modified work.

Auditee Comments

The OIG has cited that the installation of two ground fault interrupter outlets as not complete in the kitchen. The ground fault interrupter outlets were not listed as a requirement. Attached is the invoice for all work completed.

OIG Evaluation of Auditee Comments

The invoice did not say that two ground fault interrupter outlets were installed in the kitchen. Our inspection found they were not installed.

Auditee Comments

The OIG has cited that there was not evidence of permits obtained. On April 19, 1996 a check was issued for \$215 to the City of Detroit for the 4-in-1 Housing Inspection. On August 14, 1996 a check was issued to the City of Detroit for \$92 for the installation on a 150,000 BTU steam boiler.

These permit and inspection payments are the actual dollars disbursed to the City of Detroit. These totals do not include the cost of the labor to complete the permit, obtain the permit from the City, processing of the permit payment, time spent scheduling the inspection, and the time spent obtaining the Certificate of Approval.

OIG Evaluation of
Auditee Comments

Detroit Revitalization charged \$638 for permits. Detroit Revitalization provided documentation that it spent \$307 for permits. Therefore, we allowed \$307, leaving a disallowed amount of \$331 because it lacked documentation supporting the payment for those permits.

Auditee Comments

The OIG has cited the following as not complete: clean, scrape, prime, and paint window and replace sash cord on left side of window. The sash cord was not replaced and was hanging. The wood floors were not cleaned and painted, instead the floors were carpeted.

The bathroom window was cleaned, scraped, primed and painted, however the sash cord was not replaced at the time of the rehabilitation to the dwelling. At that time, the sash cord was in operable condition and it was not required by the FHA 203(k) HUD Consultant to be replaced.

The living room floors were carpeted rather than painted. The monies for the painting of the floors went towards the installation of padding, carpeting, and tack board in the living room which was not called for in the original specification of repairs.

OIG Evaluation of
Auditee Comments

The HUD inspector found that the bathroom window was not scraped and primed before being painted and the sash cord was not replaced. Detroit Revitalization had certified that the sash cord was replaced and the floor was painted, although this work was not done.

Detroit Revitalization claimed that it carpeted the floor instead of painting it. To be eligible for payment, the completed work must be according to the specifications or an approved change order. The change order must also be written for changes in the specifications. There were no change orders for the modified work.

Auditee Comments

We do not agree with the OIG statement that Detroit Revitalization, Inc. obtained excessive funds for the following rehabilitation work: downspouts; interior painting and plaster; side door; bathroom door; bedroom entry door; prime and paint southeast bedroom closet doors; bedroom entry doors; ceiling mount light fixtures; light fixtures; faucet; hand rails; and cabinets.

An independent FHA 203(k) HUD Consultant was hired to prepare the rehabilitation specification of repairs and determine the costs. In establishing the costs, the consultant made use of RS Means Residential Cost Data, a reference guide which has been a standard in the building industry for the past 50 years. Likewise, the lender did not approve a disbursement from the rehabilitation escrow account without a HUD approved inspector approving the release with a signed draw request which attested to the fact that all completed work was done in a workmanlike manner.

OIG Evaluation of
Auditee Comments

We had no issue with the original cost estimates. Our issue is with the quality of work actually performed. The HUD inspector found that the amount charged for the kind and type of work done was excessive.

Auditee Comments

The OIG has cited the following as poor workmanship: the westwood trim was not scraped before painting; the window surfaces were not properly prepared before they were painted. The paint was peeling, rotted wood was painted, and the windows were painted shut.

At the September 29, 1998 inspection, we found the following: the west wood trim was scraped, primed, and painted; all windows were scraped, primed as needed, painted, and glass was re-glazed as needed. There was no evidence of rotted wood. For the windows that were cited as painted shut, the upper portion was painted however the lower portion is still functional.

OIG Evaluation of
Auditee Comments

The September 29, 1998 inspection cited by Detroit Revitalization was done by the same Section 203(k) inspector who did the original inspection in September 1996 to approve the release of funds from the rehabilitation escrow account. As mentioned in the finding, the inspector did not do proper inspections originally. This inspector had incorrectly certified that many work items had been completed or completed in a workmanlike manner when they were not done at all or were done in a unsatisfactory manner.

On April 21, 1998 the HUD inspector found that the painting was not done in a workmanlike manner and the workmanship was poor. The windows were not scraped

and primed before painting. In some instances, rotted wood was painted over and paint was peeling. Also, the windows were painted shut.

FHA Case No: 261-6404085

Appendix B-9

Property Address: 13864 Liberal
Detroit, Michigan 48205

Cost of Repairs: \$11,833

Detroit Revitalization, Inc. paid its identity-of-interest construction company, RIMCO Building Company, excessive fees to rehabilitate the property. A HUD inspector inspected the property on April 21, 1998 and found that RIMCO was paid for repairs that were either not completed or were unsatisfactorily completed. The borrower (Detroit Revitalization, Inc.), the contractor (RIMCO Building Company), and the Section 203(k) consultant/inspector signed the draw request for release of funds from the Rehabilitation Escrow Account and stated that all completed work had been done in a workmanlike manner. RIMCO was paid a total of \$11,833 for the repairs and permits. The HUD inspector could not inspect the interior of the property, and only inspected the exterior. The HUD inspector estimated that RIMCO was paid \$1,176 for work that was not done. This included the installation of asphalt shingles on all roofs. RIMCO was also paid \$1,488 for painting of the exterior siding and windows. The surfaces were not scraped before being painted, as required by the specifications and the paint was peeling.

Auditee Comments

[A summary of Detroit Revitalization’s comments regarding deficiencies cited above follow. The audit report does not include Detroit Revitalization’s verbatim comments to the narrative case presentations or its appendices/attachments due to their voluminous nature. The complete response was provided to the Director of the Philadelphia Homeownership Center separately.]

We do not agree with the OIG statement that Detroit Revitalization, Inc. obtained excessive funds of \$1,008 for siding repair. An independent FHA 203(k) HUD Consultant was hired to prepare the rehabilitation work write-ups and determine cost. In establishing cost, the consultant made use of RS Means Residential Cost Data. Likewise, the lender did not approve a disbursement from the rehabilitation escrow account without a HUD approved inspector approving the release with a signed draw request which attested to the fact that all completed work was done in a workmanlike manner.

**OIG Evaluation of
Auditee Comments**

Our HUD inspector found that the siding was not properly installed. The specifications required the installation of simulated brick siding and the repair of the south side corner

with vinyl siding. The inspector found the workmanship to be poor. The siding was improperly installed. Nails were used directly on the siding instead of using the nailing flange to secure the siding. A section of the siding was also missing.

Auditee Comments

We do not agree nor disagree with the OIG statement that seal tab asphalt shingles on all roofs were not installed and that the above referenced repairs were not completed. Other work which exceeded the cost in the original specification of repairs was done.

We spent \$12,821 for repairs which do not include paint or other materials. This amount includes payments to outside third party contractors, materials to outside suppliers and RIMCO Building Company. The total amount of funds deposited into the rehab reserve escrow account was only \$11,833.50.

The FHA 203(k) HUD Consultant approved the full amount available for completion of repairs at the draw inspection performed on January 7, 1997.

OIG Evaluation of
Auditee Comments

Detroit Revitalization, Inc. as the borrower, RIMCO Building Company as the general contractor, and the Section 203(k) consultant/inspector all certified on the draw request that asphalt shingles on were installed. Detroit Revitalization also certified that the actual cost of the installation of the shingles was \$1,176. Now Detroit Revitalization responds that shingles were not installed, but it spent more funds on other repairs that were not included in the specifications.

Detroit Revitalization's claim that it spent more money than allowed in the specifications is irrelevant. According to HUD regulations, funds can only be used for work completed according to the specifications. Any changes to the specifications must be included in change orders approved prior to the start of the work. In this case, there were no change orders. Detroit Revitalization provided invoices to prove its claim. However, most of the invoices were from RIMCO Building Company, the identity-of-interest general contractor which cannot be relied on at face value because we did not audit the books of RIMCO. Some invoices were from outside vendors for materials. These materials could have been used for any number of houses that RIMCO manages and repairs.

Auditee Comments

We do not agree with the OIG statement that Detroit Revitalization, Inc. obtained excessive funds of \$480 for painting. An independent FHA 203(k) HUD Consultant was hired to prepare the rehabilitation work write-ups and determine cost. In establishing cost, the consultant made use of RS Means Residential Cost Data, a reference guide which has been a standard in the building industry for the past 50 years. Likewise, the lender did not approve a disbursement from the rehabilitation escrow account without a HUD approved inspector approving the release with a signed draw request which attested to the fact that all completed work was done in a workmanlike manner.

The FHA 203(k) HUD Consultant approved the full amount available for completion of repairs at the draw inspection performed on January 7, 1997.

OIG Evaluation of
Auditee Comments

We had no issue with the original cost estimates. Our issue is with the quality of work actually performed. The paint was peeling excessively all over the house because the surfaces were not scraped and primed before being painted. The HUD inspector found that the amount charged for the kind and type of work done was excessive.

FHA Case No: 261-6558192

Appendix B-10

Property Address: 14565 Liberal
Detroit, Michigan 48205

Cost of Repairs: \$21,461

Detroit Revitalization, Inc. paid its identity-of-interest construction company, RIMCO Building Company, excessive fees to rehabilitate the property. A HUD inspector inspected the property on April 29, 1998 and found that RIMCO was paid for repairs that were either not completed or were unsatisfactorily completed. The borrower (Detroit Revitalization, Inc.), the contractor (RIMCO Building Company), and the Section 203(k) consultant/inspector signed the draw request for release of funds from the Rehabilitation Escrow Account and stated that all completed work had been done in a workmanlike manner. RIMCO was paid a total of \$21,461 for the repairs and the permits. The HUD inspector estimated that of \$21,461, RIMCO was paid \$2,730 for work not done, and \$5,228 for unsatisfactory and poor quality work, as shown by the following table.

Items	Amount Paid For Work Not Done
Flooring in bathroom	\$ 450
Wood Trim	400
Plumbing	250
Electrical	1,000
Cabinetry	180
Garage Repairs	<u>450</u>
Total	\$ 2,730

Items	Amount Paid For Unsatisfactory Work
Siding	\$ 113
Painting Exterior	500
Painting Interior	1,850
Weather-stripping	100
Flooring in Kitchen	300
Plumbing	715
Electrical	150
Heating	<u>1,500</u>
Total	\$ 5,228

Auditee Comments

[A summary of Detroit Revitalization's comments regarding the deficiencies cited above follow. The audit report does not include Detroit Revitalization's verbatim comments to

the narrative case presentations or its appendices/attachments due to their voluminous nature. The complete response was provided to the Director of the Philadelphia Homeownership Center separately.]

We do not agree nor disagree with the OIG statement that vinyl tile or sheet goods in each bath and kitchen were not installed.

The tile in the kitchen was replaced and the invoice for the tile is enclosed. The bathroom floor is ceramic tile and superior to vinyl tile.

OIG Evaluation of
Auditee Comments

The specifications required installation of vinyl tile or sheet goods in the bathroom and kitchen for \$900. Detroit Revitalization, the general contractor, and the Section 203(k) consultant/inspector certified that the work was completed according to the specifications. We found the certification was incorrect. Work was not done in the bathroom. The bathroom floor had its original tiles. Vinyl tile was not installed in the kitchen. Instead, peel and stick tiles were used. The HUD inspector estimated the cost, including labor and materials to be about \$150.

Auditee Comments

We do not agree with the OIG statement that all cracked, broken, mismatched trim, and jambs were not replaced. All cracked, broken, and mismatched trim was replaced. The FHA 203(k) HUD Consultant approved funds allowed for the above repairs at the draw inspection performed on November 5, 1997.

OIG Evaluation of
Auditee Comments

Our HUD inspector determined that the work was either not done or the workmanship was very poor. For example, the rear door jam was not replaced, as required. The door was patched. An incorrect hinge size was used on the door in the kitchen leading to the basement.

Auditee Comments

We do not agree nor disagree with the OIG statement that the replacement of a three piece tub surround with a shower over the tub for \$250 was not done. The shower fixtures were found to be in working order and were just externally cleaned.

OIG Evaluation of
Auditee Comments

Detroit Revitalization said in its response that a three piece tub surround was not installed. It had certified that the work was done on the draw request.

Auditee Comments

We do not agree with the OIG statement that 100 amp service for \$1,000 was not installed. The original electrical service was a 60 amp fuse panel and it was upgraded to a 100 amp fuse panel. Please see attached invoices from RIMCO Building Company for the service upgrade.

OIG Evaluation of
Auditee Comments

The HUD inspector found that the installation of a 100 amp service was not done, as required. The invoice is from RIMCO Building Company, the identity-of-interest general contractor. It was for \$914 for replacing outlets, fixtures, laundry circuits, and other electrical services including the 100 amp fuse panel. However, our inspection showed that the installation of the 100 amp service was not done.

Auditee Comments

We do not agree with the OIG statement that the cabinetry work and installation of new vanities was not completed. Attached please find the RIMCO Building Company work order and material list for the installation of the vanity.

OIG Evaluation of
Auditee Comments

The RIMCO Building Company invoice did not say that new vanities were installed. The invoice noted that a toilet was installed and a laundry tub was repaired.

Auditee Comments

We do not agree with the OIG statement that the wood siding on the garage for \$450 was not repaired. Please see attached before and after photographs of the garage with the replaced wood siding.

OIG Evaluation of
Auditee Comments

The specifications required the replacement of wood siding on the front and at rear of the garage. The HUD inspector found that the siding was not replaced. The wood siding was painted over including rotted wood. The picture shows the wood was painted as the HUD inspector found during his inspection.

Auditee Comments

We do not agree with the OIG statement that Detroit Revitalization, Inc. obtained excessive funds for the following rehabilitation work: siding; painting; weather stripping; flooring; plumbing; electrical; and heating.

An independent FHA 203(k) HUD Consultant was hired to

prepare the rehabilitation work write-ups and determine the costs. In establishing the costs, the consultant made use of RS Means Residential Cost Data, a reference guide which has been a standard in the building industry for the past 50 years. Likewise, the lender did not approve a disbursement from the rehabilitation escrow account without a HUD approved inspector approving the release with a signed draw request which attested to the fact that all completed work was done in a workmanlike manner.

OIG Evaluation of Auditee Comments

We have no issue with the original cost estimates. Our issue is with the quality of the work performed. The HUD inspector determined that either the amount charged was excessive for the amount and kind of work done or the workmanship was poor. For example, the specifications stated that all interior walls and trim were to be painted and required the removal of all defective paint in accordance with lead base paint removal procedures. The HUD inspector found that old paint was not removed prior to painting, as required by the specifications. The paint in the kitchen was peeling.

For heating, the specifications estimated the cost of a new furnace to be \$3,500. The specifications did not mention the make or size of the furnace. The HUD inspector determined the cost of the furnace that was installed to be no more than \$2,000.

FHA Case No: 261-6580660

Appendix B-11

Property Address: 14301 Maiden
Detroit, Michigan 48213

Cost of Repairs: \$25,464

Detroit Revitalization, Inc. paid its identity-of-interest construction company, RIMCO Building Company, excessive fees to rehabilitate the property. A HUD inspector inspected the property on April 14, 1998 and found that RIMCO was paid for repairs that were either not completed or were unsatisfactorily completed. The borrower (Detroit Revitalization, Inc.), the contractor (RIMCO Building Company), and the Section 203(k) consultant/inspector signed the draw request for the release of funds from the Rehabilitation Escrow Account and stated that all completed work had been done in a workmanlike manner. RIMCO was paid a total amount of \$25,464 for the repairs and permits. The HUD inspector estimated that of \$25,464, RIMCO was paid \$3,993 for work not done, and \$1,754 for unsatisfactory and poor quality work, as shown by the following charts.

Items	Amount Paid For Work Not Done
Doors	\$ 1,950
Metal Handrails	648
Heating	200
Repairs	220
Cabinetry	700
Permits	<u>275</u>
Total	\$ 3,993

Items	Excessive Amount Paid
Siding	\$ 504
Joist Bonds	700
Counter	75
Heating	350
Cabinetry	<u>125</u>
Total	\$1,754

Auditee Comments

[A summary of Detroit Revitalization’s comments regarding the deficiencies cited above follow. The audit report does not include Detroit Revitalization’s verbatim comments to the narrative case presentations or its appendices/attachments due to their voluminous nature.

The complete response was provided to the Director of the Philadelphia Homeownership Center separately.]

The doors-exterior totaled \$875 and the doors-interior totaled \$1,450, both categories were approved by the FHA 203(k) HUD Consultant on the first draw request inspection performed on September 4, 1997 for release from the rehabilitation escrow account

The OIG has cited that the doors were not removed and replaced. We do not agree with the OIG's findings. All of the doors were repaired and painted, and a new lockset and deadbolt were installed. The funds not used to replace the doors and storm doors were diverted to paint the living room, dining room, kitchen, hall, bathroom, and bedroom. These funds had not been allocated in the original scope of repairs to paint the interior.

OIG Evaluation of Auditee Comments

Detroit Revitalization obtained rehabilitation escrow funds based on its, the general contractor, and the Section 203(k) consultant/inspector's certification on the draw request that the doors were replaced according to the specifications. Detroit Revitalization, said the doors were repaired and other work was substituted instead of replacing the doors. There were no change orders for the work modifications. According to HUD requirements, Section 203(k) funds can only be paid for the work that was completed in accordance with the specifications or change orders.

Auditee Comments

The original specification of repairs called for the abatement of the asbestos on the ductwork in the basement. The asbestos was not abated from the ductwork because it did not have any frayed edges, no work was done to that area of ductwork to disturb the asbestos, and it was in a safe and non-hazardous condition. The monies for this was diverted to installing a new gas drop, thermostat, plenum, chimney liner, flue pipe, new registers, fire stop existing heat runs, cleaning out all air returns.

OIG Evaluation of Auditee Comments

Detroit Revitalization obtained rehabilitation escrow funds based on its, the general contractor, and the Section 203(k) consultant/inspector's certification on the draw request for the asbestos abatement. Detroit Revitalization, said other work was substituted for the asbestos abatement. There were no

change orders for the work modifications. According to HUD requirements, Section 203(k) funds can only be paid for work that was completed in accordance with the specifications or change orders.

Auditee Comments

The OIG has cited that the hinges on the exterior door were not installed properly and were loose. The door was not properly sized and there was a large gap at the top. The OIG also cited that cracks in the garage floor were not repaired.

We do not agree with the OIG, because: the door was reset using original hinges that have become loose at the top from closing the door excessively hard. The door frame has gotten out of square over time from settlement. The cracks and uneven concrete on the garage floor was repaired. The concrete had less than a 3/4" separation making it a minor concern for a trip hazard.

OIG Evaluation of Auditee Comments

The HUD inspector found that these hinges were not properly installed and were loose. The inspector also found that there were cracks in the garage floor that were not repaired.

Auditee Comments

The OIG has cited the removal and replacement of the upper kitchen wall mount cabinets with the same as not complete. We do not agree with the OIG's findings for the following reasons: (1) the cabinets were found to be in a condition worth saving rather than replacing, therefore the cabinets were cleaned, scraped and painted, the hardware replaced, and glass windows installed; (2) the replacement of the wall mount cabinets was only a recommendation by the 203(k) Consultant not a required item; and (3) the monies saved by reconditioning cabinets were diverted to the installation of all new electrical fixtures in the dwelling.

OIG Evaluation of Auditee Comments

Detroit Revitalization obtained rehabilitation escrow funds based on its, the general contractor and the Section 203(k) consultant/inspector's certification on the draw request that the removal and replacement of the upper kitchen wall mount cabinets was done. Detroit Revitalization, said other work was substituted instead. There were no change orders for the work modifications. According to HUD requirements, Section 203(k) funds can only be paid for the work that was completed in accordance with the specifications or change orders.

Auditee Comments

A change order for permits was submitted on September 4, 1997 for \$740 for the estimated permits needed. This request was approved by the FHA 203(k) HUD Consultant on October 25, 1997 as an allowable expense which was released for payment from the rehab escrow account.

On June 11, 1997 a check was issued for \$225 to the City of Detroit for the 4-in-1 Housing Inspection. On July 16, 1997 a check was issued to the City of Detroit for \$140 for the installation of a 80,000 BTU furnace. On July 18, 1997 the City of Detroit was paid \$69 for the installation of one sink and one water heater. On July 28, 1997 the City of Detroit was paid \$26 for the inspection of the water distribution system. On August 15, 1997 the City of Detroit was paid \$69 for the one family rental fee.

These permit and inspection payments total \$529 and are the actual dollars disbursed to the City of Detroit. These totals do not include the cost of the labor to complete the permit, obtain the permit from the City, processing of the permit payment, time spent scheduling the inspection, and the time spent obtaining the Certificate of Approval.

OIG Evaluation of Auditee Comments

Based on the documentation provided, we allowed \$460 for the actual amount paid for the permits. Detroit Revitalization had obtained \$735 for permits from the escrow funds. We did not allow the \$206 for permits where there was no documentation supporting the payment of those permits. We did not allow the \$69 for a family rental fee because this fee has nothing to do with the rehabilitation of the property and it is not a permit.

Auditee Comments

We do not agree with the OIG statement that Detroit Revitalization, Inc. obtained excessive funds for siding, joist bonds, counter top, heating and cabinetry work. An independent FHA 203(k) HUD Consultant was hired to prepare the rehabilitation work write-ups and determine the cost. In establishing the cost, the consultant made use of RS Means Residential Cost Data, a reference guide which has been a standard in the building industry for the past 50 years. Likewise, the lender did not approve a disbursement from the rehabilitation escrow account without a HUD approved inspector approving the release with a signed

draw request which attested to the fact that all completed work was done in a workmanlike manner.

OIG Evaluation of
Auditee Comments

We have no issue with the original cost estimates. Our issue is with the quality of the work performed. Either the workmanship was poor or the costs charged for the amount of work done was excessive. For example, the specifications required the installation of a vanity, sink, and faucet for \$400. The HUD inspector found that for the type of vanity, sink and faucet installed, the cost should have been only \$200.

FHA Case No: 261-6488707

Appendix B-12

Property Address: 5574 Nottingham
Detroit, Michigan 48224

Cost of Repairs: \$25,482

Detroit Revitalization, Inc. paid itself and its identity-of-interest construction company, RIMCO Building Company, excessive fees to rehabilitate the property. A HUD inspector inspected the property on April 17, 1998 and found that RIMCO was paid for repairs that were either not completed or were unsatisfactorily completed. The borrower (Detroit Revitalization, Inc.), the contractor (RIMCO Building Company), and the Section 203(k) consultant/inspector signed the draw request for release of funds from the Rehabilitation Escrow Account and stated that all completed work had been done in a workmanlike manner. RIMCO was paid a total of \$20,872 for the repairs and the permits. At the completion of the rehabilitation work, Detroit Revitalization received \$4,610, the amount remaining in the rehabilitation escrow account. The HUD inspector estimated that RIMCO was paid \$3,911 and Detroit Revitalization received \$2,386 for work not done. The inspector also estimated that RIMCO received \$3,343 and Detroit Revitalization received \$450 for unsatisfactory and poor quality work, as shown by the following table.

Items	Amount Paid For Work Not Done
Masonry	\$ 700
Painting Interior	1,785
Doors	811
Concrete Walk	150
Porch Railings	45
Plaster	384
Stairs	124
Carpeting	375
Cabinetry	300
Ceramic Tile	130
Plumbing	278
Permits	283
Cleanup	750
Other Repairs	<u>182</u>
Total	<u>\$ 6,297</u>

Items	Amount Paid For Unsatisfactory Work
Painting of Windows	\$ 1,542
Plumbing	847
Electrical	164
Cabinetry	470
Flooring	<u>770</u>
Total	\$ 3,793

Auditee Comments

[A summary of Detroit Revitalization’s comments regarding the above deficiencies follow. The audit report does not include Detroit Revitalization’s verbatim comments to the narrative case presentations or its appendices/attachments due to their voluminous nature. The complete response was provided to the Director of the Philadelphia Homeownership Center separately.

The change order for alternate/additional masonry repairs for \$700 was approved by the FHA 203(k) Consultant upon inspection completed on February 21, 1997. Please see the invoice from Blackie Concrete for tuck pointing the house and the chimney as needed.

OIG Evaluation of Auditee Comments

The invoice from Blackie Concrete is dated February 11, 1997 and is for \$200 for tuck pointing. The invoice related to the work performed based on the original specifications. Therefore, we did not question this payment. We questioned the payment of \$700 for masonry work which was required by a change order. The change order just said masonry for \$700 and it did not describe the scope of the work. There was no invoice supporting this work. Our HUD inspector found that there was no work done for this payment.

Auditee Comments

We do not agree with the OIG statement that the exterior painting and the painting of the doors for \$1,785 were not completed.

The original specifications were for \$1,185 with a change order for \$600. The change order for exterior painting was requested to paint the garage. The original specification of repairs indicated that the garage would be torn down and hauled away for \$1,200. The garage was saved to retain added value to the property and the cost of the structural

repairs were \$1,100 as paid to a third party contractor. The additional exterior painting was to scrape and paint the restored garage, funds that were not originally allocated in the original specification of repairs.

OIG Evaluation of
Auditee Comments

Detroit Revitalization said the change order for \$600 was for painting of the garage which had been restored. Our inspection showed that the garage had been torn down, as required by the specifications. Therefore, no work was done.

The original specifications required interior painting for \$1,185. We found that either the painting was not done or the workmanship was extremely poor. For example, the specifications required the removal of wallpaper and painting in the upper unit. The wallpaper was not removed.

Auditee Comments

We do not agree with the OIG statement that the installation of doors for \$811 was not completed.

The FHA 203(k) HUD Consultant did not approve release of funds and funds were never released from the rehabilitation reserve escrow account.

OIG Evaluation of
Auditee Comments

It is true that the 203(k) consultant did not approve the release of funds for the installation of doors and no funds for doors were released based on the inspection and draw request. Detroit Revitalization, however, inappropriately received the excess funds that remained in the escrow account after the final inspection. These included the funds reserved for the installation of the doors. Had Detroit Revitalization, Inc. followed proper procedures, these funds should have been applied to reduce the mortgage amount. In addition, there were no change orders written deleting the work in the original specifications. Our HUD inspector found new doors were not installed, as required by the specifications.

Auditee Comments

The FHA 203(k) HUD Consultant did not approve the payment of \$150 for the repair of a concrete walk from the rehabilitation escrow account, nor was Detroit Revitalization, Inc. reimbursed for work not completed, and RIMCO Building Company was not paid for work not completed.

OIG Evaluation of
Auditee Comments

It is true that the 203(k) consultant/inspector did not approve the release of funds for the repair of a concrete walk and no funds for the repair were released based on the inspection and draw request. Detroit Revitalization, however, received the excess funds that remained in the escrow account after the final inspection. These included the funds reserved for the repair of concrete walks. Had Detroit Revitalization, Inc. followed proper procedures, these funds should have been applied to reduce the mortgage amount. In addition, there were no change orders written deleting the work in the original specifications. Our HUD inspector found that concrete walk was not repaired, as required by the specifications.

Auditee Comments

We do not agree with the OIG statement that the porch railing was not painted a cost of \$45 for two reasons. The invoices reflect that steel wool was purchased from Ed's True Value to scrape the railings and the painting was completed as part of the rehabilitation contract with Affordable Windows & Siding Company.

OIG Evaluation of
Auditee Comments

The purchase of steel wool is not proof that the porch railing was painted. The Affordable Windows invoice did not state the painting was done. Our HUD inspector determined that the work was not done.

Auditee Comments

We do not agree with the OIG statement that plaster for \$384 was not repaired. The OIG has not specified which items were not completed, only that some of the items were not done. All of the above funds were approved by the 203(k) HUD Consultant.

OIG Evaluation of
Auditee Comments

The specifications required plastering behind the base landing door, over the fireplace, upper kitchen ceiling, and living room closet walls. This work was not done.

Auditee Comments

We do not agree with the OIG statement that the basement stairs were not completed for \$124 as specified in the specifications. Repairs were completed by Affordable Windows & Siding as part of their rehabilitation contract.

OIG Evaluation of
Auditee Comments

The specifications required installation of metal top nosing and closing open stringers. Our HUD inspector's inspection showed that this work was not done.

Auditee Comments

We do not agree with the OIG statement that the carpeting for \$750 of the second floor dining room, hall, and two bedrooms was paid for and not completed. The FHA 203(k) HUD Consultant approved \$2,180 out of the \$2,630 allowed on the draw performed February 21, 1997 and our records reflect that the 1st floor was carpeted as documented in the work write up and the second floor living room was carpeted in lieu of the dining room and hall.

The FHA 203(k) HUD Consultant did not approve payment of the additional \$450 from the rehabilitation escrow account for work not completed, nor was Detroit Revitalization, Inc. reimbursed for work not completed, and RIMCO Building Company was not paid for work not completed.

OIG Evaluation of
Auditee Comments

The specifications required installation of carpeting in the second floor dining room, hall, and two bedrooms for \$750. Our HUD inspector found that the carpeting was not installed in the two bedrooms. The HUD inspector estimated the cost of carpeting the two bedrooms to be \$375. Therefore, we determined that \$375 were released from the escrow account for work not done. There were no change orders deleting the carpeting of the bedrooms or any other work modifications. RIMCO was paid \$2,180 out of the \$2,630 reserved for carpeting based on the 203(k) consultant's inspection and draw request. The remaining \$450 including the \$375 for work not done was received by Detroit Revitalization without any draw requests.

Auditee Comments

The FHA 203(k) HUD Consultant only approved \$297 to be released at the time of the draw inspection performed on February 21, 1997. Funds for the kitchen countertops were not approved and were not released for payment from the rehabilitation reserve escrow account.

OIG Evaluation of
Auditee Comments

Detroit Revitalization received all the funds in the escrow account. The funds that were not released based on the draw request, were released to Detroit Revitalization on February 4, 1998. This included the \$300 originally included in the escrow

account for kitchen counter tops. There were no change orders written deleting the work in the original specifications.

Auditee Comments

We do not agree with the OIG statement that the ceramic tiles were not cleaned and re-grouted for \$130. Ron Perkins was paid for miscellaneous cleaning.

Furthermore, after the home had been occupied for eight months at the time of the OIG inspection, it is possible that the occupants had not kept up with the cleaning of the ceramic and grout.

OIG Evaluation of Auditee Comments

The invoice did not say anything about re-grouting. Our HUD inspector determined that the ceramic tiles were not cleaned and re-grouted as required in the specifications.

Auditee Comments

We do not agree with the OIG statement that the second floor tub faucet and trip valve for \$278 were not installed. Please see the invoice from RIMCO for trip waste valve.

OIG Evaluation of Auditee Comments

The invoice was from RIMCO Building Company's warehouse and did not specify that the second floor tub faucet and trip valve were installed. It showed the installation of stoppers and work done for the kitchen sink. Our HUD inspector determined that a new tub faucet was not installed, as required by the specifications and there was no trip valve.

Auditee Comments

The OIG has cited that there was no evidence of permits obtained. We do not agree with the OIG statement that they were not provided with evidence of permits being obtained.

A change order was submitted on February 18, 1997 for \$740 for the estimated permits needed. This request was approved by the FHA 203(k) HUD Consultant on February 21, 1997 as an allowable expense which was released for payment from the rehabilitation escrow account.

On December 23, 1996 the City of Detroit was paid \$273 for the 4-in-1 Housing Inspection. On January 9, 1997 the City of Detroit was paid \$184 for a heating permit.

These permit and inspection fee payments total \$457 and are actual dollars disbursed.

**OIG Evaluation of
Auditee Comments**

Based on the documentation provided by Detroit Revitalization, we allowed \$457 for the permits. Detroit Revitalization had certified that it paid \$740. No documentation was provided showing Detroit Revitalization spent the remaining \$283 for permits. Therefore, \$283 was the excessive amount released from the escrow account.

Auditee Comments

We do not agree with the OIG statement that the front tree was not removed.

The tree in the front yard was not removed and the FHA 203(k) HUD Consultant did not approve payment of the \$750 from the rehabilitation escrow account for work not completed, nor was Detroit Revitalization, Inc. reimbursed for work not completed, and RIMCO Building Company was not paid for work not completed.

**OIG Evaluation of
Auditee Comments**

It is true that the 203(k) consultant/inspector did not approve the release of funds for the tree removal and no funds were released based on the consultant's inspection report and draw request. Detroit Revitalization, however, received the excess funds that remained in the escrow account after the final inspection. This included \$750 reserved for tree removal. Had Detroit Revitalization followed proper procedures, these funds should have been applied to reduce the mortgage amount. There were no change orders deleting or modifying the work.

Auditee Comments

We do not agree with the OIG statement that other repairs for \$182 were not done. These included: bathroom caulking; repair towel bar; install spring on laundry chute; and adjust cabinet doors. Affordable Windows & Siding completed the work as part of the overall rehabilitation contract.

**OIG Evaluation of
Auditee Comments**

The Affordable Windows and Siding contract did not specify whether the above repairs were to be done, or were done. Our HUD inspector found that the repairs were not done.

Auditee Comments

We do not agree with the OIG statement that Detroit Revitalization, Inc. obtained excessive funds of \$1,542 for window maintenance. The FHA 203(k) HUD Consultant

approved \$1,092 of the \$1,542 allowed on the inspection performed on February 21, 1997.

The Consultant was hired to prepare the rehabilitation work write-ups and determine the costs. In establishing the costs, the consultant made use of RS Means Residential Cost Data, a reference guide which has been a standard in the building industry for the past 50 years. Likewise, the lender did not approve a disbursement from the rehabilitation escrow account without a HUD approved inspector approving the release with a signed draw request which attested to the fact that all completed work was done in a workmanlike manner.

OIG Evaluation of
Auditee Comments

It is true that the Section 203(k) HUD approved consultant/inspector only approved \$1,092 of the \$1,542 for window maintenance on the inspection performed on February 21, 1997. Detroit Revitalization received the remaining funds of \$450 on February 4, 1998 after the final inspection. These funds should have been applied to reduce the mortgage balance. Our HUD inspector determined that the work was not done according to the specifications. For example, the specifications required caulking of all the windows. Our HUD inspector found that none of the windows were caulked. In addition, there were no change orders written deleting the work in the original specifications.

Auditee Comments

We do not agree with the OIG statement that Detroit Revitalization, Inc. obtained excessive funds for plumbing, electrical, cabinetry and flooring.

An independent FHA 203(k) HUD Consultant was hired to prepare the rehabilitation work write-ups and determine the cost. In establishing the cost, the consultant made use of RS Means Residential Cost Data, a reference guide which has been a standard in the building industry for the past 50 years. Likewise, the lender did not approve a disbursement from the rehabilitation escrow account without a HUD approved inspector approving the release with a signed draw request which attested to the fact that all completed work was done in a workmanlike manner.

OIG Evaluation of
Auditee Comments

We have no problem with the original cost estimates prepared by the HUD approved consultant. However, our HUD inspector determined that either the amount actually paid for the work was excessive given the amount and kind of work done, or the quality of the workmanship. For example, the specifications required installation of new light fixture globes for \$172. The HUD inspector determined that based on the number and types of globes installed, the cost should have been \$60.

Auditee Comments

October 16, 1998

Mr. Muhammad M. Akhtar
Senior Auditor, Office of Inspector General
U.S. Department of Housing and Urban Development
Patrick V. McNamara Federal Building
477 Michigan Avenue, Room 1790
Detroit, Michigan 48226-2592

Dear Mr. Akhtar:

Detroit Revitalization, Inc. (DRI) is responding to the Office of Inspector General' draft report on Detroit Revitalization's compliance with the Section 203(k) Rehabilitation Mortgage Program and with the Partners for Affordable Homeownership Program where foreclosed properties are purchased from HUD at a 30 percent discount.

Detroit Revitalization recognizes and respects the important role served by the Office of Inspector General in monitoring compliance with Federal guidelines and regulations, including but not limited to, those guidelines and regulations pertaining to HUD programs. Detroit Revitalization Inc. further welcomes the opportunity to discuss and address the issues raised in the draft findings of the Office of Inspector General.

The draft findings of the Office of Inspector General state that Detroit Revitalization:

- Obtained excessive funds for rehabilitation work done within the Section 203(k) program.
- Violated HUD's requirements for properties purchased at a 30 percent discount.

As will be apparent from reviewing the comments set forth below and the materials submitted with this response, Detroit Revitalization respectfully submits that the draft findings of the Office of Inspector General are largely incorrect and unsupported by the factual and documentary evidence. In setting forth Detroit Revitalization's positions on these issues, it is not the intention of Detroit Revitalization Inc. to disparage the Office of Inspector General (OIG) or any of the personnel involved in conducting the audit on its behalf. Detroit Revitalization Inc. only intends to set forth the facts as known to it in response to the draft findings.

As explained in greater detail below, it is also important to note that the OIG draft findings focus on the earliest transactions engaged in by Detroit Revitalization, involving organizational

structures and programs no longer used by Detroit Revitalization. In addition, no current officer of Detroit Revitalization, and only two of Detroit Revitalization's current ten Directors, were affiliated with the organization when the transactions reviewed by the OIG were undertaken. The Detroit Revitalization of today therefore bears little resemblance to the Detroit Revitalization discussed in the audit.

With the full knowledge of the appropriate Detroit HUD officials, and with the financial and consultative support of MCA Financial Corp. and RIMCO Financial Corp., Detroit Revitalization was established and has grown into a material contributor to the continuing refurbishment of Detroit's housing stock and the overall comeback of Detroit's urban population base. In its first two years of operation, Detroit Revitalization has rehabilitated and sold over 250 homes, and is well on its way of supporting another 400 transactions in 1998 alone.

In light of these accomplishments, Detroit Revitalization is concerned that publication of negative audit findings, even if stale and inaccurate, could have a significant adverse effect on Detroit Revitalization's ability to meet its goal of materially contributing to the renaissance of the City of Detroit. For this reason, we request that you carefully review the material we are providing in this letter before reaching any final conclusions regarding any alleged violations or recommended sanctions.

As a final preliminary matter, please note that Detroit Revitalization requested until the end of October to respond to the draft findings, but were only given until October 16 by the OIG. We have tried to meet the OIG's timetable, but were unable to complete all of the detailed responses to particular construction related matters surrounding individual properties. We are providing you with the bulk of this material with this submission, and will provide the remaining documentation by the end of the month.

History of Detroit Revitalization

Founding. Detroit Revitalization, Inc. was incorporated December 7, 1994 and obtained its non-profit status from the IRS on April 23, 1995. Detroit Revitalization Inc. was formed by two for-profit companies, MCA Financial Corp. and RIMCO Financial Corp., to help preserve and rebuild the City of Detroit's single family housing stock and provide quality, affordable housing to Detroit residents. Detroit Revitalization achieves this goal by purchasing distressed properties, renovating them to city certification standards and selling the refurbished homes to low and moderate income families at prevailing market prices. Through these activities, Detroit Revitalization enhances the overall quality of life in the City of Detroit by expanding opportunities for private home ownership, rebuilding neighborhoods and increasing the city tax base. HUD had been encouraging and fostering the formation of non-profit entities to achieve these goals. See HUD Mortgagee Letter 96-52.

MCA Financial Corp.'s full-service mortgage banking subsidiaries are nationally recognized for their extensive operations in Michigan and in 46 states. MCA originates over \$1 billion in mortgages annually and presently holds in excess of \$600 million in mortgage servicing. MCA ranks in the top 50 mortgage companies nationally in FHA/VA and non-conforming mortgage

origination's. MCA also originates \$30 million in land contracts each year and is recognized as the leading land contract purchaser and servicer in the State of Michigan. RIMCO Financial Corp, headquartered in the City of Detroit, is comprised of five operating companies. RIMCO specializes in real estate development, construction and management, and is a licensed real estate broker whose focus is single-family Detroit properties. During the past six years, RIMCO has rehabilitated and sold in excess of 1,000 properties in the City of Detroit.

The concept for Detroit Revitalization originated from RIMCO's realization that there are numerous properties and broad market areas in the City of Detroit that cannot be realistically served by profit-making entities which require a higher justification for the use of their capital. Detroit Revitalization was born out of RIMCO's desire to share rehabilitation and marketing expertise with community based groups and non-profits to create a win-win situation for all. Detroit Revitalization was formed to intervene in marginal Detroit real estate markets and establish a foundation for these markets to flourish, while complementing, not competing with private firms, public agencies and other non-profits.

From its beginning, Detroit Revitalization planned to be controlled by a diversified board of directors and the members of the board to eventually consist of outside individuals not affiliated with MCA Financial Corp. or RIMCO Financial Corp. or their subsidiaries. The goal to achieve a fully independent board was realized in 1996, and the board remains fully independent today.

Detroit Revitalization Acquires Its First Properties. During the latter part of 1995, MCA Financial Corporation and RIMCO Financial Corp. made a combined charitable contribution of \$250,000 to enable Detroit Revitalization to acquire its very first homes: eight foreclosed properties purchased from HUD at a 30 percent discount within its Partners for Affordable Homeownership Program. The fledgling Detroit Revitalization was in a true start-up mode in this period and did not have the financing or contributions in place to operate effectively. In order to begin rehab operations, Detroit Revitalization turned to MCA Financial Corp. for funding sources to commence work on these first properties. Using MCA's financing sources, Detroit Revitalization successfully rehabilitated and sold the properties purchased from HUD.

During this same period, HUD was aggressively promoting its government mandate to help troubled cities like Detroit with its FHA 203(k) program. Conversely, the newly founded Detroit Revitalization was also seeking a funding source for the rehabilitation of properties it was acquiring.

Identity-of-Interest Relationships Acknowledged By HUD. On October 11, 1995, John Frelich, Director of the Detroit HUD Office, Single Family Housing Division, and his staff of John Niebieszczanski, Chief of Single Family Production, and Cynthia Nardecchia, Chief of Real Estate Owned, met with executives of Detroit Revitalization, MCA and RIMCO regarding Detroit Revitalization's interest in the FHA 203(k) program. The discussion centered around Detroit Revitalization's desire to utilize the 203(k) program to rehab numerous properties acquired from related entities and contract with RIMCO for rehabilitation work and real estate sales expertise. MCA would be the 203(k) lender for some of the cases, along with other local lenders. The relationships between MCA, RIMCO and Detroit Revitalization were fully disclosed and

explained to HUD in an attempt to determine if their affiliation would impact Detroit Revitalization's use of the program. The HUD officials told us that the relationships would not present a conflict of interest. Detroit Revitalization, MCA, and RIMCO executives left the meeting with the understanding that the identity-of-interest issues were not of concern to HUD. A tour of several properties in various stages of rehab followed the meeting. The HUD officials were impressed with RIMCO's rehabilitation work. On October 19, a follow-up letter of understanding was sent by an MCA/RIMCO executive to Mr. Frelich stating because of the complexities of the 203(k) loan requirements and given the RIMCO/MCA/ Detroit Revitalization relationships, I would like to set out in writing our understanding of some of the conclusions we reached at this meeting. The letter makes clear the identity-of-interest between Detroit Revitalization and its founders and states that Detroit HUD and Detroit Revitalization were on the verge of creating a model relationship together. During the course of the audit, Detroit Revitalization encouraged the OIG to speak with the Detroit HUD personnel knowledgeable of this close working relationship; we do not know if such contacts were made.

HUD Approval and Continuing Review of Detroit Revitalization. Detroit Revitalization received approval as a non-profit borrower in the 203(k) program on November 14, 1995, which was valid to January 31, 1996. The short approval period was intended to facilitate close monitoring by HUD through continuing review of Detroit Revitalization's 203(k) files, marketing plan, rehabilitation performance and financial statements. This ongoing review was considered by HUD to be of critical importance, consistent with HUD policy as later expressed in Mortgagee Letter 96-52. During the first months of Detroit Revitalization's participation in the program, HUD continued to extend Detroit Revitalization's 203(k) approval for short periods while requesting and receiving detailed information, reviewing closed loan files and performing a field monitoring visit at Detroit Revitalization's office. No material issues remained outstanding from these extensive file and field reviews although the identity-of-interest issue was evident. Four short term extensions were issued after the initial approval during this review period. Having full knowledge of all relationships with MCA and RIMCO, HUD granted Detroit Revitalization a final approval on October 31, 1996.

Detroit Revitalization Successfully Expanded Home Ownership Utilizing HUD Programs. A cornerstone of Detroit Revitalization's 1996 business plan was its involvement in the two HUD programs discussed above, i.e. the 30 percent discount and the Section 203(k) programs. Together they dominated much of its commerce as DRI first began rehabilitation operations. In a 14 month period, Detroit Revitalization acquired and rehabilitated 53 properties acquired from HUD's Partners for Affordable Homeownership Program. The properties were sold to low and moderate income home buyers. An additional 109 properties were purchased and rehabilitated utilizing the 203(k) program. The vast majority of these were sold to low and moderate income home buyers as well. Detroit Revitalization, Inc. has turned an under-served market segment in Detroit into homeowners and proved to be a worthy partner to HUD in the shared goal of expanding home ownership opportunities. Today, however, Detroit Revitalization is no longer actively using either of those programs.

Draft Finding 1 Detroit Revitalization Obtained Excessive Funds for Rehabilitation Work

The draft finding of the Office of Inspector General regarding this issue proceeds from the false assumption that the sum of \$243,467 was released from the rehabilitation escrow account of the 12 homes discussed in the draft report. It can only be assumed by Detroit Revitalization that the auditor's figure was derived from reviewing the total amount of rehabilitation funds initially deposited in the escrow accounts, rather than the actual funds released.

The actual amount of draws approved and paid on the subject 12 homes was \$202,210. For reasons unknown to Detroit Revitalization, the auditor apparently did not review or correctly interpret the actual, approved draw requests to see what was actually approved by the lender and paid for by Detroit Revitalization.

Apart from the above error in the draft finding regarding the amount of escrow released for rehabilitation on the subject homes, the failure to interview the HUD Consultants who approved the subject draw requests resulted in yet further erroneous conclusions as set forth in the draft audit report. Based upon the information provided to Detroit Revitalization, it would appear that the auditor did not properly examine the actual, approved draw requests, or interview the HUD Consultants who approved same, in comparing the work actually performed to the amounts set forth on the original consultant estimates. Utilizing that procedure resulted in erroneous conclusions in that it does not account for work substitutions made in the field, as approved by the HUD Consultant, and/or substitutions required by City of Detroit inspectors, and again approved by the HUD Consultant. It further does not account for items not approved and, therefore, never paid. Thus the failure to examine approved draw requests, coupled with the failure to interview the HUD Consultants who approved same, has unfortunately led to a number of erroneous conclusions in the draft findings.

DRI has submitted with this response Appendices. These appendices contain documentary support regarding the work cited in the OIG draft finding which was actually performed on each of the 12 homes and documenting the approval and payments for same. In addition, Detroit Revitalization contacted and requested HUD Consultant Stephen Gullett, who performed the original inspections on four of the subject homes, to re-inspect those four homes. Detroit Revitalization further requested Mr. Gullett to provide a written report regarding his findings in response to the draft findings on each of those four properties. Mr. Gullett's reports are contained in Appendices. For disclosure purposes, Detroit Revitalization does wish to point out that it did agree to reimburse Mr. Gullett for time spent in re-inspecting the subject homes and preparing the reports contained in the referenced appendices.

Lastly, one of the overall implications of the draft findings is that its then affiliated entity, RIMCO Building Company, was overpaid for work either not completed or completed in a substandard manner. The fact is, of the \$202,210 released from the rehabilitation escrow accounts on the subject 12 homes, the amount of \$195,879 was paid to independent, unaffiliated subcontractors and/or for direct material costs. In addition to those direct, out-of-pocket expenditures to third parties, we are informed that RIMCO Building Company incurred labor costs in the amount of \$40,474 in connection with these 12 homes, for a direct total cost to RIMCO in the amount of

\$236,353. The notion that RIMCO either charged or was paid excessive amounts is simply not borne out by the actual facts.

Following is further discussion regarding the separate issues raised of work not done, work done at excessive prices, or work done improperly:

Detroit Revitalization Did Not Pay for Work Not Done. Although in some instances, work recommended by the HUD Consultants in the work write-up was not performed, this work was not paid for and additional work determined to be more appropriate was substituted with the knowledge, consent and approval of the HUD Consultants. Payment was only received on completed work either as indicated in the write-up or as later modified. It was the practice of the HUD Consultants to informally adjust the work to be performed without preparation of a Request for Change form, where such consultant believed that the change was not material and there was no overall increase in the rehab cost. For example, at 19414 Albany, the existing exterior side door was refurbished in place of installation of a new door. The savings realized in refurbishing the door was utilized in providing a new storm door. This was possible because many of the items listed on the original work write-ups were recommendations and not requirements. Thus, instead of replacing the exterior door, refurbishing it and adding the storm door was acceptable to the HUD Consultant- Inspector.

Another example of an incorrect assumption by the OIG is the statement that the kitchen cabinets were not painted on 19414 Albany. Although the original work write-up called for painting the kitchen cabinets, the actual work performed exceeded the original work write-up. Instead of painting the cabinets, they were cleaned, sanded and refinished with varnish.

In each instance, all required permits were paid for and obtained from the City of Detroit. Of further note is city ordinance Section 26-3-4 which indicates that the department shall issue a Certificate of Approval only after it has inspected the dwelling and found it conforms with the guidelines described in Section 26-3-6, which guidelines include obtaining the permits necessary to perform the work. A Certificate of Approval cannot be obtained unless the necessary permits were obtained and the fees for all permits were paid. A Certificate of Approval was in fact issued for each of the properties reviewed by the OIG. The above are just a few examples of erroneous conclusions contained in the draft finding. A full explanation with supporting documentation of all work which the OIG has alleged to be improper is contained in Appendices.

Detroit Revitalization Did Not Pay Excessive Prices. In every case, an independent HUD-approved 203(k) consultant/inspector was hired to prepare the rehabilitation work write-ups and determine costs. In establishing costs, the consultant/inspectors made use of reference guides which are commonly used in the building industry, as well as by HUD. For example, HUD Consultant Stephen Gullett, who performed 203(k) consultant duties on four of the 12 cited properties, determined pricing from data contained in the RS Means Co. *Repair and Remodeling Cost Data* book, a reference standard in the industry for the past 50 years. In addition, Detroit

Revitalization has confirmed with HUD Consultant/Inspector Mitch Kuffa who performed 203(k) consultant duties on another four of the 12 cited properties that he also utilizes the RS Means Co. *Repair and Remodeling Cost Data* book and this is a commonly used pricing resource in the field. In fact, the instructions to form HUD-9746A, Draw Request, refer to the RS Means book for use in estimating costs for 203(k) purposes.

Repairs Were Properly Completed. The lender did not approve a disbursement from the rehabilitation escrow accounts without a HUD-Approved Inspector approving the release with a signed draw request which attested to the fact that all completed work was done in a workmanlike manner. In addition, each property was separately inspected by the City of Detroit Building and Safety Engineering Department and in each case issued a Certificate of Approval that the premises were satisfactory for occupancy and that no violations were found under established inspection procedures. Furthermore, at the time of sale of the property to a homeowner, in many instances the homeowner contracted for yet another independent inspection and closed the transaction on that basis. In each case, the homeowner purchased the property on an As is basis at an agreed to price without promise of additional work being performed in the future. It is alleged by the OIG that Detroit Revitalization, Inc. paid RIMCO Building Company, its identity-of-interest construction company, for rehabilitation work which was improperly completed. The majority of repairs and rehabilitation work was performed by independent, third-party subcontractors. Out of the \$202,210 in draw funds received on the 12 cited properties, \$195,879 was paid to independent third-party subcontractors and building supply companies with an additional sum paid to RIMCO Building Company for direct work performed. All work was inspected and approved by both HUD-Approved Consultant/Inspectors and City of Detroit inspectors. Detroit Revitalization relied upon the dual inspection process to ensure that all work was performed in a workmanlike manner. It should be noted that the OIG performed its inspections approximately two years after rehabilitation and that some deterioration is to be expected. For each cited property, attached is an appendix which responds to each repair item alleged by the OIG to be improper.

Response of the HUD-Approved 203(k) Consultant/Inspector. Upon receipt of the draft finding and subsequent itemization from the OIG alleging that rehabilitation work was either not done, done improperly or for an excessive price, Detroit Revitalization Inc. contacted the HUD-approved 203(k) Consultant-Inspectors who performed the work write-ups and approved draw requests on nine of the 12 cited properties. Amazingly enough, we were advised that the OIG had not consulted with them regarding any of the allegations raised in the draft finding. We find this omission quite unusual from both an audit and logical perspective given the fact that the 203(k) consultant/inspector is HUD approved, was responsible for preparation of the work write-up and any changes thereto, determined cost estimates, inspected completed work and approved all draw requests.

As noted above, we requested Stephen Gullett to re-inspect the four properties on which he acted as the 203(k) HUD Consultant. We supplied him with the details of the work that the OIG alleges was not done, done improperly or for excessive cost. Mr. Gullett visited each property and a report of his results are contained in Appendices. In summary, where work was not done,

he states that these were recommendations and not requirements and as such allowed other work to be done instead, although in many cases no written Request for Change form was prepared.

Draft Finding 1 Response to OIG Recommendations

Recommendation 1A Require Detroit Revitalization, Inc. to pay off the mortgages for the properties for which excessive rehabilitation funds were spent in order to reduce HUD's risks.

Response It should be noted that prior to the commencement of the audit pertaining to these properties, the 203(k) mortgages on seven of the 12 cited properties were paid in full upon sale to qualified home buyers, thus eliminating any risk to HUD. As to the remaining five properties which remain mortgaged and where HUD perceives a risk, Detroit Revitalization maintains that there is little or no risk to HUD for the following reasons:

- The amounts paid by Detroit Revitalization to RIMCO and its subcontractors were appropriate for the rehabilitation work that was completed.
- The current market value of each property supports the loan.
- Detroit Revitalization has never missed a mortgage payment.
- All remaining mortgaged homes are rented and occupied.

However, in the spirit of cooperation and as a means of resolution, Detroit Revitalization proposes to obtain independent appraisals of current market value for the five remaining mortgaged properties. Should the current market value be determined to be less than the appraised value on which the mortgage was originally based, Detroit Revitalization will pay down the mortgage loan balance to 90 percent of the current appraised value. This would effectively eliminate any perceived risk to HUD.

Recommendation 1B Suspend Detroit Revitalization, Inc. from the participation in HUD programs and consider imposing administrative sanctions against the officers of Detroit Revitalization.

Immediately below is Detroit Revitalization's Response to OIG Draft Recommendation 1B. Detroit Revitalization wishes to note, however, that suspension does not appear to be a remedy within the prerogative of any district office, and is reserved for situations where immediate action is required to protect the public interest. 24CFR24.400(b). Given the dated nature of the transactions discussed in the OIG Draft Findings and the fact that Detroit Revitalization is not currently actively engaged in the programs discussed, suspension could not reasonably be considered an appropriate remedy under these circumstances.

Response We do not agree with the allegations contained in Draft Finding 1 and believe that Detroit Revitalization should be allowed to continue participation in HUD programs. Using the HUD programs, Detroit Revitalization has proved to be a worthy partner to HUD in the shared

goal of expanding home ownership opportunities. Specifically, Detroit Revitalization has rehabilitated and sold in excess of 100 Detroit homes to qualified low to moderate income home buyers using HUD programs. As the response indicates, Detroit Revitalization, MCA and RIMCO worked closely with the Detroit office of HUD regarding the design and implementation of Detroit Revitalization's 203(k) mortgage program. The scores of homes that DRI has rehabilitated and sold to qualified and satisfied low and moderate income home buyers bears witness to the fact that the relationship forged and cultivated between Detroit Revitalization and the Detroit office of HUD has resulted in a huge success for the 203(k) program in general and for the City of Detroit in particular.

Detroit Revitalization Inc. believes that it properly complied with the 203(k) program and did not receive excessive funds for the following reasons:

- Ninety-seven percent of the draw proceeds received were paid to independent, third-party subcontractors and material suppliers.
- In every case where a draw request was approved by the HUD-Approved Consultant-Inspector, the work or substituted work of equal value was performed.
- For the 12 properties cited, Detroit Revitalization employed five different independent, HUD-Approved Consultant/Inspectors. In each case, the 203(k) consultant/inspector attested to the fact that all completed work was done in a workmanlike manner.
- The 203(k) HUD-Approved Consultant prepared the rehabilitation work write-ups and determined cost based upon data contained in the RS Means Co. *Repair and Remodeling Cost Data* reference guide, which has been a standard in the building industry for 50 years and a HUD recognized costing source as well.
- All required permits were paid for and obtained from the City of Detroit. All properties were inspected by the City and a Certificate of Approval for occupancy issued.

As a result, we do not believe that suspension or any form of administrative sanctions are appropriate.

ift Finding 2 Detroit Revitalization Violated HUD Requirements for Properties Purchased at a 30 Percent Discount

During the months of September through December 1995, Detroit Revitalization Inc. acquired its very first properties, eight HUD real estate owned foreclosures sold to Detroit Revitalization through HUD's Partners for Affordable Homeownership Program. The fledgling Detroit Revitalization Inc. was in a start-up mode in those months and had not been provided training by

HUD at that time or given written guidelines of any substance. In fact, very little information is currently readily available from HUD. The Detroit Office of HUD staff member in charge of the Partners for Affordable Homeownership Program was unable to provide a copy of HUD Notice H 95-89 when it was requested in December 1997.

Although Detroit Revitalization transferred record title to the properties to MCA to obtain rehabilitation financing, equitable title and control remained with Detroit Revitalization at all times, and the transfer of bare legal title to MCA was part of a financing transaction only, in order to provide additional security. The process was intended to be akin to an equitable mortgage, where the title was to be held by the lender as additional security for the financing. The properties were always under Detroit Revitalization's control and were maintained on Detroit Revitalization's balance sheet. These first properties were in fact sold by Detroit Revitalization to homeowners who currently hold valid, equitable title to the properties.

By offering land contract financing, Detroit Revitalization Inc. is answering the Secretary's call to offer creative methods of expanding home ownership. Rather than only focusing on low income buyers, Detroit Revitalization also offers home ownership to moderate income renters who are shut out of owning a home because of past credit problems, a lack of credit or other reasons lenders decline to offer mortgage financing. The sales prices of the homes were not excessive, but at market value. The repairs were performed in a workmanlike manner and the costs were market rate. The land contract financing vehicle successfully puts renters who do not qualify for mortgages into homes. The land contract interest rate a buyer may pay produces a payment comparable to the market rental payment. The benefits of owning a newly rehabbed home while participating in substantial home value appreciation are obvious.

As for the conflict of interest, MCA and RIMCO's plan of giving birth to a non-profit which eventually became completely independent while maintaining a close partnership with its experienced for-profit founders, was well known to the local HUD office and was seen at the time as a cutting edge effort to actually accomplish HUD's goal of revitalizing inner-cities.

It should be noted that the properties referenced in the audit report were the very first properties Detroit Revitalization purchased and sold to home buyers, and that Detroit Revitalization subsequently purchased, rehabilitated and sold to qualified owner occupants an additional 44 foreclosed properties acquired from HUD in its Partners for Affordable Homeownership Program.

HUD's Resale Restrictions. In its first days, Detroit Revitalization did not have the financing or contributions in place to effectively fulfill its objectives. In order to begin rehab operations on these first properties, DRI turned to one of its founders, MCA, to assist in financing its first rehab jobs. The properties were deeded to MCA to perfect the lender's interest, but it was understood by Detroit Revitalization and MCA that this was a financing mechanism only, and that possession and control of the properties remained with Detroit Revitalization. When these short-term mortgages matured, Detroit Revitalization needed additional financing to continue operations. On five of these properties, RIMCO employees (and in one case a vendor) aided the Detroit Revitalization financing by signing land contracts on the properties with the understanding that the land contracts would be assumed or paid off when the rehab was completed and a qualified owner

occupant could purchase the property. Again, the understanding was that the properties were under total possession and control of Detroit Revitalization. In fact, the properties always remained on the Detroit Revitalization balance sheet as assets. There was never an intent to violate HUD rules by selling the properties to unqualified purchasers. Only the first few properties out of 53 eventual affordable housing acquisitions received this financing arrangement and only because Detroit Revitalization required this financing help to get started. By early 1996, Detroit Revitalization was able to obtain more traditional mortgage financing and discontinued the land contract interim financing program.

The OIG is not correct regarding 5027 Lakeview, which was purchased by DRI from HUD at a 30 percent discount much later than Detroit Revitalization's original acquisitions. The equitable mortgage financing technique utilized with the first eight acquisitions had been discontinued when Lakeview was purchased. This property was sold to a qualified home buyer by land contract prior to Detroit Revitalization deeding the property to a lender so the land contract vendor's interest could be sold.

However, Detroit Revitalization Inc. does admit that it inadvertently sold 15733 Dacosta to a part-time real estate agent of RIMCO Realty. There was no intent to violate the terms and conditions of the program. Although the fact that the buyer of Dacosta was a part-time employee of RIMCO was not readily apparent by reviewing the file, this information was freely provided to the OIG.

The statement by the OIG that the President of Detroit Revitalization did not make the employees of RIMCO Management Company who aided Detroit Revitalization in its financing needs available for OIG interviews is an inaccurate statement. RIMCO was advised of this request and the employees were asked to fully cooperate with the OIG. The officers of RIMCO were surprised when the OIG auditors visited its offices to review documents and failed to request interviews with the RIMCO employees in question, although they were present and available to be interviewed by the OIG auditors.

Acquisition Costs. As stated in the OIG report, an acquisition fee of \$2,400 was charged to Detroit Revitalization for the inspections and analytical work involved in preparing a feasibility report used to make the purchase decision for a given property. The same fee is also charged to MCA-owned entities who purchase the same service from RIMCO and reflects the high level of expertise incorporated in the following property assessment services:

- Determination of an appropriate purchase price.
- Renovation investment requirements.
- Relative marketability of the property.
- Estimated sale price upon completion of renovation.

Detroit Revitalization Inc. believes the fee is justified by the quality of the analysis provided. A team of highly experienced professionals perform an estimated 30 hours of work to provide what amounts to a buy/not-buy decision. No amount is paid for reports on those properties in which a decision to not purchase a property is made. Because the success or failure of DRI hinges upon

making prudent purchase decisions and there is no substitute service of equal reliability, Detroit Revitalization believes that the amount of the fee is well earned and justified.

Rehabilitation Costs. It should be noted again that very little written information was available to Detroit Revitalization Inc. regarding HUD requirements for the 30 percent discount program. What little information that was provided to Detroit Revitalization by Detroit HUD did not prescribe detailed record keeping guidelines.

As a result of the lack of HUD guidelines for record keeping in this program, it was assumed that an invoice provided by the general contractor, RIMCO, did not have to be supported by all of the invoices paid to RIMCO's subcontractors. It may be helpful to understand how the contract price for the rehabilitation of each home between Detroit Revitalization and RIMCO was established:

- Prior to acquiring a home, Detroit Revitalization Inc. would request that RIMCO perform an inspection of the exterior/interior of the home to establish a rehab price.
- RIMCO would then proceed with the inspection, detailing the necessary repairs and the estimated cost of these repairs. The details were done, keeping in mind that at the completion of the rehab, a Certificate of Approval would have to be obtained from the City of Detroit.
- The mutually agreed upon contract price of a rehab between Detroit Revitalization and RIMCO was established prior to the rehab commencing and was based on the total direct cost estimate per the detail marked-up 25%. This 25% mark-up that RIMCO charged on each rehab is conservative as compared to the industry and would be used to cover all RIMCO's indirect costs of the rehab, including field supervisor and administrative staff wages.
- Detroit Revitalization now recognizes that the invoices prepared by RIMCO Building Company do not contain the level of detail satisfactory to the OIG because of the identity-of-interest issue. While a normal billing practice from a general contractor would not include evidence of detailed work performed by subcontractors, because of the identity-of-interest issue, such subcontractor detail is now being provided for two properties. Due to time constraints in preparing this response, the supporting detail for the remaining properties is being assembled and will be provided in the near future.

The supporting detail for 7840 Rutherford provides evidence for third-party, out-of-pocket costs to RIMCO Building Company for an additional \$2,885 out of the \$5,703 disallowed by the OIG. Detroit Revitalization was not charged for the cost of a new furnace that was not installed as implied in Finding 2. A new furnace was not installed and neither was Detroit Revitalization charged. The remaining \$2,818 was RIMCO Building's gross margin which would include the field supervisor and administrative wages, as well as other general operating overhead.

Because RIMCO quoted Detroit Revitalization a rehab figure based on estimates and guaranteed a certificate of occupancy, it removed the significant risk Detroit Revitalization would have if it acted as its own general contractor. RIMCO made a modest profit in some cases, but lost money on others. For example, RIMCO paid out to subcontractors \$15,616 more than it received from

DRI on 5027 Lakeview. In fact, RIMCO lost money in the aggregate for the nine 30 percent discount properties cited by the OIG. For these properties, RIMCO only received about \$4,000 above what it paid to third-party subcontractors and material suppliers. After subtracting overhead, the gross margin resulted in an actual net loss.

Cost of Funds. The interest charged to Detroit Revitalization was not paid to RIMCO/MCA on a monthly basis as would be the case in a traditional banking situation. Rather, the interest was accrued by Detroit Revitalization as an account payable to RIMCO/MCA that was paid down in a lump sum with proceeds from the sale of the property.

The cost of funds (interest charge) was calculated for each property as follows:

- Acquisition costs times 11% times days owned divided by 365 days.
- Average rehab/holding costs times 11% times days owned divided by 365 days.

This methodology is both logical and consistent with the credit line Detroit Revitalization later had access to from Franklin Bank. The only exception being the closing/processing fee of \$1,000-1,500 per home charged by Franklin Bank was not incurred on homes financed by RIMCO/MCA.

Land Contract Discount. The land contract discount is the reduction in the principal amount a financial institution will pay for a land contract in order to obtain its required yield for the

perceived risk of the investment. After Detroit Revitalization sells a property to an owner-occupant by means of a land contract, the land contract is then sold to a local bank in order to recover Detroit Revitalization's working capital. Although the expense occurs after the property is sold, it is still a real cost to Detroit Revitalization of selling the property. The land contract discount is similar to discount points paid by a seller in a sale financed by a mortgage.

For example, if Detroit Revitalization purchased a property for \$20,000 and spent \$10,000 on allowable rehabilitation expenses for a total basis of \$30,000, it may sell it to an owner occupant via land contract for a face amount of \$34,000. But because the borrower has had past credit problems, the bank may only buy the land contract paper for \$32,000, providing Detroit Revitalization with a gross margin of only \$2,000. In this example, DRI contends that it did not violate the 10% resale restriction, since its net margin was only \$2,000. The OIG, on the other hand, contends that such a sale would violate the 10% resale restriction (by \$1,000) in refusing to acknowledge the net proceeds received by Detroit Revitalization as a result of the transaction as a whole. Detroit Revitalization respectfully submits that this elevates form over substance and ignores the economic reality of the transaction as a whole.

With the land contract alternative, Detroit Revitalization turns a greater number of deserving renters into homeowners. This financing alternative will not be available if HUD determines that the discount is not an appropriate selling cost. A land contract is often the only available financing alternative for these buyers. Without the land contract alternative, potential buyers would be shut out from home ownership and would be forced to continue renting. Detroit Revitalization firmly believes that the land contract discount it absorbs is an acceptable cost for

this program because seller financing allows Detroit Revitalization to expand home ownership opportunities beyond the boundaries established by traditional financing, including FHA mortgages. In fact, the Department of Veterans Affairs also has historically utilized the land contract financing technique to market properties to vendors that could not qualify for mortgages. The closing statements for land contracts to document the amount of the discount paid for each land contract was provided to the OIG auditors.

Home Buyers Were Legally Protected. Draft Finding 2 suggests that the land contract sales were not proper and that no title passes to the purchaser in such transactions. These comments exhibit a lack of understanding of the use of land contracts in the State of Michigan as a common vehicle for the purchase of real property, especially by persons who do not qualify for any available mortgage programs.

A land contract is a common method of selling land in Michigan. The primary purpose of a land contract is the sale and purchase of real property. A land contract is an agreement on an installment payment basis over a period of time whereby **possession and equitable title are immediately vested in the vendee**, and legal title remains vested in the vendor as security for payment of the balance of the purchase price. Possession of the property is generally delivered to the vendee upon execution of the land contract.

In substance, a land contract is much like a sale with a mortgage to a lender. For example, land contracts generally provide that, upon a default by the vendee, the vendor may either forfeit the land contract and retain all the land and amounts paid, or foreclose the land contract judicially, in the same manner as a mortgage. Unlike mortgages, however, land contracts cannot be foreclosed by advertisement.

Both forfeiture and foreclosure are governed by Michigan statutes. See MCLA 600.5701, MSA 27A.3101 et seq. For the statutes governing land contract foreclosure. The procedure for foreclosure of land contracts was expressly made analogous to foreclosure of mortgages by the Michigan Legislature. See, Committee Comment on MCLA 600.3101, MSA. 27A.3101.

As to issues pertaining to title, all perceived problems with record title have been cleared up at this time. As explained elsewhere in this response, the subject properties were deeded by Detroit Revitalization to MCA for financing purposes only. Once the rehab work was completed, and the home sold to a qualified home buyer, the vendee's interest in the land contract was assigned to the qualified home buyer, the vendor's interest was conveyed to Sterling Bank and Trust (Sterling), and MCA quit claimed its interest to Sterling as well. Thus Sterling ended up with record title in all instances, as well as the vendor's interest in the land contracts. Under Michigan law, so long as the vendor subsequently acquires title, the interest of both the vendor and vendee are perfected. All of the vendees currently have proper equitable title, and all of the protections that go along with such status as outlined above.

Based upon the above, it should be clear that there is nothing improper about land contract sales. Detroit Revitalization is unaware of any HUD regulations or other program requirements which preclude the use of land contract sales. Moreover, for most land contract vendees, this is their

only viable opportunity for home ownership. See, for example the profile of vendee Donte Ellis, who purchased 11637 Landsdown from DRI (which was purchased from HUD within the Partners for Affordable Homeownership Program). Mr. Ellis would not have qualified for any available mortgage programs, yet is buying a home for the first time in his life, and who otherwise would have had no opportunity to own a home.

Detroit Revitalization is proud to be able to offer its own alternative financing mechanism to assist economically challenged prospective home buyers. Detroit Revitalization understands the Partners for Affordable Home ownership Program is not specifically targeted towards persons with limited or adverse credit histories, and it does not target these persons, per se. Detroit Revitalization encourages qualified buyers to apply for traditional home mortgage financing. The fact is, that there is considerable demand for quality housing from persons who qualify for land contracts, but do not qualify for mortgages. Detroit Revitalization offers these individuals an opportunity for home ownership, as well as an opportunity to enhance their credit posture over time. The alternatives otherwise available to these persons are bleak: mostly substandard rental housing at comparably high market rental rates. With respect to the land contract interest rate, the monthly payments for the land contract venders are consistent with market rental rates and appropriate underwriting criteria for comparable non-conforming mortgages, absent the higher out-of-pocket cash required for non-conforming mortgages.

Conflict of Interest As has been stated previously, the Detroit Office of HUD was fully informed of the relationships Detroit Revitalization had with MCA and RIMCO and was quite willing to approve a viable buyer and rehabber of HUD real estate owned properties who had potential to handle a significant volume. However, any conflict of interest that existed was eliminated as soon as HUD clarified its position. DRI is unaware of any conflict of interest that currently exists between the officers and directors of Detroit Revitalization and MCA or RIMCO. The draft report does not state a specific conflict of interest. If the OIG knows of a conflict of interest which still exists, the OIG should inform Detroit Revitalization so it may be corrected.

Detroit Revitalization Inc. had its first comprehensive management meeting in January 1996. At that meeting, a plan was put in place for Detroit Revitalization to have a diversified board of directors and for a majority of the board to eventually become outside individuals not affiliated with Detroit Revitalization's founders, MCA and RIMCO. Several unaffiliated, outside members were elected to the Detroit Revitalization Board at the January 1996 meeting and other independent members were elected throughout the year. On November 6, 1996, all remaining board members who were affiliated with MCA or RIMCO resigned after HUD Mortgagee Letter 96-52 greatly clarified the identity-of-interest issue. The HUD letter stated that to participate in the FHA 203(k) program, a non-profit cannot in any way be under the influence of individuals or corporations that may benefit through provision of goods or services.

Draft Finding 2 Response to OIG Recommendations

Recommendation 2A Require Detroit Revitalization to pay HUD \$38,528 for the discount received for the properties on whom HUD's resale restrictions were violated.

Response Because the OIG is erroneous in stating that Detroit Revitalization transferred the deed of 5027 Lakeview prior to selling the property to a qualified owner occupant, there is no question that refunding that discount is inappropriate. As to seven of the other eight properties, Detroit Revitalization indeed followed the intent of the program by selling the properties to qualified owner occupants who now hold equitable title to the properties. Although the letter of the law can be argued regarding Detroit Revitalization's method of financing akin to an equitable mortgage, the spirit of the HUD's resale restrictions on these seven properties was not violated. Detroit Revitalization Inc. does not believe it is appropriate to be penalized over a possible technical violation when both the intent and the result did not violate HUD rules.

As to the ninth property, 15733 Dacosta, Detroit Revitalization admits an inadvertent mistake was made and the property was sold to a part-time real estate sales agent employed by RIMCO, thus violating HUD's resale restriction. Detroit Revitalization agrees to reimburse HUD the 30 percent discount of \$2,400 received on this property.

Recommendation 2B Provide documentation to support the total costs for each property or reimburse the respective home buyer \$105,007 for the excess profit.

Response First, recommendations 2A and 2B are mutually exclusive. If Detroit Revitalization violated HUD's resale restrictions and must reimburse HUD for the 30 percent discount, then the formula for the maximum sales price that applies to 30 percent discount properties is not applicable and no excess profit can be alleged. Thus, no reimbursement is due the home buyers for excess profit. However, Detroit Revitalization believes the refund of discount is only valid in the case of 15733 Dacosta.

For the other eight properties which Detroit Revitalization believes did not violate the resale restrictions, DRI believes that the only cost which is even arguably subject to reasonable debate is the acquisition fee of \$2,400 per property. A fee of \$1,000 can be readily justified by the market fees charged for comparable work: \$600 charged by a HUD Consultant for a work write-up and \$400 for an as-is and as-repaired appraisal report. In the spirit of compromise and resolution, Detroit Revitalization proposes to pay down the land contract balance on the eight applicable properties by \$1,400 each.

Recommendation 2C Eliminate the conflict of interest between officers and owners of Detroit Revitalization, Mortgage Corporation of America and the RIMCO operating companies.

Response Since November 6, 1996, the Detroit Revitalization Board of Directors consist entirely of unaffiliated, independent members. No officer or director of Detroit Revitalization has any direct or indirect affiliation with MCA or RIMCO. Thus, there is no conflict of interest to eliminate.

Conclusion

We remain adamant that Detroit Revitalization fully disclosed its relationships and business plan to HUD prior to obtaining approval to participate in HUD programs and that the rehabilitation's

were properly performed. Detroit Revitalization achieved success in expanding home ownership despite the many difficulties of working in the inner City of Detroit.

Detroit Revitalization invested considerable time and money to become a major partner with HUD when the local office encouraged Detroit Revitalization and offered it a degree of flexibility. It seems ironic that while the HUD staff who embraced the fledgling Detroit Revitalization was being dismantled, Secretary Cuomo published *HUD 2020: Management Reform Plan, Executive Summary* which proposed the goal of changing HUD's reputation as a bureaucratic adversary. The new HUD mission calls for empowering people and communities with bottom-up, community-driven partnerships, rather than top-down programs with inflexible mandates. Detroit Revitalization's success in putting an under-served segment of the population in decent housing was due in a large part to the local HUD office's willingness to work closely with Detroit Revitalization in its early days.

In view of all the matters set forth in this response and the materials submitted herewith, it is respectfully submitted that no draft or final report or findings should be issued by the OIG until representatives of Detroit Revitalization have had an opportunity to discuss the draft findings in detail with all appropriate persons present. Those persons should include the OIG staff, the HUD Consultants who approved the draw requests on the subject 203(k) properties, and the personnel then present in the Detroit office of HUD who played such a vital role in the beginning phases of Detroit Revitalization's formation and early operations. Detroit Revitalization Inc. respectfully requests that such a meeting be convened so that each of the draft findings and each of the subject properties can be reviewed in detail.

Very truly yours,

Barbara A. Hill
Executive Director

cc: DRI Board of Directors
Arthur R. Hessel, Esq.

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