



Issue Date	June 29, 2001
Audit Case Number	2001-AT-0001

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

A handwritten signature in black ink, appearing to read 'N. H. Cooper'.

FROM: Nancy H. Cooper
District Inspector General for Audit-Southeast/Caribbean, 4AGA

SUBJECT: Nationwide Audit Results on the Officer/Teacher Next Door Program

This report provides the results of our nationwide audit of HUD's Officer Next Door/ Teacher Next Door (OND/TND) property disposition program. The report contains five findings and related recommendations for corrective action. Interim results of this audit were provided in audit memorandum (2001-AT-0801) dated February 14, 2001.

Within 60 days please provide a status report for each recommendation in this report describing (1) the corrective action taken, (2) the proposed corrective action and a planned completion date, or (3) an explanation why action is considered unnecessary. Also, please furnish copies of any correspondence or directives issued as a result of this audit. Note that Handbook 2000.06 REV-3 requires management decisions to be reached on all recommendations within 6 months of report issuance. It also provides guidance regarding interim actions and the format and content of your reply.

We appreciate the cooperation extended to us during the audit by your Headquarters staff, the two Homeownership Centers and the Management and Marketing (M&M) Contractors we visited. Should you or your staff have any questions, please contact me or Terry Cover, Assistant District Inspector General for Audit, at (404) 331-3369.

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Executive Summary

This report presents the results of our nationwide audit of the Department of Housing and Urban Development's (HUD) Officer Next Door and Teacher Next Door (OND/TND) property disposition programs. Our objective was to determine whether HUD established adequate management controls over its OND/TND programs to ensure compliance with program requirements and achievement of goals.

The audit disclosed that HUD has not established adequate management controls over these programs. We identified the following adverse conditions: (1) 23 of 108 homebuyers in our sample abused the OND/TND program by not fulfilling occupancy requirements and thus received unearned discounts of \$734,800, (2) achievement of program goals and objectives for OND and TND was not assessed, (3) homes were sold outside of revitalization areas and therefore were improperly discounted about \$1.2 million, (4) a tracking and referral process for suspected program violators is needed, and (5) key records related to program activity were not preserved and properly archived.

We recommend a number of corrective actions. Listed below are certain recommendations of note.

- Establish a monitoring plan to detect and deter program abuse and ensure that participants reside in their OND/TND home for the required 3-year occupancy term, and for participants who purchase their home on or after August 2, 1999, do not acquire additional residential real property.
- Modify directives to redefine the 3-year residency period as beginning on the date the program participant moves into the house.
- Assess whether OND/TND program achievements justify the higher costs associated with OND/TND program sales.
- To ensure appropriate boundaries and consistency among the HOCs, establish minimum standards for evaluating and documenting designated revitalization areas. For example, HOCs should physically observe revitalization areas and determine appropriate boundary lines.
- Review existing revitalization areas to ensure they are adequately supported and qualify under present directives for establishment as revitalization areas.
- Establish a centralized tracking system or logging procedure to ensure that suspected violations are documented, actions are taken to confirm, clear, or refer the suspected violations, and cases are referred to the Office of Inspector General (OIG) Investigations when appropriate.

- Establish management control procedures to ensure that records are maintained in accordance with HUD directives 2200.1 and 2228.1.

We issued an interim memorandum (2001-AT-0801) to HUD's Assistant Secretary for Housing dated February 14, 2001. That memorandum noted significant concerns of fraud and program abuse by homebuyers coupled with inadequate oversight by HUD. HUD imposed a 120-day suspension of OND/TND home sales effective April 1, 2001. The Secretary enacted the suspension to prevent further fraudulent abuses while senior HUD officials strengthen program oversight measures. HUD officials also responded by implementing an interim work plan to improve management controls.

We provided the draft report to HUD officials on May 2, 2001. We discussed the draft report with HUD officials at an exit conference on May 31, 2001 and HUD provided its written response to the draft report on June 21, 2001. HUD officials responded to the audit results constructively at the exit conference and in their written comments. HUD provided comments highlighting key actions currently underway and will soon provide a detailed "Management Plan" addressing all of the audit recommendations. We will evaluate HUD's management decision on all the audit recommendations when HUD provides its detailed plan. HUD's written comments are included in their entirety in Appendix C and relevant comments are incorporated within the findings.

Table of Contents

Management Memorandum	i
-----------------------	---

Executive Summary	iii
-------------------	-----

Introduction	1
--------------	---

Findings

1	High Level of Noncompliance and Potential Fraud are Identified	3
2	HUD Did Not Evaluate Achievement of Goals and Objectives	11
3	Homes Were Sold Outside of Revitalization Areas	15
4	HUD Needs a Tracking and Referral Process for Suspected Violations	21
5	Records Management Was Not Effective and Efficient	25

Follow-Up On Prior Audits	31
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Appendices

A	Schedule of Questioned Costs	33
B	Homebuyers Sampled by OIG	35
C	HUD Comments	39
D	Distribution	41

Abbreviations

CFR	Code of Federal Regulations
FHA	Federal Housing Administration
HOC	Homeownership Center
HUD	Department of Housing and Urban Development
M&M	Marketing and Management
OIG	Office of Inspector General
OND	Officer Next Door
TND	Teacher Next Door

Introduction

The purpose of the OND and TND programs is to strengthen America's communities and build a safer nation by offering homeownership opportunities to law enforcement officers and teachers in distressed communities. Officers and teachers may purchase one Department of Housing and Urban Development (HUD) owned single-family home in a revitalization area or in a HUD approved exception area at a 50 percent discount off the list price. The officer or teacher must then live in the home as their sole residence for 3 years from the date of closing. HUD sold approximately 3,824 homes under the OND/TND program from August 11, 1997, through July 31, 2000. HUD discounted about \$158 million off the list price of these homes.

HUD initiated the OND program on August 11, 1997 (HUD Notice 97-51). Several significant changes to the OND program became effective August 2, 1999, with the issuance of Federal Register Notice 4277-I-02. The interim rule required (1) a second mortgage for the amount of the discount, (2) initial and annual certification of occupancy, (3) that officers not own any other residential real estate, and (4) that only single-family homes are eligible. On November 17, 1999, HUD expanded the OND program to include teachers (HUD Directive 99-30).

HUD imposed an immediate 120-day suspension of OND/TND home sales effective April 1, 2001. The Secretary initiated the suspension in response to our interim audit memorandum (2001-AT-0801) dated February 14, 2001, that noted significant concerns of fraud and program abuse by homebuyers coupled with inadequate management controls over the program. HUD imposed the suspension to prevent further fraudulent abuses while senior HUD officials strengthen program oversight measures.

Audit objectives, scope and methodology

The primary objective of the audit is to determine whether HUD has established adequate management controls over the OND and TND programs to ensure compliance with program requirements and achievement of program goals. To accomplish our objective, we evaluated management controls over program operations and compliance with applicable laws and regulations. The audit covered property sales under the OND and TND programs from August 11, 1997, the start of the OND program, through July 31, 2000. Our evaluation of management controls considered procedures and controls in place through April 2001.

We conducted the entrance conference for this audit on August 22, 2000. We then reviewed program procedures, interviewed program officials and reviewed program records at HUD Headquarters, the Homeownership Centers (HOCs) in Atlanta and Philadelphia, and at four Management and Marketing (M&M) contractors. We also inspected and tested compliance on 108 of 117 randomly selected properties sold in 4 cities; Miami, Florida; Memphis, Tennessee; Springfield, Massachusetts; and Manassas, Virginia. The four cities were selected based on caseload size and geographic location. We visited the homebuyers' employing law enforcement agency or school district as was necessary to conduct the audit. We conducted the exit conference for this audit on May 31, 2001.

We conducted the audit in accordance with generally accepted government auditing standards.

High Levels of Noncompliance and Potential Fraud Are Identified

The OND and TND programs are at high risk for noncompliance and abuse by homebuyers. Over 21 percent of homebuyers we tested (23 of 108) violated one or more program requirements (see table 1). This occurred because HUD had not established adequate controls to ensure that participants were initially eligible to participate in the program and complied with the required 3-year occupancy period. As a result, the Federal Housing Administration (FHA) mortgage insurance fund has incurred ineligible or unearned discounts totaling \$734,800. Additionally, HUD has little assurance that the approximate 3,824 OND/TND homebuyers are contributing to the program goals by acting as positive role models in distressed communities.

The rate of violations ranged from 18 to 24 percent of the randomly selected cases reviewed in the four cities. The consistent rate of violations in randomly selected cases indicates to us that similar violation rates are likely throughout the OND program caseload. All violations were OND cases. Since the four cities were not randomly selected, no statistical projection beyond the four cities is possible.

Violations in Cities Visited

City/State	Number of Violations	Number of Homes Visited	Abuse Rate
Miami, FL	7	29	24 %
Memphis, TN	6	30	20 %
Manassas, VA	5	21	24 %
Springfield, MA	5	28	18 %
Totals	23	108	21%

Table 1

Program requirements

HUD requires that all OND/TND homebuyers certify at the time of sale that they will reside in the HUD home as their primary residence for a period of 3 years. Program participants who purchased homes on or after August 2, 1999, must also certify annually that they continue to reside in the HUD home. The directive states that Headquarters will provide guidance to the HOCs designating the responsible party for sending the annual certification letter. Further, HUD prohibits OND/TND homebuyers who bought their HUD home on or after August 2, 1999, from owning any residential real property during the 3-year occupancy term other than the home purchased under the OND/TND programs.

HUD Policies and Procedures for Program Oversight - Training Editions, states that program offices should develop and issue comprehensive monitoring policies and procedures that cover their programs and activities and contain specific actions and objectives. HUD did not develop monitoring procedures for OND/TND compliance requirements. Since 1999, the HOCs have contracted with M&M contractors to administer various programs, including the OND/TND program. However, the M&M contract did not include requirements that the M&M contractor monitor OND/TND program participants for compliance after the sale.

We reviewed up to 30 randomly selected cases in each of 4 cities

We selected 4 urban areas with 28 or more OND/TND participants that were under the supervision of the Atlanta, Georgia, or Philadelphia, Pennsylvania, HOCs. We reviewed up to 30 randomly selected cases per city. In the cities of Miami and Springfield we reviewed all cases because there were less than 30 participants. See Appendix B for the 117 cases selected.

During our site visits to 108¹ OND/TND homebuyers, we identified 23 OND homebuyers who did not comply with 1 or more of the continuing program requirements. Three of the 23 participants were also ineligible to participate in the program at the time of home purchase (see table 2). These 23 homebuyers have been referred to the Office of Inspector General (OIG) for Investigation for further investigation and possible prosecution.

1 We selected a sample of 117 OND/TND home sales; however, we only completed site visits to 108 homes because of concern that our visits might compromise ongoing investigative efforts in 1 city.

Homebuyers Referred for Investigation

	City	Not Eligible, Owned Multiple Homes	Rented HUD Home	Sold HUD Home	Does Not Reside in HUD Home	Amount of OND Discount ²
1	Manassas		X			\$ 45,950
2	Manassas				X	46,050
3	Manassas		X			47,450
4	Manassas		X			36,450
5	Manassas		X			35,000
6	Memphis			X		28,000
7	Memphis				X	19,000
8	Memphis			X		14,500
9	Memphis		X			18,000
10	Memphis				X	32,000
11	Memphis				X	35,000
12	Miami				X	28,500
13	Miami				X	32,500
14	Miami			X		32,500
15	Miami	X	X			43,200
16	Miami	X	X			43,200
17	Miami		X			58,500
18	Miami		X			38,000
19	Springfield		X			15,500
20	Springfield				X	22,000
21	Springfield		X			12,500
22	Springfield	X			X	27,500
23	Springfield				X	23,500
	TOTAL	3	11	3	9	\$ 734,800

Table 2

**Ineligible program
participants**

The three officers who were identified as being ineligible for the program owned residential real property other than their OND home. These properties were acquired before the officer applied for the OND program. As a result, these officers were not eligible to participate in the program. In all three cases, the officers also violated the 3-year occupancy requirement.

2 Determined as 50 percent of the list price recorded in the Single-Family Acquired Asset Management System.

OND homes were rented or sold

We spoke with the tenants of 7 of the 11 houses identified as rented. We spoke with the owner of one house who stated that he rented out his HUD home. We identified the other three homes as rental properties based on other information that we obtained through observations and interviews. For two houses identified as sold, we spoke with current homeowners. For the third home identified as sold, we observed a for sale sign with the “sold” caption atop.

Program participants did not reside in OND home

We noted that four of the nine houses under the heading “does not reside in HUD home” were vacant. The other five houses did not appear to be vacant and did not appear to be rental properties. For example, at two homes, we spoke with family members of the officer who owned the home. They stated that they were not paying rent. The spouse of the officer occupied one of these homes. She stated that she and her husband were separated and that he lived with his sister. Follow-up work at the employing agency disclosed that the officer had been terminated in September 2000. At the other house, we spoke with the sister and father of the officer. They stated that the officer would return from vacation the following week. However, follow-up work at the employing agency identified a different address of record for the officer.

Widespread occupancy violations were indicated

We also found other strong indicators that many other homebuyers may have violated the OND/TND continuing requirements. OIG Investigations currently has active or pending investigations on 47 OND homebuyers based on information indicating possible violations. Six OND homebuyers have been convicted and another two homebuyers have been indicted.

While both Headquarters and the Atlanta HOC began monitoring efforts, neither completed the efforts nor did they use the partial results for program management purposes. In December 1999, Headquarters sent occupancy certification letters to about one-half of the OND/TND homebuyers. Program staff stated that they did not receive many replies and some letters were returned as undeliverable. Additionally, Headquarters program officials stated that based on complaints received and informal conversations with peers at Real Estate Owned offices around the country, they believed about 25 percent of

participants were in violation of program requirements. Further, Headquarters staff took no action to follow-up on non-responders or other suspected violators. At the Atlanta HOC, staff began a similar effort in 1998. HOC staff mailed out questionnaires to all OND/TND homebuyers and compiled a list of responses received. Results of this effort, which was not completed, identified 12 homebuyers who were suspected of violating the 3-year occupancy requirement. No actions were taken to follow-up on the 12 suspect cases and the cases were not referred to OIG Investigations.

HUD did not implement adequate management

HUD's management controls were not adequate to prevent and detect the noncompliance and abuse identified. HUD procedures did not provide for specific monitoring to ensure that OND/TND homebuyers are qualified to participate in the program and, once participating, fulfill their continuing obligations to HUD during the 3-year occupancy term. Neither the HOCs nor the M&M contractors verify that the officers or teachers do not own other residential real property. Further, HUD has not established a monitoring procedure to ensure that OND/TND homebuyers reside in their HUD home for 3 years. Effective for OND/TND sales occurring on or after August 2, 1999, program participants must agree to sign annual certification statements. However, HUD Headquarters did not provide guidance to the HOCs to designate a responsible party for sending the annual certification letters.

We noted during our review that program participants were allowed to hand-deliver the certification statements of eligibility from their employer to the M&M contractor. While we did not identify any specific instances of abuse, allowing the buyer to have physical possession of the documents increases the potential for fraudulent acts and program abuse.

Procedures conflict with the federal regulation

We also noted during our review that some OND/TND buyers did not move into their houses for an extended period after the home sale closed because repairs or renovations were needed. For example, we noted three properties that had been vacant for 8 to 15 months following the date of closing. Title 24 of the Code of Federal Regulations (CFR), part 291.520(b), states that the

Finding 1

owner must agree to own and live in the home for 3 years. However, the OND/TND procedures manual states that the occupancy term begins on the date of closing. This procedural inconsistency allows homebuyers to reside in the home for less than 3 years, a violation of the federal regulation. Furthermore, allowing a reduced occupancy period would also reduce the achievement of program goals and objectives. HUD procedures need to be re-written to coincide with the federal regulation.

HUD Comments

HUD's reply states it has developed a work plan that identifies all roles and responsibilities for strengthening controls. HUD stated that it has initiated actions to procure automated services to "pre-register" program participants, validate identifications, and to ensure occupancy by homebuyers. All prior property sales will be reviewed to detect violations and regulatory changes will be made to clarify the 3-year occupancy term. HUD staff will continue to coordinate corrective actions with OIG and to develop a detailed Management Decision that is both comprehensive and substantive.

OIG Evaluation of HUD Comments

HUD's comments indicate it has begun taking positive steps to address the conditions found by the audit. It also indicates HUD's general agreement with the audit findings and recommendations.

Recommendations

We recommend that the Deputy Assistant Secretary for Single-Family Housing:

- 1A. Establish written monitoring procedures to detect and deter program abuse and ensure that participants comply with occupancy and homeownership requirements. If an annual mailing of recertification forms to OND/TND participants is to be used, establish written procedures designating responsible officials and specifying required follow-up actions on non-responders and other indicators of potential violations.

- 1B. For the 23 compliance violations we identified, coordinate with OIG Investigations to ensure appropriate recovery of the \$734,800 of ineligible discounts by judicial or administrative actions.
- 1C. Establish written procedures to verify, before close of the sale, that program participants do not own other residential real property.
- 1D. Require verification of participant employment forms to be mailed or delivered by the employer.
- 1E. Modify directives to redefine the 3-year residency period as beginning on the date the program participant moves into the house. This date should be documented by the homeowner and provided to the HOC and M&M contractor.

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HUD Did Not Evaluate Achievement of Goals and Objectives

HUD has not measured or assessed achievement of the OND goals and objectives. HUD did not develop any plans or processes to assess program goals and objectives for the OND or TND programs. As a result after more than 3.5 years of operations, HUD has no assurance that the OND program, with homebuyer discounts of \$142 million, is accomplishing its objective to strengthen America's distressed communities and create safer neighborhoods.

Requirements for assessing performance

HUD directive 1105.1 REV-2 states that it is the responsibility of Headquarters to direct, monitor, and evaluate program administration and performance. Further, this directive states that the Regional Office is responsible for assuring that program goals are met. The Government Performance and Results Act requires that federal agencies develop strategic plans describing their overall goals and objectives, annual performance plans containing quantifiable measures of their progress, and performance reports describing their success in meeting those standards and measures. HUD included the OND program in its strategic plan for 1999-2003; however, an assessment of the OND program results was not included in the annual performance plan.

Performance was not measured

Achievement of program objectives was not measured because HUD did not establish any plans or processes to assess program performance. A program specialist at Headquarters stated that Headquarters had not measured achievement of program goals. Further, the specialist stated that it is unlikely that the program will produce measurable results because the program goals are too broad and general to measure. Moreover, he stated that the limited number of home sales likely would not have a measurable impact. Officials at both HOCs we visited also stated that achievement of program objectives had not been measured by the HOCs.

HUD also had no plans to assess TND performance. However, at this time TND has had little activity and insufficient time in operation to be assessed. As of July 31, 2000, 369 homes had been sold under the TND program.

\$158 million in discounts provided for OND and TND homebuyers

As a result, HUD has provided \$142 million in homebuyer discounts to OND participants as of July 31, 2000, and has no assurance that the OND program has accomplished its objective to strengthen America's distressed communities and create safer neighborhoods. Likewise, HUD has provided \$16 million in homebuyer discounts to TND participants as of July 31, 2000, and has not yet developed a plan to assess whether the TND program is achieving its objective.

OND/TND sales cost significantly more than other property sales

The OND/TND programs add complexity and additional regulatory requirements to HUD's overall property disposition program. To be effectively managed, each OND/TND property sale requires additional procedures beyond the normal property sale to verify the qualifying occupation, execute second mortgages for the 50 percent discount, obtain certifications concerning the occupancy requirement, and to monitor compliance during the 3-year occupancy term. Because of the additional costs for program specific management controls and administrative procedures and the 50 percent discount (which is borne by the FHA insurance fund), OND/TND property sales will be less cost beneficial than other property sales.

These additional costs may not be justified considering the limited number of properties available for OND/TND sales. Only homes in revitalization areas or approved exception areas are eligible. According to program officials, on any given day there are approximately only 1,500 homes in revitalization areas available for sale nationwide. However, the official stated that about one-half of these properties are unmarketable because of their poor condition. One Community Builder told us that he was reluctant to market the OND/TND program because he was concerned there were not enough marketable properties in revitalization areas.

HUD needs to assess whether the OND program is achieving its goals and objectives. HUD then should assess whether the achievements justify the higher costs of OND/TND property sales.

HUD Comments

HUD will evaluate the overall program and assess how well program outcomes meet program goals. HUD officials stated that the Department is committed to operating these programs under strong controls with no tolerance for abuse.

OIG Evaluation of HUD Comments

HUD's comments indicate general agreement with our findings and recommendations and HUD is developing planned corrective action.

Recommendations

We recommend that the Deputy Assistant Secretary for Single-Family Housing:

- 2A. Develop and implement a process to assess the achievement of OND program goals and objectives.
- 2B. Develop a process to assess the achievement of TND program goals and objectives.
- 2C. Assess whether OND/TND program achievements justify the higher costs associated with OND/TND program sales.

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Homes Were Sold Outside of Revitalization Areas

Eight of the 117 homes we reviewed were not in a revitalization area. Also, the Atlanta HOC identified 19 additional home sales outside of revitalization areas. This occurred in part because HUD did not effectively monitor its M&M contractors to ensure homes sold under the OND/TND program were located in revitalization areas. Two other factors contributing to this condition were that (1) HUD did not effectively communicate the defined revitalization areas to the M&M contractors so that properties could be listed correctly and (2) the M&M contractors did not ensure OND/TND sales contracts were for homes in revitalization areas. As a result, the FHA mortgage insurance fund incurred improper discounts totaling \$311,650 for the 8 homes we identified and \$876,150 for discounts on the additional 19 homes identified by the HOC.

Homes must be in revitalization areas to achieve objectives

The OND/TND program's primary objective is to strengthen and improve distressed neighborhoods by encouraging police officers and teachers to move into the area and provide a positive influence to the neighborhood. Based on this objective, homes offered for sale under the OND/TND program are to be located in established revitalization areas.

The criteria for identification of revitalization areas have evolved over time. Prior to August 2000, HUD Notice H-94-74 presented the following guidelines for establishing revitalization areas: (1) the neighborhood has a significant concentration of vacant properties, including those owned by HUD, and exhibits other signs of economic distress, (2) the neighborhood is targeted by the locality for establishing affordable housing and providing adequate supportive services, and (3) in general, properties remain in HUD's inventory for at least 8 months or require extensive repairs to meet minimum property standards. Effective August 18, 2000, HUD Notice H-00-16 redefined a revitalization area as a distressed neighborhood, which has a high concentration of eligible HUD assets, a substantially low rate of homeownership as compared to the metropolitan area, or residents with very low incomes (less than 60 percent of median household income of the metropolitan area or the state).

Finding 3

Prior to August 2000, revitalization areas were generally defined by zip codes. HUD Notice H-00-16, issued August 18, 2000, provided that more closely defined locations such as census tracts, census places, or even more targeted street or geographical boundaries may be used to ensure only areas meeting the criteria are designated.

District offices and HOCs were responsible for monitoring and controlling sales of homes in revitalization areas before M&M contractors assumed that responsibility. The contractors for the Miami area and the Springfield area assumed responsibility in March 1999. The contractors for the Memphis area and the Manassas area assumed the responsibility in September 1999.

Seven of the eight homes we identified were sold prior to the award of the M&M contracts. The following table identifies the properties by case number, date sold, amount of improper discount, and the responsible office.

Homes From the Audit Sample That Were Outside Revitalization Areas

No.	Case Number	Location	Discount Amount	Sales Contract Date	Responsibility For Sale of Home
1	092-638649	Miami	\$34,500	11/09/99	M&M
2	482-195239	Memphis	\$18,000	07/27/98	HOC
3	482-278808	Memphis	\$25,750	01/15/99	HOC
4	548-196698	Manassas	\$31,950	04/06/98	HOC
5	548-247976	Manassas	\$50,450	01/27/98	District Office
6	548-241374	Manassas	\$79,500	11/25/97	District Office
7	251-148554	Springfield	\$41,500	10/30/97	District Office
8	252-004376	Springfield	\$30,000	07/21/98	HOC
Total Discount on Homes Outside of Revitalization Areas.			\$311,650		

Table 3

HOC staff concurred that sales one through seven were outside of revitalization areas. For sale number eight, HOC staff would neither confirm nor deny that the home was located in a revitalization area. However, documentation provided by the HOC indicated that the home was located outside of an approved revitalization area at the time of the sale.

In addition, the Atlanta HOC performed a 1-time study that identified 20 OND/TND homes sold outside of revitalization areas (1 of 20 was in OIG’s audit sample). HOC officials billed the M&M contractors for the improper discounts in August 2000. The HOC and its M&M contractors have been unable to agree on the results of the HOC’s review. No collection had been made as of March 9, 2001.

Homes Outside of Revitalization Areas Sold By M&M Contractors

No.	Location	Discount Amount	Sales Contract Date
1	Miami, FL	\$38,250	01/13/00
2	Miami, FL	\$31,050	03/03/00
3	Miami, FL	\$34,500*	11/09/99
4	Altamonte Springs, FL	\$56,500	03/06/00
5	South Bend, IN	\$40,600	01/19/00
6	Indianapolis, IN	\$52,000	04/05/00
7	Indianapolis, IN	\$46,500	01/10/00
8	Indianapolis, IN	\$70,000	06/09/00
9	Lexington, KY	\$53,250	01/03/00
10	Chicago Heights, IL	\$34,000	02/03/00
11	Dolton, IL	\$50,500	03/21/00
12	Aurora, IL	\$50,000	02/29/00
13	Riverdale, IL	\$41,000	03/20/00
14	Cicero, IL	\$48,500	01/07/00
15	Cicero, IL	\$37,000	02/10/00
16	Cicero, IL	\$45,000	06/02/00
17	Chicago, IL	\$43,000	03/31/00
18	Chicago, IL	\$57,000	05/08/00
19	Cicero, IL	\$39,000	05/17/00
20	Broadview, IL	\$43,000	04/07/00
Total Discount Provided on Homes Identified by Atlanta HOC As Being Outside of Revitalization Areas.		\$910,650	

* The \$910,650 total includes this \$34,500 discount, which was also identified in the OIG sample.

Table 4

M&M contractors were not effectively monitored

Homes were sold outside of revitalization areas because HUD did not effectively monitor its M&M contractors. HOCs did not monitor whether homes listed for sale under the OND/TND program by M&M contractors were in revitalization areas, nor whether homes sold under the OND/TND program were within revitalization areas. About January 2001, the Atlanta HOC began monitoring the M&M property listings to ensure OND/TND homes were in revitalization areas.

Communicating revitalization areas to M&M contractors needs improvement

Revitalization areas were not effectively communicated to the M&M contractors. One M&M contractor stated that, in the beginning, the Atlanta HOC did not provide timely information with regard to changes in the list of revitalization areas. The M&M contractor stated that this was why they sold homes outside of revitalization areas. The contractor stated that the problem has now been resolved because they now err on the conservative side; that is, if there is any question of a home's revitalization area eligibility, the home is deemed ineligible for the program. In OIG's opinion, this conservative listing practice by the M&M contractor indicates that they still have difficulty interpreting HUD's delineation of revitalization areas.

One M&M contractor did not ensure OND/TND sales contracts were for homes in revitalization areas. The M&M contractor stated that this allowed police officers and real estate brokers to devise a scheme to bid on homes outside revitalization areas by submitting online bids as non-profit organizations seeking 10 percent discounts. Subsequently, when the bid was accepted, the broker and officer submitted the sales contract as an OND home sale with a 50 percent discount. The M&M contractor did not detect this and officers received inappropriate discounts. The contractor stated that controls have been developed and implemented to prevent recurrences.

Revitalization area boundaries were not adequately documented

Records identifying past revitalization areas were not maintained (see Finding No. 5). We also found that HOCs evaluated requests to approve revitalization areas using significantly different data sources. Therefore, the determination could vary depending on the HOC performing the review. The Philadelphia HOC evaluated requests using HUD 2020 software that utilizes 1990 census data for evaluation. The Atlanta HOC evaluated requests using the

Federal Financial Institutions Examination Council Website, a website that makes year 2000 census projections based on 1990 census data. When we discussed the inconsistency with the HOCs, each one claimed their respective data source was more valid. Both HOCs relied primarily on these automated census data tools and did not make or document physical observations to more closely define revitalization area boundaries as provided in HUD Notice H-00-16.

Of 26 revitalization areas in the 4 cities we reviewed, 21 were defined as entire zip codes and 5 as partial zip codes. This indicated HUD offices are not closely defining revitalization area boundaries to encompass only community areas meeting the criteria prescribed by HUD Notice H-00-16.

Certain homes did not appear to be in distressed communities

As we performed our audit, we noted that certain homes did not appear to be in economically distressed communities. For example, 10 homes in the Manassas area were in developing neighborhoods with ongoing new construction. These homes ranged in age from 3 to 8 years. We also noted two homes in Miami located in a gated community featuring luxury amenities such as a lake, swimming pool, and tennis courts. In both Miami and Manassas, these areas remain defined as revitalization areas based on entire zip codes rather than census tracts or other geographic boundaries.

As a result, 12 home sales received 50 percent discounts totaling \$535,400 in areas that did not appear to meet HUD criteria for revitalization areas. Because these areas are still defined as revitalization areas, HUD may continue to provide questionable discounts in these areas.

HUD Comments

HUD officials stated that the Department has developed new mapping software that provides additional controls to ensure properties are sold within prescribed revitalization areas. HUD expects to install the new software prior to July 1, 2001.

OIG Evaluation of HUD Comments

HUD's comments indicate general agreement with the audit findings and recommendations and HUD is developing planned corrective actions.

Recommendations

We recommend that the Deputy Assistant Secretary of Single-Family Housing:

- 3A. Establish management controls to ensure that all HOCs monitor properties as they are listed and as sales are closed to ensure that they are within revitalization areas.
- 3B. To ensure consistency among the HOCs, establish minimum standards for evaluating and documenting designated revitalization areas. For example, to complement the use of census data, HOCs should physically observe revitalization areas and determine appropriate boundary lines.
- 3C. Review existing revitalization areas to ensure the boundaries are adequately defined and the areas qualify under present directives.

HUD Needs a Tracking and Referral Process for Suspected Violations

HUD has not established an adequate process for tracking and referring suspected program violation cases. HUD Headquarters program staff did not maintain a log or similar system to identify and track suspect cases referred to OIG Investigations. OND/TND program specialists in HUD Headquarters and personnel in the Atlanta HOC have identified suspect cases from complaints and other sources and stated they had referred some cases to OIG. However, they had not maintained records adequate to identify suspect cases nor referrals made to OIG. As a result, HUD cannot ensure that proper corrective action has been taken on suspected violations and the number and identity of suspect cases identified by HUD and cases referred to OIG are not readily determinable.

Referral requirements

HUD directive No. 2000.3 REV-4 states that it is the responsibility of all employees within the Department to promptly report to their supervisors or directly to the OIG, instances of, and information on, any known or suspected violations of laws, rules or regulations. Further, the Primary Organization Heads are responsible for taking appropriate corrective actions on reported violations.

Referrals were not logged or tracked

OND/TND program specialists in HUD Headquarters had identified suspect cases from complaints received from various sources. The program specialists referred some suspect cases to OIG. However, referrals were made individually to various persons and offices within OIG and staff did not maintain complete records of their referrals nor coordinate with one another to maintain a central log or other record of all referrals made. The program specialists in Headquarters were unaware of whether HOC staff made any referrals. The staff at the two HOCs we reviewed stated that they had not referred any cases to OIG Investigations. Without maintaining a log book or other record of suspect cases and cases referred to OIG, the Primary Organization Head cannot ensure that appropriate corrective action is taken.

Monitoring efforts were initiated but not completed

In December 1999, the HUD Headquarters program office began a monitoring effort by mailing occupancy verification forms to all OND participants. Participants were asked to complete and sign the form, certifying that they owned and were residing in the HUD home. This effort was never completed. Furthermore, the responses were not analyzed or logged and program staff did not follow-up, nor refer any potential violators to OIG Investigations.

Officials at the Atlanta HOC stated that indications of program violations had been noted; however, no action was taken on the suspect cases. The Atlanta HOC began proactive monitoring of the OND/TND sales program in 1998 by mailing out a questionnaire to program participants. Once the responses began to come in, HOC staff began logging the information into a spreadsheet. However, the HOC did not complete the monitoring project. The incomplete spreadsheet indicated 12 potential program violators. The HOC staff did not refer these potential cases to OIG Investigations. Our samples included two of the persons identified by the Atlanta HOC monitoring effort as potential program violators. We found that one of the two was in violation of the occupancy requirement.

HUD Comments

HUD officials developed an interim work plan for strengthening controls. Under this plan, HUD centralized the responsibility for documenting all referrals of suspect cases with the National Servicing Center in Oklahoma. The Center is reviewing previous referrals and determining what administrative actions should be taken to address non-compliance with program requirements. In such cases, the Department will proceed with these actions, unless advised by OIG or the Department of Justice that this might undermine a criminal investigation.

**OIG Evaluation of
HUD Comments**

HUD's comments indicate concurrence with OIG's finding and recommendations and that corrective action has been started. To avoid undermining criminal investigations, HUD should coordinate closely with OIG's Office of Investigations prior to implementing any administrative remedy for homebuyer violations. The Office of Investigations has accepted for investigation all 23 homebuyers we identified as violating occupancy requirements. HUD officials should not proceed with administrative actions until the criminal investigations are complete.

Recommendations

We recommend that the Deputy Assistant Secretary of Single-Family Housing:

- 4A. Establish a centralized tracking system or logging procedure at Headquarters or each HOC to ensure that (1) suspected violations are documented, (2) actions taken to confirm, clear, or refer the suspected violations are recorded, and (3) cases are referred to OIG Investigations when appropriate.
- 4B. Remind program officials of their responsibility to take corrective action when suspected or known violations of laws, rules, or regulations are identified.

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Records Management Was Not Effective and Efficient

The Atlanta and Philadelphia HOCs' management of records was neither effective nor efficient. Management control procedures established by HUD directives to ensure that complete records were properly maintained were not followed at the two HOCs reviewed. Additionally, the monitoring procedures in place at the two HOCs were not sufficient to ensure that records were complete. As a result, HOC staff (1) could not verify that 5 homes sold, with discounts totaling \$199,650, were in revitalization zones, (2) could not locate 9 case files, (3) could not timely retrieve 53 case files, and (4) did not ensure that case files were complete.

Requirements for records management

HUD directives define records as the basic administrative tools that the government uses to do its work. The directives state that as every action, decision, and policy is documented, records are created. The overall objective of the Department's records and files management program is to provide efficient, economical, and effective management of all Departmental information and records to include creation, use, maintenance, and disposition. Further, the directive states that all unscheduled Departmental records, records that have not been assigned a disposition schedule, must be inventoried and appraised.

Poor records management during reorganization

Officials at both HOCs attributed the record management deficiencies to the transition from district offices to HOC offices. The HOCs came into existence in February 1998. Prior to that time, programs were administered and records were retained by district offices. An official at the Philadelphia HOC indicated that the HOC did not take control of the records, but left them in the district offices. Further, a Philadelphia HOC staff member stated that the functions and operations remained in the field offices until the M&M contractors took over in March 1999. One Philadelphia HOC official stated that the transition was not well planned. Priority was not given to expediting the forwarding and archiving of information; rather, it was surmised that this would occur after the HOC was fully functioning. Similarly, at the Atlanta HOC, officials stated that the file retrieval record was discarded during the transition. Later, however, one staff member was able to

Records were insufficient to identify sales outside of revitalization

obtain accession numbers to facilitate locating case files we requested. While the transition from district offices to HOCs may have been a contributing factor, it does not relieve the HOCs of their responsibilities to maintain an efficient and effective records management system.

Atlanta HOC staff was unable to provide documentation to verify whether 5 of 45 homes sold under OND/TND were located in revitalization areas. Only homes located in revitalization areas or HUD approved exception areas are eligible for OND/TND sales. The program mission cannot be realized when home sales are not within revitalization zones. The FHA mortgage insurance fund potentially absorbed improper discounts totaling \$199,650 on the five homes.

Real estate owned case files could not be located

HOC staffs were unable to locate nine case files; one in the Atlanta HOC and eight in the Philadelphia HOC. HOC staffs stated that these files were lost. Four case files from the Philadelphia HOC could not be located because they were not properly archived. Philadelphia HOC staff stated that these were among many files for Real Estate Owned property sales that were in boxes in the district offices and had not been catalogued. Two case files from the Philadelphia HOC were identified as archived in the Federal Records Center. However, upon retrieval it was found that only the title binder, not the complete case file, had been archived. Philadelphia HOC staff stated that the two remaining case files had been catalogued but not archived to the Federal Records Center and had been lost. Staff at the Atlanta HOC stated that one case file had been archived to the Federal Records Center. However, the file could not be located.

Real estate owned cases files could not be retrieved timely

HOC staffs were unable to timely retrieve 53 case files, or 56 percent, of the 95 case files requested from the HOCs. An official at the Atlanta HOC stated that it should take 24 to 48 hours to retrieve a case file from the time of request. However, it took the Atlanta HOC almost 2 months to retrieve 11, or 24 percent, of the 45 requested case files. At the Philadelphia HOC it took from 9 to 21 days to retrieve 42, or 84 percent, of the 50 requested case files. Reasons for the delays were as follows.

- Ten case files from the Philadelphia HOC were not archived to a Federal Records Center.

- Seven files improperly remained in the district offices and were not catalogued.
- Three had been catalogued but were left in the district offices and not archived to the Federal Records Center.
- Forty-three case files were not timely located because the HOCs had not maintained adequate file retrieval data for archived records.
 - Thirty-two case files from the Philadelphia HOC were not timely located because the HOC had not obtained archive file retrieval information from the district offices upon conversion to the HOC.
 - Eleven case files from the Atlanta HOC were not timely retrieved because HOC staff believed that the archive file retrieval information was lost.

We noted that the M&M contractors timely retrieved all 22 of the requested case files that were in their possession.

The inability to timely retrieve case files delayed our audit and could delay or prevent effective program management. Without case files, HUD could be precluded from taking legal or administrative action against homebuyers who violated program requirements, such as the 3-year occupancy requirement.

Atlanta HOC case files were incomplete

Our review of 59 case files under the jurisdiction of the Atlanta HOC found that 8 case files, 1 in Memphis and 7 in Miami, did not contain eligibility or occupancy certifications. Two of these eight case files were closed under the M&M contractor.

Additionally, HOC officials in Atlanta did not obtain a deed restriction for six property sales, one in Miami and five in Memphis. Further, three case files for properties in Memphis did not contain a copy of the property deed. Therefore, we were unable to determine if a deed restriction had been recorded.

Required second mortgages were not filed

Five of the nine Miami case files did not contain required second mortgages. Additional evidence provided by the M&M contractor for Miami showed that second mortgages were not filed for 16 of 17 sales closing from March 24, 2000, to September 13, 2000. All required second mortgages were recorded for the Philadelphia HOC cases reviewed. We did not review the older Philadelphia HOC case files for deed restrictions.

From the inception of the OND program until August 1, 1999, participants were required to sign a deed restriction that prevented the sale of the OND property without HUD's approval. Effective August 2, 1999, the deed restriction was replaced by the requirement that officers and teachers must execute a second mortgage and note on behalf of HUD. The amount of the second mortgage equals the OND/TND 50 percent discount. If the buyer fails to meet the continuing obligations of the program, a prorated amount of the second mortgage will be due and payable.

The deed restriction and the second mortgage requirement are important management controls to ensure program goals are met and to prevent program fraud by homebuyers. The deed restriction and the second mortgage obstruct resale during the 3-year occupancy term. It is the responsibility of the closing agent to obtain a second mortgage from the homebuyer and forward it to the HOC. It was the responsibility of the HOCs to ensure that the deed restriction and the second mortgage was recorded for each OND/TND home sale.

The absence of second mortgages occurred, in part, because HUD did not establish and communicate the new requirement in a timely manner. The second mortgage requirement became effective August 2, 1999 (FR-4277-I-02). However, over 3 months passed before HUD issued Directive 99-30 (effective November 17, 1999) that included instruction about the second mortgage requirement. Even then, the requirement was not implemented because the Atlanta HOC did not effectively communicate this requirement to M&M contractors and closing agents until about February 1, 2000.

**Management
controls over records
need improvement**

The absence of the second mortgages, required certifications, and deed restrictions was undiscovered, in part, because the monitoring procedures, a contracted review of case files for 10 percent of all home sales by the M&M contractor, were not sufficient to identify OND/TND specific requirements. The reviews were performed by analyzing case file contents for general documents associated with a property sale. However, this general review does not include checking for documents specific to the OND/TND program, such as the second mortgage and eligibility and occupancy certifications. Further, the contracted review does not ensure that OND/TND case files will be selected for review.

Although the incomplete files were limited to the Atlanta HOC, the monitoring procedure is consistent nationwide and, therefore, illustrates a potential that undetected records deficiencies could occur on a much wider basis. The missing second mortgage eliminates HUD's strongest avenue of recourse against homebuyers who fail to comply with continuing obligations of the OND/TND programs.

HUD Comments

HUD officials stated that the National Servicing Center will ensure appropriate documentation is available to protect the Government's assets. The initial reconciliation is complete and actions are underway to correct deficiencies in these documents.

Closing agent contracts are being reviewed and, where necessary, modified to be consistent with program requirements. Also HUD staff involved in monitoring will be trained to promote better program monitoring.

**OIG Evaluation of
HUD Comments**

HUD's comments indicate general agreement with our finding and recommendations and initiation of corrective actions.

Recommendations

We recommend that the Deputy Assistant Secretary of Single-Family Housing:

- 5A. Establish management control procedures to ensure that records are maintained in accordance with HUD directives 2200.1 and 2228.1.
- 5B. Design a supplementary monitoring checklist, to accompany the general review checklist, to ensure that case file reviews verify OND/TND documents, including the second mortgage and eligibility and occupancy certifications. Case files selected for review should include 10 percent of OND/TND cases.
- 5C. Review all Atlanta HOC case files closed under the M&M contractors to ensure that second mortgages were executed. Where second mortgages were not executed, require the closing agent and M&M contractors to file a second mortgage. Spot check 10 percent of the case files at other HOCs to ensure that second mortgages were obtained.

Follow-Up On Prior Audits

This is the first OIG audit of HUD's OND/TND property disposition programs.

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Schedule Of Questioned Costs

<u>Recommendation Number</u>	<u>Type of Questioned Costs</u>	
	<u>Ineligible 1/</u>	<u>Unsupported 2/</u>
1B	\$ 734,800	
3A	293,650	
5A		\$ 84,750
Total	\$ 1,028,450	\$ 84,750

1/ Ineligible costs are costs charged to a HUD program or activity that the auditor believes are not allowable by law, contract, Federal, State, or local policies or regulations. Recommendation 3A excludes \$18,000 of the \$311,650 reported in the narrative of finding 3 because the \$18,000 was also reported in this schedule in recommendation 1B. Due to the conditions reported, we have not recommended recovery of the \$293,650.

2/ Unsupported costs are costs charged to a HUD program or activity and eligibility cannot be determined at the time of audit. The costs are not supported by adequate documentation or there is a need for a legal or administrative determination on the eligibility of the costs. Unsupported costs require a future decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of Departmental policies and procedures. Recommendation 5A excludes \$114,900 of the \$199,650 reported in the narrative of finding 5 because the \$114,900 was also reported in this schedule in recommendation 1B.

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Homebuyers Sampled by OIG

	CITY/STATE	CASE NUMBER	OND/TND	OCCUPANCY VIOLATION
1	Manassas	548-267342	OND	None
2	Manassas	548-220900	OND	None
3	Manassas	548-280172	OND	Yes
4	Manassas	548-273327	OND	None
5	Manassas	548-242277	OND	None
6	Manassas	548-232732	OND	None
7	Manassas	548-196209	OND	None
8	Manassas	548-245350	OND	Not Tested ³
9	Manassas	548-237393	OND	None
10	Manassas	548-232450	OND	None
11	Manassas	548-286297	OND	None
12	Manassas	548-232877	OND	None
13	Manassas	548-275607	OND	Not Tested
14	Manassas	548-225981	OND	None
15	Manassas	548-272983	OND	None
16	Manassas	548-294604	OND	Not Tested
17	Manassas	548-282361	OND	Yes
18	Manassas	548-267234	OND	Yes
19	Manassas	548-258776	OND	Not Tested
20	Manassas	548-273595	OND	None
21	Manassas	548-297379	OND	None
22	Manassas	548-275095	OND	Not Tested
23	Manassas	548-162910	OND	Not Tested
24	Manassas	548-191016	OND	Yes
25	Manassas	548-272815	OND	Not Tested
26	Manassas	548-257945	OND	Not Tested
27	Manassas	548-269833	OND	Yes
28	Manassas	548-196698	OND	None
29	Manassas	548-247976	OND	Not Tested
30	Manassas	548-241374	OND	None
31	Memphis	482-217554	OND	None
32	Memphis	482-235050	OND	Yes
33	Memphis	482-214228	OND	Yes
34	Memphis	482-286215	OND	None
35	Memphis	482-169822	OND	Yes
36	Memphis	482-277137	OND	None
37	Memphis	482-235423	OND	None
38	Memphis	482-280336	OND	None
39	Memphis	482-280773	OND	None

³ “Not Tested” denotes that we did not visit the home to confirm occupancy. We withdrew from the site due to a potential conflict with on-going investigations.

Homebuyers Sampled by OIG

	CITY/STATE	CASE NUMBER	OND/TND	OCCUPANCY VIOLATION
40	Memphis	482-284549	OND	None
41	Memphis	482-232682	OND	None
42	Memphis	482-238708	OND	None
43	Memphis	482-287360	OND	None
44	Memphis	482-276100	OND	None
45	Memphis	482-267483	OND	None
46	Memphis	482-284259	OND	None
47	Memphis	482-176664	OND	None
48	Memphis	482-195239	OND	Yes
49	Memphis	482-156004	OND	None
50	Memphis	482-276897	OND	None
51	Memphis	482-156693	OND	None
52	Memphis	482-171854	OND	None
53	Memphis	482-290398	OND	None
54	Memphis	482-278808	OND	None
55	Memphis	482-239107	OND	None
56	Memphis	482-230904	OND	Yes
57	Memphis	482-286494	OND	Yes
58	Memphis	482-249725	TND	None
59	Memphis	482-234183	TND	None
60	Memphis	482-300882	TND	None
61	Miami	092-631749	OND	None
62	Miami	092-369457	OND	Yes
63	Miami	092-598799	OND	Yes
64	Miami	092-638649	OND	None
65	Miami	092-651282	OND	None
66	Miami	092-307984	OND	None
67	Miami	092-647640	OND	None
68	Miami	092-573828	OND	None
69	Miami	092-409877	OND	Yes
70	Miami	092-439184	OND	None
71	Miami	092-652789	OND	Yes
72	Miami	092-485204	OND	None
73	Miami	092-615772	OND	None
74	Miami	092-510584	OND	None
75	Miami	092-667260	OND	None
76	Miami	092-590522	OND	None
77	Miami	092-533530	OND	None
78	Miami	092-602081	OND	None

Homebuyers Sampled by OIG

	CITY/STATE	CASE NUMBER	OND/TND	OCCUPANCY VIOLATION
79	Miami	092-678138	OND	None
80	Miami	092-567731	OND	None
81	Miami	092-538314	OND	None
82	Miami	092-361250	OND	None
83	Miami	092-557109	OND	None
84	Miami	092-591674	OND	None
85	Miami	092-660042	OND	None
86	Miami	092-652813	OND	Yes
87	Miami	092-746644	OND	Yes
88	Miami	092-640918	OND	None
89	Miami	092-631341	OND	Yes
90	Springfield	251-163330	OND	None
91	Springfield	251-162341	OND	Yes
92	Springfield	251-148554	OND	None
93	Springfield	252-002491	OND	None
94	Springfield	252-001033	OND	None
95	Springfield	251-152964	OND	None
96	Springfield	251-181853	OND	None
97	Springfield	252-004758	OND	None
98	Springfield	253-000072	OND	None
99	Springfield	251-162583	OND	Yes
100	Springfield	252-002481	OND	None
101	Springfield	252-000890	OND	None
102	Springfield	252-005294	OND	None
103	Springfield	252-001571	OND	None
104	Springfield	252-000979	OND	None
105	Springfield	252-001899	OND	None
106	Springfield	251-150957	OND	None
107	Springfield	251-170849	OND	None
108	Springfield	252-004376	OND	None
109	Springfield	251-144638	OND	Yes
110	Springfield	253-000204	OND	None
111	Springfield	252-001516	OND	Yes
112	Springfield	251-160314	TND	None
113	Springfield	251-186161	TND	None
114	Springfield	251-169129	OND	None
115	Springfield	251-163511	TND	None
116	Springfield	251-195628	OND	None
117	Springfield	251-195860	OND	Yes

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HUD Comments



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D.C. 20410-8000

June 21, 2001

OFFICE OF THE ASSISTANT SECRETARY
FOR HOUSING-FEDERAL HOUSING COMMISSIONER

MEMORANDUM FOR : James A. Heist, Acting Deputy Inspector
General, G

FROM: *J.C. Weicher*
John C. Weicher, Assistant Secretary for Housing-
Federal Housing Commissioner, H

SUBJECT: Comments on the Draft Audit, "Review of Single
Family Real Estate Owned Sales under the
Officer Next Door Program"

Thank you for the opportunity to comment on your draft audit report, "Review of Single Family Real Estate Owned Sales under the Officer Next Door And Teacher Next Door Programs." Please allow me to express my appreciation for the cooperative spirit demonstrated by OIG staff throughout the conduct of this audit. As you are aware, the Department acted immediately upon receiving the interim report on these programs, suspending both programs for the period April 1, 2001, through July 31, 2001, to allow time for program staff to design and implement improved program controls. While a more detailed "Management Plan" for addressing all of the concerns raised in the audit will be provided shortly, I do wish to highlight key actions which are already being taken.

A work plan identifying all roles and responsibilities for strengthening controls has been developed and conveyed to Single Family Field operations. Under this plan, responsibility for documenting all referrals reflecting evidence of non-compliance and potential fraud has been centralized in the National Servicing Center in Oklahoma. This Office is reviewing previous referrals and determining what administrative actions should be taken to address non-compliance with program requirements. In such cases, the Department will proceed with these actions, unless we are advised by your Office or the Department of Justice that this might undermine a criminal investigation.

The National Servicing Center is also reconciling all securities, to ensure appropriate documentation is available to protect the Government's assets, such as subordinate liens. The initial reconciliation is complete, and actions are underway to correct deficiencies in these documents.

Closing agent contracts are being reviewed and, where necessary, modified to be consistent with program requirements.

The Department has completed development on new mapping software, providing additional controls to ensure properties are sold within the proscribed revitalization areas. The new software is expected to be installed prior to July 1, 2001.

The Department has initiated actions to procure automated services to "pre-register" program participants, validate identifications, and following property sale closing, ensure occupancy by the purchaser.

Training and revised marketing materials are now being developed to promote a better understanding of responsibilities by program participants, as well as the HUD staff involved in program monitoring.

All prior property sales will be reviewed under this program using the new control structure, to detect additional instances of program non-compliance or fraud. Regulatory changes will be made to clarify the occupancy timeframe requirement. The Department will seek additional information to better evaluate the overall program, and, will analyze how well actual outcomes meet program objectives.

My staff will continue to coordinate all of these actions with your Office, and to develop a detailed Management Decision which is both comprehensive and substantive. I believe it is clear from the actions taken to date, that the Department is committed to operating programs such as the Teacher Next Door and the Officer Next Door under strong controls and with no tolerance for fraud or program abuse.

Distribution

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The Honorable Dan Burton, Chairman, Committee on Government Reform,
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