



Alpine First Preston JV II, LLC

Alpine, UT

HUD's Real Estate-Owned Management and
Marketing III Program

**Office of Audit, Region 5
Chicago, IL**

**Audit Report Number: 2017-CH-1004
August 11, 2017**



To: Gisele G. Roget, Deputy Assistant Secretary for Single Family Housing, HU

//signed//

From: Kelly Anderson, Regional Inspector General for Audit, Chicago Region, 5AGA

Subject: Alpine First Preston Joint Venture II, LLC, Alpine, UT, Did Not Always Comply With Its Contract With HUD and Its Own Requirements for the Marketing and Sale of HUD-Owned Properties in the State of IL

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) results of our review of Alpine First Preston Joint Venture II, LLC, asset manager, HUD's real estate-owned Management and Marketing III program.

HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation without a management decision, please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the audit.

The Inspector General Act, Title 5 United States Code, section 8M, requires that OIG post its publicly available reports on the OIG website. Accordingly, this report will be posted at <http://www.hudoig.gov>.

If you have any questions or comments about this report, please do not hesitate to call me at 312-353-7832.



Audit Report Number: 2017-CH-1004

Date: August 11, 2017

Alpine First Preston Joint Venture II, LLC, Alpine, UT, Did Not Always Comply With Its Contract With HUD and Its Own Requirements for the Marketing and Sale of HUD-Owned Properties

Highlights

What We Audited and Why

We audited Alpine First Preston Joint Venture II, LLC, a contracted asset manager in HUD's real estate-owned Management and Marketing III program, as part of the activities included in our 2017 annual audit plan and because it was the sole contractor to market and sell U.S. Department of Housing and Urban Development (HUD) owned properties located in Illinois. Our audit objective was to determine whether Alpine complied with its contract with HUD's and its own requirements for the marketing and sale of HUD-owned properties in the State of Illinois.

What We Found

Alpine did not always comply with its contract with HUD and its own requirements for the marketing and sale of HUD-owned properties. Specifically, it did not ensure that properties were in ready-to-show condition. As a result, HUD lacked assurance that it received the highest net return on the sale of the properties and that its holding costs for maintaining properties in inventory were minimized.

What We Recommend

We recommend that HUD require Alpine to implement adequate procedures and controls to ensure that it adequately monitors the conditions of the properties to ensure that they are maintained in ready to show condition in accordance with HUD's and its own requirements; and update its quality control plan to include physical inspections of properties in its inventory.

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Background and Objective

The Federal Housing Administration (FHA) is an organizational unit within the U.S. Department of Housing and Urban Development (HUD) that administers the single-family mortgage insurance program. FHA insures approved lenders against the risk of loss on mortgages. In the event of a default on an FHA-insured loan, the lender acquires title to the property by foreclosure, a deed in lieu of foreclosure,¹ or other acquisition method; files a claim for insurance benefits; and conveys the property to HUD. As a result of acquisitions through the mortgage insurance program and other programs, HUD needs to manage and sell a sizable inventory of single-family homes in a manner that promotes home ownership, preserves communities, and maximizes the returns to the FHA insurance fund.

Since 1999, HUD has been outsourcing the disposition of its real estate-owned inventory to private –sector contractors under its Management and Marketing (M&M) program, known as M&M III. In 2010, HUD launched the third generation of management and marketing contracts for field service managers² and asset managers.³ A contract was also awarded to a mortgagee compliance manager. HUD administers the program through four Homeownership centers located in Atlanta, GA; Denver, CO; Philadelphia, PA, and Santa Ana, CA. Each center is responsible for the direct oversight of the contracts for the field service managers and asset managers within designated geographic areas.

For properties located in Illinois, HUD entered into a sole management and marketing contract with Alpine First Preston Joint Venture II, LLC, for asset manager services to successfully market and sell HUD-owned single-family properties and to monitor the conditions of the properties ensure that they are maintained in ready-to-show condition until sold.

Alpine is a firm that specializes in asset management and loan servicing, with expertise in regulatory compliance, real estate-owned management and disposition, portfolio risk management, and real estate services. It is the sole contractor serving as the asset manager for HUD’s management and marketing program for the State of Illinois. Alpine’s contract with HUD requires it to monitor the conditions of the properties through inspections and notify HUD of identified deficiencies. Alpine entered a joint venture agreement on August 1, 2014, and its corporate office is located in Alpine, UT. HUD’s Homeownership Center in Atlanta is responsible for the direct oversight of Alpine’s contract.

¹ A deed in lieu of foreclosure is a transaction in which a homeowner voluntarily transfers the title to the property to the lender in exchange for a release from the mortgage obligation.

² Field service managers are companies that provide property preservation and protection services consisting of but not limited to inspecting and securing properties, performing cosmetic enhancements or repairs, and providing ongoing property maintenance.

³ Asset managers are companies that are responsible for the marketing and sale of HUD-owned properties, consisting of but not limited to monitoring the condition of the properties to ensure that they are maintained in ready-to-show condition until sold.

To implement its asset manager contract with HUD, Alpine contracts with local listing brokers to perform property marketing and sale services and property inspections. Regarding property inspections, Alpine's listing brokers perform (1) the initial inspections of HUD-acquired properties to determine whether the properties are in ready-to-show condition, (2) walk-through inspections to ensure that all initial services, work orders and repairs,⁴ if applicable, had been completed to ensure that the properties are in ready-to-list condition before the properties are listed for sale, and (3) routine property inspection services and identifies issues that need to be addressed to maintain the properties in marketable (ready-to-show) condition.

Our audit objective was to determine whether Alpine complied with its contract with HUD and its own requirements for the marketing and sale of HUD-owned properties in the State of Illinois.

⁴ Field service managers are responsible for performing initial services, routine inspections, completing work orders, and needed repairs. Due to the various locations of the properties, they would use subcontractors to perform the services.

Results of Audit

Finding 1: Alpine Did Not Always Comply With Its Contract With HUD and Its Own Requirements for the Marketing and Sale of HUD-Owned Properties

Alpine did not always comply with its contract with HUD and its own requirements for the marketing and sale of HUD-owned properties. Specifically, it did not ensure that properties were in ready-to-show condition. The deficiencies occurred because Alpine did not provide adequate oversight of its listing brokers to ensure that properties were maintained in accordance with its contract with HUD and its own requirements. As a result, HUD lacked assurance that it received the highest net return on the sale of the properties and that its holding costs for maintaining properties in inventory were minimized.

Alpine Did Not Ensure That Properties Were Adequately Maintained

From Alpine's inventory of properties, we observed 26 properties to determine whether Alpine ensured that the properties were maintained in accordance with its contract with HUD and its own requirements. Contrary to HUD's requirements and Alpine's marketing plan,⁵ 11 of the 26 properties (42 percent) had 25 deficiencies. The 11 properties had interior or exterior health and safety hazard deficiencies, other deficiencies, or a combination of deficiencies. Specifically,

- 7 properties had 11 interior health and safety hazards,
- 4 properties had 4 exterior health and safety hazards,
- 7 properties had 7 other interior deficiencies, and
- 3 properties had 3 other exterior deficiencies.

Seven Properties Had Eleven Interior Health and Safety Hazards

Seven properties were not free of interior health and safety hazards. The following items are examples of interior health and safety hazards observed: uncapped and exposed electrical wires, missing or damaged outlet covers, torn or damaged floor; defective threshold, broken windows, and protruding nails.

Four Properties Had Four Exterior Health and Safety Hazards

Contrary to section C.2.2 of Alpine's contract, four properties were not free of exterior health and safety hazards. The following items are an example of exterior health and safety hazards observed: unsecured detached garage door and unsecured roof board.

Seven Properties Had Seven Other Interior Deficiencies

Contrary to section C.2.2 of Alpine's contract, seven properties were not in ready-to-show condition due to interior deficiencies. The following items are examples of other interior

⁵ See appendix B for criteria.

deficiencies observed: writings on the wall, dirty refrigerator with molded food, bad odor, debris in basement, and dirty sink with mold like substance.

Three Properties Had Three Other Exterior Deficiencies

Contrary to section C.2.2 of Alpine's contract, the exterior of three properties was not in ready-to-show condition. The following items are examples of other exterior deficiencies observed: excessive leaves in the yard, garbage around the exterior of the property, and debris in the front yard.

The following photographs illustrate examples of the deficiencies noted during the property observations of the 11 properties that were not maintained in accordance with Alpine's contract with HUD or its own requirements.

Property # OIG25:
Broken outlet



Property # OIG49:
Unsecured garage
door



Property # OIG49:
Broken window



Property # OIG18:
Tripping hazard



Property # OIG18:
Dirty refrigerator
with food (mold)



Property # OIG28:
Unsecured roof
board



Property # OIG43:
Debris in basement



Property # OIG30:
Broken threshold



Property # OIG6:
Dirty vent



Property # OIG7:
Uncapped wires



The 11 properties had an inspection by Alpine’s listing brokers before our observations; however, HUD’s P260 system⁶ did not contain documentation showing that the listing brokers had identified the same deficiencies. In addition, HUD’s P260 system did not contain work orders showing that work had been requested or completed to mitigate the identified deficiencies during the listing brokers’ later inspections. The property management ready-to-show condition checklist requires that assigned properties be maintained in ready-to-show condition at all times. In addition, Alpine’s listing brokers were required to report to Alpine when their inspections determined that a property was not in ready-to-show condition.

As a result of our audit, in March 2017, Alpine issued work order notifications to correct the deficiencies that we had identified for 8 of the 11 properties. The remaining three properties had been sold. As of June 7, 2017, Alpine provided documentation to support that the deficiencies had been mitigated for the eight properties.

Alpine Did Not Adequately Oversee Its Listing Brokers

The weakness described above occurred because Alpine did not adequately oversee its listing brokers to ensure that properties were maintained in accordance with its contract with HUD and its own requirements. Alpine conducted desk reviews of the listing brokers’ inspection reports, and other supporting documentation. However, the inspection reports and supporting

⁶ P260 is an internet-based system that serves as the primary system of record for all HUD real estate-owned case management transactions. The system assigns each property for contractors to track the disposition activity from conveyance to sale.

documentation were not always accurate. For example, for one property (FHA case number 137-533890), a subcontractor for HUD's field service manager inspected the property on January 21, 2017. The photographs to support the inspection showed that the subcontractor removed a disconnected broken toilet from the basement. However, Alpine's inspection report dated January 22, 2017, contained a photograph of the toilet in the basement. According to Alpine's senior vice president, its listing broker's field inspector performed a routine inspection on January 15, 2017, but used January 22, 2017, as the date of the inspection. When the listing broker's field inspector reinspected the property on February 5, 2017, he inappropriately changed the date for the inspection from January 22 to January 19, 2017.

Further, Alpine's quality control plan did not specify whether or when it would conduct onsite quality control inspections to ensure that its listing brokers were complying with the terms of their agreements and to validate the inspection reports and other documents prepared by its listing brokers. According to Alpine's senior vice president, Alpine had not performed onsite quality control property inspections since October 2016. However, it had notified its listing brokers of the deficiencies identified during the October onsite inspections and the deficiencies had been corrected. Alpine did not maintain sufficient documentation to support that the onsite quality control inspections had occurred and that corrective actions had been taken.

HUD's qualitative monitoring reviews for the months of July through September 2016 showed that properties assigned to Alpine were generally not maintained in ready-to-show condition. According to HUD's Atlanta Homeownership Center's director of Real Estate-Owned division, although the field service manager was responsible for the maintenance of the properties, Alpine was responsible for reporting whether the properties were continuously maintained in ready-to-show condition.

As a result of our audit, Alpine has performed onsite quality control inspection for 33 properties in April 2017. Its inspections identified similar deficiencies that we had identified during our property observations. According to Alpine's senior vice president, Alpine plans to amend its quality control plan to include field inspections for 5 percent of its inventory every 6 months.

Conclusion

Alpine lacked oversight of its listing brokers to ensure that properties were maintained in accordance with HUD's and its own requirements. As a result, HUD lacked assurance that it received the highest net return on the sale of the properties and that its holding costs for maintaining properties in inventory were minimized.

Recommendations

We recommend that HUD's Deputy Assistant Secretary for Single Family Housing require Alpine to

- 1A. Implement adequate procedures and controls to ensure that it properly monitors the listing brokers to ensure compliance with its contract. The procedures and controls should include but not limited to performing quality control reviews and

supervisory review of its brokers, and maintaining documentation of its quality control reviews and corrective actions.

- 1B. Update its quality control plan to include the performance of physical inspections of the properties in its inventory.

Scope and Methodology

We performed our audit work between November 2016 and January 2017 at Alpine's office located on 1321 Murfreesboro Pike, Suite 202, Nashville, TN, and the Chicago regional office. In addition, we performed our property observations in IL. The audit covered the period February 1, 2016 through October 31, 2016, Alpine's active inventory in HUD's P260 system, and was expanded as necessary.

To accomplish our review objective, we interviewed HUD's staff from the Atlanta Homeownership Center and Alpine's employees. In addition, we obtained and reviewed the following:

- HUD's contract with Alpine; Alpine's marketing and quality control plans; quality control reviews; and internal policies and procedures; and
- Information contained in HUD's P260 system, including the active properties assigned Alpine inventory, routine, initial, and prior-to-list inspection reports and photographs.

During the review, we selected two separate samples totaling 27 (16 + 11) properties. Rather than selecting a 100 percent sample selection or representative selection, we identified a relatively small items of interest to support our conclusion because we had enough knowledge about the universe.⁷ For the first sample, we selected 16 of the 52 properties located in the Chicago area that were not under a sales contract as of January 5, 2017, to determine whether the properties were maintained in ready-to-show condition. For the second sample, we selected 11 of the 15 properties located in the Chicagoland metropolitan area that had recently undergone either an initial or prior-to-list inspection to determine whether the properties were in ready-to-show condition before the properties were listed for sale. We observed 26 of the 27⁸ properties in January 2017. The results of the sample property observation were limited to the population reviewed and cannot be projected to the universe.

We relied in part on data maintained by Alpine and data maintained in HUD's P260 system. Although we did not perform a detailed assessment of the reliability of the data, we performed a minimal level of testing and found the data to be adequately reliable for our purposes.

⁷ During our recently completed audit of P.K. Management Group, Incorporated (PKMG), the HUD contracted field service manager for the State of IL, audit report 2016-CH-1008, we observed over 100 properties throughout the State of IL. Based on the results of the audit, we determined that a small sample would be sufficient for this review due to our knowledge of the conditions of the HUD-owned properties in IL. Therefore, we limited our observations to properties located within either Chicago or the Chicagoland area.

⁸ We were not able to gain access into one of the selected property to observe its condition (FHA property number 137-472799).

We provided our review results to HUD's Acting Deputy Assistant Secretary for Single Family Housing; director of the Atlanta Home Ownership Center, Real Estate Owned Division; and Alpine's president.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective(s). We believe that the evidence obtained provides a reasonable basis for our finding and conclusion based on our audit objective.

Internal Controls

Internal control is a process adopted by those charged with governance and management, designed to provide reasonable assurance about the achievement of the organization's mission, goals, and objectives with regard to

- effectiveness and efficiency of operations,
- reliability of financial reporting, and
- compliance with applicable laws and regulations.

Internal controls comprise the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

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

- Effectiveness and efficiency of operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Compliance with applicable laws and regulations – Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.

We assessed the relevant controls identified above.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations on a timely basis.

Significant Deficiency

Based on our review, we believe that the following item is a significant deficiency:

- Alpine lacked adequate oversight of its listing brokers to ensure that properties were maintained in accordance with its contract with HUD and its own requirements (finding).

Appendixes

Appendix A

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation



July 7, 2017

Marde Ibizugbe, Assistant Regional Inspector General for Audit
United States Department of HUD-Office of Inspector General
Ralph H. Metcalfe Federal Building
77 West Jackson Boulevard, Room 2201
Chicago, Illinois 60604

RE: Alpine First Preston Joint Venture II, LLC, Asset Manager for Illinois
Draft Audit Response

Ms. Ibizugbe,

We appreciate the opportunity to respond to the results of the OIG review. In an effort to address the finding, we found that six (6) real estate brokers with listing agreements with Alpine First Preston Joint Venture II, LLC (AFP) did not comply with the terms of their contract and failed to notify AFP of eleven (11) properties in not ready to show condition. As a result, these listing brokers have not received any assignments since AFP was notified of the deficiencies by the OIG. Further, AFP has expanded the HUD approved Quality Control Plan to include additional quality control reviews of the listing brokers to help ensure it doesn't occur again.

Comment 1

Alpine First Preston Joint Venture II, LLC (AFP) began taking assignments as an Asset Manager contractor (AM) to market and sell HUD homes on April 1, 2016. As an AM contractor, AFP is required to issue a work order notifications (WON) to the Field Service Manager (FSM) or via the HUD Government Technical Representative (GTR) when we are notified of a property condition deficiency. The FSM or GTR then ensures the property condition is resolved. The FSM is responsible for the maintenance and management of the property.

Comment 2

AFP is diligent in training our vendors on contract requirements and we have high expectations for compliance as evidenced below. Listing brokers were selected and provided training on HUD and AFP's requirements in March 2016. Mandatory weekly training sessions were provided beginning in April 2016 through August 2016 and bi-monthly training sessions began in September 2016 and this schedule continues today. AFP provides ongoing oversight of the listing brokers and their performance is reviewed and rated on a quarterly basis to determine compliance. The broker scorecard includes reviews of key performance metrics based on requirements in the AFP Master Listing Agreement and HUD's requirements in the AM Performance Work Statement (PWS). Listing broker assignments are determined in part by the broker's scorecard rating. The six (6) listing brokers assigned to the eleven (11) properties identified by the OIG as ones that needed WONs issued to the FSM have not received new listing assignments since we were notified of the deficiencies. WONs were issued by AFP to the FSM upon notification of the deficiencies. The table on the next page provides a status of the eleven (11) properties and the response by the FSM. Note that a newly assigned listing broker for case 137-362908 reported the property condition deficiencies prior to the OIG notification and the WON was issued by AFP to the FSM at the time of broker notification. The work was completed by the FSM prior to the OIG notification. There are currently 58 listing brokers on the AFP panel for the state of Illinois.

Comment 3

Comment 4

HUD's Field Service Manager (FSM) is contractually required to manage and maintain the properties in HUD's inventory. AFP issues a WON to the FSM (or via the GTR) when we become aware of a property condition deficiency. AFP has issued more than 8,500 WONs to the FSM or GTR on 3,500 properties contract to date. This level of effort clearly shows our commitment to comply with our contract. All parties to this contract are working hard to meet the Department's goals and objectives.

Comment 2

Auditee Comments and OIG's Evaluation

Ref to OIG
Evaluation

Auditee Comments

Comment 5



Case Number	Type of Inspection by Listing Broker	OIG Finding	AM Action: FSM Work Order Notification (WON) Issue Date	FSM WON Status	Current Status
137-362908	Routine	Deficiency 1 – Missing basement window pane. Deficiency 2 – Unsecured/broken electrical outlets.	Deficiency 1 and Deficiency 2 reported by the OIG had both been resolved by FSM based on a WON issued by AFP prior to OIG notification. New listing broker assigned 2/21/17 reported the deficiencies 2/22/17. Deficiency 1 WON completed 2/24/17. Deficiency 2 WON completed 2/27/17.	Deficiencies already resolved by FSM with prior WON submitted by AFP.	Property Under Contract
137-561553	Routine	Deficiency 1 – Unsecured garage door. Deficiency 2 – Protruding nails. Deficiency 3 – Broken window. Deficiency 4 – Missing outlet covers. Deficiency 5 – Writing on wall, dirty window sill.	3/1/2017	Deficiency 1-4 WON completed by FSM 3/8/17 with photo attachment; Deficiency 5 WON completed by FSM 3/6/17 with photo attachment	Property Under Contract
137-330679	Routine	Deficiency 1 – Unsecured garage door. Deficiency 2 – Torn/damaged floor. Deficiency 3 – Dirty refrigerator with food/bad odor, dirty stove.	NA - Property closed	No WON issued to FSM. Property closed prior to OIG notification	Property Closed 2/22/17
137-376179	Routine	Deficiency 1 – Excessive leaves in yard. Deficiency 2 – Unsecured roof board.	3/1/2017	Deficiency 1 WON completed by FSM 3/6/17 with photo attachment; Deficiency 2 WON completed by FSM 3/13/17 with photo attachment	Property Closed 3/21/17
137-533890	Routine	Deficiency 1 – Unsecured garage door. Deficiency 2 – debris in basement.	3/1/2017	Deficiency 1 WON completed by FSM 3/9/17 with photo attachment; Deficiency 2 WON completed by FSM 3/7/17 with photo attachment	Property Closed 5/15/17
137-385119	Routine	Deficiency 1 – Leaves and bricks in front yard. Deficiency 2 – Defective threshold at top of stairs. Deficiency 3 – Uncapped wires. Deficiency 4 – Debris in basement, dirty carpet.	3/1/2017	Deficiency 1 and 4 WON completed by FSM 3/7/17 with photo attachment; Deficiency 2 and 3 WON completed by FSM 3/7/17 with photo attachment	Property Under Contract
137-332501	Routine	Deficiency 1 – Leaves and trash on exterior stairs. Deficiency 2 – Debris in basement, bad odor, dirty floor.	NA - Property closed	No WON issued to FSM - Property closed prior to OIG notification	Property Closed 1/30/17
137-457567	Prior to List	Deficiency 1 – Uncapped wires.	3/1/2017	Deficiency 1 WON completed by FSM 3/8/17 with photo attachment	Property Closed 3/17/17
137-019497	Prior to List	Deficiency 1 – missing outlet cover. Deficiency 2 – dirty vent.	3/1/2017	Deficiency 1 WON completed by FSM 3/7/17 with photo attachment; Deficiency 2 WON completed by FSM 3/6/17 with photo attachment	Property Closed 4/18/17
137-519389	Initial	Deficiency 1 – Uncapped wires.	3/1/2017	Deficiency 1 WON completed by FSM 3/8/17 with photo attachment	Property Closed 3/31/17
137-395431	Prior to List	Deficiency 1 – Dirty sink with mold like substance.	NA - Property closed	No WON issued to FSM - Property closed prior to OIG notification	Property Closed 2/28/17

**Ref to OIG
Evaluation**

Auditee Comments

Comment 6

Comment 6

Comment 7



The following is in response to the two (2) OIG recommendations in the report:

1A. Property inspections are now conducted on a minimum of 5% of the properties in inventory every six (6) months as a review of the listing broker's performance in the field. Property inspections were conducted in October 2016 and April 2017 and WONs were issued to the FSM when applicable.

1B. An amendment to the Quality Control Plan developed by AFP and approved by HUD on May 5, 2016 will be submitted to HUD's GTR to include property inspections of 5% of the properties in inventory every six (6) months. A copy of the amendment is attached.

We have responded to each of the two (2) recommendations identified in the report with a solution and identified how it will be implemented.

We appreciate the professionalism of your team. Thank you for working with us on coordinating schedules.

Respectfully,

A handwritten signature in black ink, appearing to read "April Cooper".

April Cooper, President
Alpine First Preston Joint Venture II, LLC

Attachment – Quality Control Plan Amendment

OIG Evaluation of Auditee Comments

- Comment 1** We commend Alpine for the corrective actions it has taken to address the noncompliance with its contract with HUD and its own requirements for the marketing and sale of HUD-owned properties. It should work closely with HUD to ensure that it has adequately improved its quality control procedures and that those procedures are fully implemented.
- Comment 2** Alpine stated that the field service manager or the government technical representative ensures that the property condition has been resolved after they have been notified via work order notifications from Alpine. In addition, the field service manager was responsible for the maintenance and management of a property. However, according to HUD's contract with Alpine, Alpine was required to use the work order system to make requests for work items, and verify the accuracy and validity of all work orders and the corrective actions taken to ensure that the properties were being maintained in accordance with its contract. Further, according to HUD's Atlanta Homeownership Center's director of Real Estate-Owned division, although the field service manager was responsible for the maintenance of the properties, Alpine was responsible for reporting whether the properties were continuously maintained in ready-to-show condition.
- Comment 3** Alpine stated that it was diligent in training its vendors on contractual requirements. In addition, it stated that it provided ongoing oversight of the listing brokers and their performance was reviewed and rated on a quarterly basis. We acknowledge that Alpine provided guidance to the listing brokers via regular conference calls. However, as discussed in the report, its quality control plan did not specify whether or when it would conduct onsite quality control inspections to ensure that the listing brokers were complying with the terms of their agreements and to validate the inspection reports and other documents prepared by its listing brokers.
- Comment 4** We acknowledge the steps Alpine has taken to address the cited deficiencies. Further, we acknowledge that the property condition deficiencies for FHA case number 137-362908 were corrected after our inspection on January 11, 2017, and before our results briefing on February 28, 2017. On May 31, 2017, Alpine provided documentation to support that the deficiencies had been mitigated for FHA case number 137-362908, which we already considered before the issuance of the discussion draft audit report.
- Comment 5** We previously reviewed and considered the contents of the table before we issued the discussion draft audit report to Alpine for comment. Therefore, no revisions to the audit report were warranted.

Comment 6 Alpine's revised quality control requirements and its commitment to conduct inspections of a minimum of five percent of the properties in its inventory every 6 months, if fully implemented, should improve its oversight of the listing brokers' to ensure that Alpine complies with its contract with HUD. However, Alpine should work closely with HUD, including during the audit resolution process, to ensure that it has adequately improved its quality control procedures and that those procedures are fully implemented.

Comment 7 We acknowledge Alpine's attached quality control plan amendment. Alpine should work closely with HUD to ensure that it has adequately improved its quality control procedures and that those procedures are fully implemented. However, the quality control plan amendment was excluded from the audit report because it was not necessary for understanding Alpine's comments.

Appendix B

Criteria

Section 2.2 of HUD's contract with Alpine states that (1) a property is in ready-to-show condition when it meets all the following requirements and must remain in ready-to-show condition until the property is sold HUD is no longer responsible for its maintenance. Dwellings and structures must be free of debris; and health and safety hazards. The property must be free of broken windows; exposed nails and hooks must be removed; exposed electrical wires must be capped; and any broken or missing outlet and switch covers in easily accessible areas must be covered. All appliances and plumbing fixtures must be clean and the house must be free of bad odors; floors must be cleaned and carpets vacuumed; graffiti must be covered in a professional manner; and the yard must be free of trash, debris, and accumulated leaves. The properties must be secured meaning all windows, doors and openings must be locked, boarded, or otherwise secured to prevent unauthorized entry by person or animal into any portion of the dwelling, including exterior entrances to crawl spaces, and any other structures on the property, for instance, garages and sheds. The properties must be free of health and safety hazards or any conditions or situations at a property that exposes the government to abnormal risk; that presents a source of danger, which could cause an accident, or poses the threat of injury, harm to the public and the hazard must be corrected within one day of discovery or notification. All repairs required to correct safety hazards and any approved repairs to be done before listing the property for sale must be completed in order for the house to be in ready-to-show condition.

Section 5.1.8.1 of HUD's contract with Alpine states that the contractor must develop, maintain, and implement a comprehensive quality control plan. The plan must ensure that all aspects of the performance work schedule are performed completely and appropriately, and must contain a plan for corrective action when deficiencies or insufficient performance are identified by either HUD or the contractor. The quality control plan must include a detailed inspection oversight program covering all general and specific tasks and specify tasks or areas to be inspected on either a scheduled or unscheduled basis including the manner in which inspection is to be conducted.

Section 5.2.1.1 of HUD's contract with Alpine states that that not later than two business days from assignment to an asset manager, the contractor must ensure that the listing broker performs an initial inspection using the asset manager's property inspection report to ascertain whether the property is in ready-to-show condition. Further, no sooner than two business days before the initial listing of the property for sale, the contractor should ensure that the listing broker performs a walk through inspection to ensure that all initial services, work orders and repairs, if applicable, had been completed as intended and ensure that the property is in ready-to-list condition.

Section 5.2.1.11 of HUD's contract with Alpine states that the contractor must ensure listing brokers perform required inspections, ensure listing brokers provide other customary services (i.e. property inspections every 2 weeks, monitor and document activity at property, and coordinate with the asset manager, field service manager, selling broker and buyer's closing

agent). The contractor's marketing and quality control plans should address how the contractor intends to accomplish these requirements.

Alpine's marketing plan states that the listing brokers are tasked with providing initial and ongoing (routine) inspections and identifying any property issues that need to be addressed to maintain the asset in marketable (ready-to-show) condition.

Property management ready-to-show condition checklist states that (1) minor surface mold and mildew throughout the interior of the property will be cleaned with a disinfectant or a bleach solution, especially around tub/shower areas and sinks, and (2) trip hazards should be mitigated throughout the property. Further, the listing brokers are required to report to Alpine when their inspections determined that properties were not being maintained in ready-to-show condition.

Alpine's master listing broker service agreement states that the listing broker will inspect all properties every two weeks until closing. Inspection reports on the approved form and photo documentation must be uploaded into the P260 system with proper photo documentation within 24 hours of inspection.