

U. S. Department of Housing and Urban Development

Office of Inspector General for Audit

Inspections and Evaluations Division



Evaluation of HUD's Management of Real Estate-Owned Properties

April 19, 2012

IED-12-001R

Executive Summary

The Office of Inspector General (OIG), Inspections and Evaluations Division, conducts independent, objective examinations of U.S. Department of Housing and Urban Development (HUD) activities, programs, operations, and organizational issues.

We conducted an evaluation of HUD's management of its real estate-owned (REO) properties. The objective of our review was to determine whether HUD and its contractors had adequate controls to ensure that HUD REO properties were properly secured and maintained.

HUD has outsourced the disposition of its REO inventory to management and marketing contractors since 1999. Management and marketing contractors manage and market single-family properties owned by or in the custody of HUD. HUD is in the third generation of the program (Management and Marketing III), which includes four components: (1) mortgagee compliance manager, (2) asset manager, (3) field service manager, and (4) oversight monitor.¹

Field service managers are the focus of this evaluation because they are responsible for providing property maintenance and preservation services that include conducting property inspections, repairing and securing the property, providing ongoing maintenance (grass cutting, weed abatement, etc.), and performing cosmetic enhancements intended to increase the likelihood and speed of the sale of the home. The field service manager communicates with HUD through its assigned contracting officer and government technical representative.

Our review focused on REO properties in HUD's inventory as of July 31, 2011, in the State of Michigan. We judgmentally selected 50 REO properties for review (50 for physical inspections of exteriors and 30 of 50 for file review). We observed the following issues.

Field service managers did not always correctly report vandalism in the HUD REO data system, known as P260, and did not always report each vandalism occurrence to local police departments. As a result, it was difficult to use the P260 to identify where vandalism of HUD-owned properties occurred, how frequently it occurred in local areas, or the cost to HUD. When vandalism and other property crimes are not reported to local police departments, it is less likely that they will devote resources to investigation and prevention of these crimes.

Also, field service managers did not always inspect REO properties at least once every 14 days as required and did not completely document inspections that were performed. As a result, they could not always address problems existing at these properties such as unsecured doors and windows or overgrown lawns.

¹ Field service manager contract, Section C, Performance Work Statement, Section 1.1

We recommended that the Office of Single Family Housing require that field service managers complete the data screen provided in the REO data system for all instances of vandalism or theft and report all such instances to local police departments whether or not police officers were available to inspect the vandalized properties. We also recommended that the Office of Single Family Housing reemphasize to field service managers that they must conduct routine inspections of REO properties at least once every 14 days.

We provided a draft copy of the report to the Office of Single Family Housing on January 24, 2012, and received written comments on February 24, 2012. The Office of Single Family Housing agreed with our observations and recommendations in the report. The complete text of the Office of Single Family's response is included in appendix A.

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Introduction

The Federal Housing Administration (FHA) is responsible for managing and marketing foreclosed single-family properties conveyed to it by participating lenders. These properties become part of HUD's real estate-owned (REO) inventory. HUD's goals in managing and marketing REO properties are to promote home ownership, preserve communities, and maximize the return to the FHA single-family insurance fund.

HUD has been outsourcing the disposition of its REO inventory to management and marketing contractors since 1999. In 2007, HUD conducted extensive market research concerning industry best practices regarding the REO asset disposition process before restructuring its REO program. As a result, it created the third and current generation of the contracting program, referred to as Management and Marketing III. The program is designed to accomplish the following:²

- Centralize mortgage compliance functions under the mortgagee compliance manager;
- Separate the marketing functions performed by contractors called asset managers from property management functions performed by field service managers; and
- Create an oversight monitor that monitors the performance of its REO portfolio.

Field service managers are the focus of this evaluation. They are responsible for providing property maintenance and preservation services that include conducting inspections, repairing and securing properties, providing ongoing maintenance (grass cutting, weed abatement, etc.), and performing cosmetic enhancements that should increase the likelihood and speed of REO sales.

Field service managers are monitored and supervised by HUD contracting officers and government technical representatives. Contracting officers inform relevant parties to the contract of their roles and responsibilities and resolve performance or payment issues. They also have authority to amend contract terms, if necessary. Government technical representatives are responsible for consistent monitoring, communication and evaluation of contractors' performance, providing technical guidance, and serving as a liaison between contractors (field service manager) and contracting officers.

A HUD data system, known as P260, serves as the primary system of record for all REO case management transactions. The system, which features a Web-based portal for data entry, was implemented in 2010. It is designed to track property disposition activity from acquisition to sale and also receive data from the Single Family Insurance System, FHA Connection, and the Single Family Acquired Asset Management System.³

² Field service manager contract, Section C, Performance Work Statement, Section 1.1

³ Field service manager contract, Section C, Performance Work Statement, Section 3.1.3

P260 allows field service managers to upload inspection documents and photos and to create and submit expense reimbursement documents for review and approval by HUD. Government technical representatives use P260 as a major tool to monitor and evaluate field service managers' performance.

Statistics

We focused our review on HUD's REO inventory as of July 31, 2011. At that time, HUD had 48,393 REO properties. As of July 31, 2011, the following five States had the largest inventories:

State	Number of properties
Georgia	5,354
Texas	4,897
<i>Michigan**</i>	<i>2,881</i>
Florida	2,480
Ohio	2,267
Total	17,879
% of total inventory	37%

***Michigan was the focus of our review.*

Under the Management and Marketing III program, HUD awarded 34 field service manager contracts throughout the country for a period of 5 years (base of 12 months with 4 optional years). Four of the thirty-four field service manager contracts were awarded to cover the State of Michigan. The four contractors were

- A-Sons Construction, Inc.
- Asset Management Services
- IEI Tidewater
- Sigma Construction

Scope and Methodology

The evaluation was performed at HUD's Washington, DC, headquarters and the Philadelphia Homeownership Center. We interviewed HUD staff to gain an understanding of the Management and Marketing III program, focusing on HUD's and the field service managers' responsibilities for the day-to-day management of the program. We also reviewed applicable HUD requirements.

The review was limited to REO properties in HUD's inventory as of July 31, 2011. We further narrowed the scope of our review to the 1,226 properties in Michigan within counties closest to

the Office of Inspector General (OIG) field office in Detroit that were in steps 1 through 6 of the disposition process. HUD's REO process consists of ten steps in total.⁴

The State of Michigan was selected due to its large number of REO properties. REO properties in Michigan are managed by HUD's Homeownership Center in Philadelphia.

To determine whether HUD and its contractors had adequate controls to ensure that HUD REO properties were properly secured and maintained, we judgmentally selected 50 REO properties and conducted the review in two parts:

1. The first part consisted of a review of HUD records related to 30 randomly selected REO properties. The records reviewed included inspection reports, transmittals, invoices, and supporting documentation submitted to HUD by August 31, 2011.
2. The second part consisted of a physical inspection of 50 REO properties. These inspections were limited to the exteriors of the properties. Six of the fifty homes were not inspected because either the home was no longer in HUD's inventory or the home had been demolished by the time of the inspection.

We conducted the evaluation in accordance with the Quality Standards for Inspection and Evaluation, issued by the Council of the Inspectors General on Integrity and Efficiency.

⁴ The following are the ten steps used by HUD to acquire, manage and dispose of REO properties:

- Step 1- Property Acquisition;
- Step 2- Receipt of Property Condition Reports and Entry of appraisal data;
- Step 3- Properties "Held-Off Market" remain in Step 3;
- Step 4 -Direct sale to non-profit or city entity;
- Step 5 - Ready to List - Properties are ready to list for sale; and
- Step 6 - Listed for Sale.
- Step 7 - Preliminary Acceptance of Sales Offers;
- Step 8 - Sales Offer Accepted;
- Step 9 - Sales Closing Package Received; and
- Step 10 - Sale Closed and Reconciled.

Observations

Observation 1 – Instances of Vandalism Were Not Consistently Reported

Field service managers did not always correctly report vandalism occurrences in the REO data system as required and did not always report each occurrence to local police departments. The result of this lax reporting was that HUD could not easily identify where vandalism of HUD-owned properties occurred, how frequently it occurred in a given area, or the cost to HUD. When vandalism is not reported to local police, local law enforcement is less likely to make investigation and prevention of this crime a priority.

The field service manager's contract requires that each occurrence of vandalism be documented in the REO data system, P260. The system has a separate vandalism screen that includes fields for a description of the vandalism and the estimated damage amount. HUD REO managers told us that, although it is not specifically required by contract, field service managers have been asked to file reports of vandalism occurrences with local police departments.

Although field service managers' routine inspection reports indicated that HUD-owned properties had been vandalized, the information was generally not documented on the vandalism screen in the data system. Further, instances of vandalism were generally not reported to local police departments. Field service managers' routine inspection reports indicated that six of thirty properties in our sample had been vandalized during the period. One property was vandalized three times, another two times. In all, there were a total of nine separate instances of vandalism at the six properties. The reports noted that these events resulted in the theft of copper parts, appliances, household fixtures, and water heaters as well as extensive fire damage. However, the field service manager documented the vandalism in P260, using the vandalism screen for only one of the nine occurrences. In addition, the field service manager reported the vandalism to the local police department in only four instances. HUD REO officials told us that many local police departments will decline to come out to a vandalized property to take a report, citing the need to focus limited resources on violent crime. Appendix B lists the vandalism incidents at the six properties, indicates what was stolen or broken after each incident, and shows whether the incident was reported to HUD and the local police.

Observation 2 - Property Inspections Were Not Consistently Performed or Documented

Field service managers did not always inspect HUD-owned properties at least once every 14 days or completely document the inspections that were performed as required. As a result, HUD-owned properties were potentially less secure than they otherwise would have been, and property damage caused by vandalism and weather conditions was not always documented thoroughly and in a timely manner.

The performance work statement in the field service managers' contract⁵ requires, at a minimum, that the field service manager inspect each property once every 2 weeks and report the results on the property inspection form. We reviewed routine⁶ inspection forms from all four field service managers for a sample of 30 REO properties. Although field service managers generally completed two inspections each month at HUD-owned properties, the number of days elapsed between inspections often exceeded 14. A review of inspection reports related to 30 properties during the review period indicated that inspections related to 25 properties were overdue at least once. At 9 of these 25 properties, there were 5 or more overdue inspections. All four of the field service managers had overdue inspections. Many inspections were overdue from 5 to as many as 14 days. When inspections are not conducted often, property damage and insecure conditions caused by severe weather and vandalism may go unaddressed for longer periods. In addition, there is less assurance that exterior maintenance, especially grass cutting, has taken place when inspections are performed infrequently. Failure to address problems with the physical condition and maintenance of REO properties will have a negative effect on the prices that HUD ultimately obtains.

In addition, inspection forms prepared by one of the four field service managers included in our review were not always complete. None of the inspection forms submitted by this contractor had been fully completed. Incomplete items included the inspectors' signature line and the date last inspected, and the inspection status was not fully explained in the comments section.

Incomplete inspection forms do not provide HUD with an accurate or complete report regarding the condition of the property or status of damages and repairs at the time of the review.

Other Matters

Field service managers did not always submit invoices for "pass-through" expenses promptly. Pass-through expenses are charges incurred by field service managers for goods and services provided by third-party vendors that are directly reimbursable by HUD. Pass-through expenses include utility bills, homeowners association fees, eviction costs, demolition and repairs, some vandalism-related costs, etc. There is no requirement for submission of pass-through bills for reimbursement within an established timeframe. However, consideration should be given to instituting a penalty for late submission of bills. Also, timely submission of bills should be included in the overall assessment of contractor performance. We noted instances in which pass-through invoices were submitted more than 100 days after they had been paid.

⁵ Field service manager's contract, Section C, Performance Work Statement, Section 5.2.3.2

⁶ In addition to completing routine inspection reports a field service manager must also complete a Property Condition Report for each REO property within the first three days after assignment by HUD.

Recommendations

We recommend that the Office of Single Family Housing

1. Require that all field service managers complete the P260 data screen provided for reporting vandalism whenever they note instances of vandalism or theft during routine and other inspections of REO properties.
2. Require that all field service managers report instances of vandalism and theft at HUD-owned properties to local police departments. If police officers are not able to visit and inspect the subject properties due to more urgent matters, field service representatives should document the damage and file reports at local police stations.
3. Reemphasize to field service managers their obligation to conduct routine inspections at least once every 14 days. When field service managers show a pattern of not complying with this contract obligation, they should not be eligible for additional contracts.

Comments and OIG's Response

We provided a draft copy of the report to HUD's Office of Single Family Housing on January 24, 2012. The Office of Housing's response was received on February 24, 2012. HUD agreed with our observations and concurred with our recommendations. Based on this response the recommendations are considered closed. However, we may perform a follow up review to verify that corrective actions have been implemented.

Appendix A - HUD Office of Single Family Housing Comments



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

FEB 23 2012

MEMORANDUM FOR: James B. Ward, Director, Inspections and Evaluation
Division, Office of Evaluatons, GIH

FROM: Charles S. Coulter, Deputy Assistant Secretary for
Single Family Housing, HU

SUBJECT: Evaluation of HUD's Management of Real Estate Owned Properties
Evaluation Report No. IED-12-001R
Issue Date: January 24, 2012

The Office of Inspector General (OIG), Inspections and Evaluation Division conducted an evaluation of HUD's management of its Real Estate Owned (REO) properties. The OIG's objective was to determine whether HUD and its contractors have adequate controls to ensure that its REO properties are properly secured and maintained. The evaluation was performed at HUD Headquarters in Washington, DC and the Philadelphia Homeownership Center (HOC). The review was limited to HUD's inventory of REO properties located in counties closest to the OIG Field Office in Detroit, Michigan as of July 31, 2011.

The Office of Single Family Housing will implement the OIG's recommendations as follows:

Recommendation 1

Require all Field Service Managers to complete the P260 data screen provided for reporting vandalism whenever they note instances of vandalism or theft during routine and other inspections of REO properties.

Description of Planned Actions:

The Contracting Officer or Principal Government Technical Representative (GTR) will issue a memorandum to Field Service Managers (FSMs) reminding them of the requirement to report all instances of vandalism in the Property Vandalism screen in P260.

Estimated Completion Date:

June 30, 2012

Type of documentation that will evidence final action:

Memorandum from the Contracting Officer or Principal GTR reminding FSMs to document all instances of vandalism on the Property Vandalism screen in P260.

www.hud.gov

espanol.hud.gov

Recommendation 2

Require all Field Service Managers (FSMs) to report instances of vandalism and theft from HUD owned properties to local police departments. If police officers are not able to visit and inspect the subject properties due to more urgent matters, Field Service Manager representatives should document the damage and file reports at local police stations.

Description of Planned Actions:

The Contracting Officer or Principal Government Technical Representative (GTR) will issue a memorandum to FSMs stating that a copy of the police report for each instance of vandalism and theft should be uploaded into P260.

Estimated Completion Date:

June 30, 2012

Type of documentation that will evidence final action:

Memorandum from the Contracting Officer or Principal GTR reminding FSMs that a copy of the police report for each instance of vandalism and theft should be uploaded into P260.

Recommendation 3

Re-emphasize to Field Service Managers their obligations to conduct routine inspections at least once every 14 days. Where FSMs show a pattern of not adhering to contract obligations they should not be eligible for additional contracts.

Description of Planned Actions:

The Contracting Officer or Principal Government Technical Representative (GTR) will issue a memorandum to FSMs reminding them that failure to perform routine inspections at least once every 14 days impacts annual performance evaluations denoted in the Contractor Performance Assessment Reporting System (CPARS). CPARS is reviewed for Past Performance which affects a contractor's ability to obtain future contracts.

Estimated Completion Date:

June 30, 2012

Type of documentation that will evidence final action:

Memorandum from the Contracting Officer or Principal GTR reminding FSMs that failure to perform routine inspections at least once every 14 days impacts annual performance evaluations, which directly affects contractors' ability to obtain future contracts.

Appendix B - Inconsistent Vandalism Reports for Sampled Properties in Michigan

# Vandalism incidents	# Properties	Case #	Field service manager	Date (per routine inspection forms)	Type of vandalism	Property condition report updated (yes/no)	P260 vandalism screen used (yes/no)	Police contacted, report filed	Notes
1	1	261-758629	A-Son's	4/6/2011	Side door broken	No	No	Not contacted and no report filed	Per government technical representative, updated property condition Inspection report not required. Vandalism documented on routine inspection reports.
2	2	261-896188	A-Son's	6/3/2011	Plumbing in bathroom removed, interior	Yes	Yes	Not contacted and no report filed	Vandalism documented on routine inspection reports.
3	3	264-000063	A-Son's	4/20/2011	Copper missing	No	No	Contacted and report filed	Vandalism documented on routine inspection reports.
4				5/3/2011	Water heater missing	No	No	Contacted and report filed	Vandalism documented on routine inspection reports.
5				8/9/2011	Additional copper missing; front door unsecured	No	No	Contacted and report filed	Vandalism documented on routine inspection reports.
6	4	261-563130	SIGMA	7/18/2011	Left side door found breached - no theft.	No	No	Contacted but no report filed	Vandalism documented on routine inspection reports.
7	5	261-827500	SIGMA	8/3/2011	Missing bathroom vanity, faucet, shower head, furnace, and water heater	No	No	Not contacted and no report filed	Vandalism documented on routine inspection reports.
8	6	261-816034	Tidewater	1/10/2011	Interior vandalism - kitchen and upstairs bathroom; back door missing	Yes	No	Not contacted and no report filed	Vandalism documented on routine inspection reports. The field service manager completed its own vandalism report and uploaded this to P260.
9				3/10/2011	Extensive fire damage throughout the home - home marked for demo	Yes	No	Not contacted and no report filed	Vandalism documented on routine inspection reports. The field service manager completed its own vandalism report and uploaded this to P260.

Note: The property condition report is part III of the HUD property inspection report. The property condition report provides information on the condition of heating, cooling, plumbing, gas and electrical systems, appliances, and the septic system or well and the existence of any transferable warranties. It should be updated whenever major changes in systems' functionality occur.