



**Innotion Enterprises, Inc., Las Vegas, NV**  
**Single Family REO Contract Administration**



Issue Date: September 12, 2012

Audit Report Number: 2012-LA-1010

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

*Tanya E. Schulze*

FROM: Tanya E. Schulze, Regional Inspector General for Audit, Los Angeles Region, 9DGA

SUBJECT: Innotion Enterprises, Inc., Las Vegas, NV, Did Not Always Comply With Its REO Contract Requirements

Enclosed is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General (OIG), final results of our review of Innotion Enterprises, Inc.

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 8L, requires that OIG post its publicly available reports on the OIG Web site. 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 (213) 534-2471.



September 12, 2012

## Innotion Enterprises, Inc., Las Vegas, NV, Did Not Always Comply With Its REO Contract Requirements

# Highlights

Audit Report 2012-LA-1010

### What We Audited and Why

We audited the U.S. Department of Housing and Urban Development (HUD) real estate-owned (REO) Management and Marketing (M&M) III program at Innotion Enterprises, Inc., to determine whether Innotion performed property preservation and protection services according to contract requirements. The review was part of our efforts to improve the integrity of the single-family insurance programs. We selected Innotion's Las Vegas, NV, branch based on the size and scope of its contract with HUD and because our previous auditability survey in the Las Vegas, NV, area revealed poor property management.

### What We Found

Innotion did not always perform property protection and preservation services according to contract requirements. Specifically, 38 of 96 (39.6 percent) of all properties selected materially failed our review because homes were not secured or properly maintained. As a result of Innotion not always following HUD's and its own policies and procedures, compounded by its inadequate quality control, HUD did not have assurance that Innotion maintained REO homes at the high standard of care required in the performance work statement. HUD paid Innotion \$11,210 for monthly services for 38 homes that did not reflect a high standard of care. If Innotion does not implement adequate controls and procedures to address property protection and preservation deficiencies, HUD will spend approximately \$1 million for inadequate services over the next year.

### What We Recommend

We recommend that HUD's Deputy Assistant Secretary for Single Family Housing require Innotion to develop and implement adequate procedures and controls, including improving its quality control inspections, to ensure that all units meet HUD's REO contract requirements and prevent more than \$1 million in program funds from being spent over the next year on units that are in material noncompliance with the standards.

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## **BACKGROUND AND OBJECTIVE**

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The Federal Housing Administration (FHA), an organizational unit within the U.S. Department of Housing and Urban Development (HUD), administers the single-family mortgage insurance program. FHA insures approved lenders against the risk of loss on mortgages obtained with FHA financing. 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, 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 return to the FHA insurance fund.

Since 1999, HUD has outsourced the disposition of its real estate-owned (REO) inventory to management and marketing (M&M) contractors. To ensure the continued success of its disposition program and to further capitalize on the private sector's disposition expertise, in 2007, HUD conducted extensive market research on industry best practices surrounding the REO asset disposition process to structure the third generation of the contracting program known as M&M III. Based on market research results for M&M III, HUD developed a disposition structure for the management and marketing of REO inventory that will streamline its operations, capitalize on the expertise of its potential contractors, and provide flexibility to meet changing market conditions in the REO industry.

On January 16, 1997, Innotion Enterprises, Inc., incorporated its business. HUD selected Innotion as its field service manager to cover four contract areas. However, our audit objective covers only one contract area, which includes Arizona, Idaho, and Nevada, with a contract effective date of July 1, 2011. HUD has identified six primary objectives for its field service managers. They are to ensure that (1) FHA-insured properties are maintained in a manner that preserves communities, (2) HUD has real-time access to all property-related information, (3) properties are secured and safe from hazardous conditions, (4) property values are preserved, (5) properties are maintained in a manner that reflects a high standard of care, and (6) there is a high level of customer satisfaction with HUD's property disposition program. For the Arizona, Idaho, and Nevada area, HUD expended more than \$8.7 million from July 1, 2011, to June 30, 2012 on Innotion's field service manager contract. The initial term of HUD's contract with Innotion ended on May 31, 2012. HUD exercised its first of two option years, resulting in extension of the contract through May 31, 2013. HUD has an additional one year option to extend the contract through May 31, 2014.

The overall objective was to determine whether Innotion performed property preservation and protection services according to contract requirements.

## RESULTS OF AUDIT

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### Finding: Innotion Did Not Always Perform Property Preservation and Protection Services According to Contract Requirements

Innotion did not always perform property preservation and protection services according to contract requirements. Specifically, Innotion had material deficiencies in 38 of the 96 (39.6 percent) homes reviewed and performed at least one late inspection in 10 of 20 (50 percent) home files reviewed. The deficiencies occurred because the inspectors did not always follow Innotion's policies and Innotion's quality control reviews did not always capture findings or ensure that findings were adequately resolved. As a result, HUD had no assurance that Innotion maintained REO homes at the high standard of care required in the performance work statement. HUD paid Innotion \$11,210 in monthly services costs for 38 homes that did not reflect a high standard of care. If Innotion does not implement adequate controls and procedures to address property protection and preservation deficiencies, HUD will spend approximately \$1 million for inadequate services over the next year.

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#### **Innotion Did Not Maintain Properties That Reflected a High Standard of Care**

According to section 1.6 of the performance work statement (contract), one of the six primary objectives of the field service manager is to ensure that the contractor maintains properties in a manner that reflects a high standard of care. Innotion generally had policies in place to meet this primary objective. However, our review of 96 REO homes identified 38 (39.6 percent) with material deficiencies.<sup>1</sup> These deficiencies included properties not secured, properties not in ready-to-show condition, landscaping not adequately maintained, properties not free of debris and health and safety hazards, and unallowable boarding.

Innotion is required to have a quality control plan that will ensure that all aspects of the performance work statement are performed completely and appropriately, and contain a plan for corrective action when deficiencies or insufficient performance are identified. The quality control plan is designed and implemented to result in quality contract performance. Innotion has a quality control plan in place where almost every home receives a quality control review after the initial cleaning is completed

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<sup>1</sup> Using auditor judgment, we defined a material deficiency as (1) the property was unsecured as defined by the statement of work, allowing a person to enter any part of the property; (2) two or more deficiencies noted during the review; or (3) The deficiency was identified in a previous asset manager or field service manager inspection and not fixed as determined through a review of HUD's P260 documentation.

by the contractor. In addition, homes remaining in inventory are subject to random inspections.

Although Innotion’s written policies and procedures appeared adequate, its inspectors did not always ensure that properties reflected a high standard of care. Innotion also provided training to inspectors; however, the inspectors failed to always follow policies and procedures. Also, Innotion’s quality control reviews did not always capture findings or ensure that findings were adequately resolved. We reviewed 22 quality control reviews from the 38 properties that materially failed our onsite review. Of the 22 quality control inspections, 12 were not sufficient to capture all findings. Innotion also incorrectly noted that an issue had been resolved in 3 of the 22 quality control inspections.

For example, we performed an initial site visit regarding case number 022-203292 on March 16, 2012. During our visit, we noted weeds at the home, with some approximately 4 feet tall. HUD’s Mortgagee Letter 2010-18 requires Innotion to cut grass and weeds to the edge of the property line and trim around foundations, bushes, trees, and planting beds. While reviewing documentation in HUD’s P260 system<sup>2</sup>, where Innotion uploads its biweekly reports and pictures, we noted pictures of the inspector pulling one weed 13 days before our initial review. We returned to the property on April 19, 2012, to determine whether Innotion had addressed the weeds in either of the two inspections performed between our initial and final reviews. Innotion had not performed landscaping services, leaving weeds significantly overgrown. During one inspection, Innotion’s subcontracted inspector appeared to have selectively uploaded pictures into HUD’s P260 system that did not show the landscape issues. The other inspection completed between our reviews noted that there was a showing and no work had been completed. However, the inspector photographed the house next to the subject property, and the weeds at the subject home were high enough that the inspector should have identified the landscaping needs.



View of weeds in front yard on first visit



View of weeds in the front yard on second visit

<sup>2</sup> Refer to the criteria section of the report for a description of HUD’s P260 system.



View of weeds in back yard on second visit

In another example, we performed a site visit regarding case number 023-227969. When Innotion performed its initial services on February 28, 2012, it identified a broken handrail and took pictures in a way to indicate that the inspector had fixed the broken railing. On March 13, 2012, we performed our initial review. During our visit, we noted that someone had placed the boards on top of the secured legs of the railing without screws or nails to hold them in place. To avoid injury to potential users, we removed the top board and set it on the ground. Innotion performed one quality control inspection and three field service manager inspections between our initial review and our return visit on April 18, 2012. Innotion's quality control inspector identified the deficient handrail and closed the finding on March 26, 2012. However, when we returned to the property, we noted that someone placed the board back on the legs without securing it. This condition posed a safety risk to any potential user of the handrail.



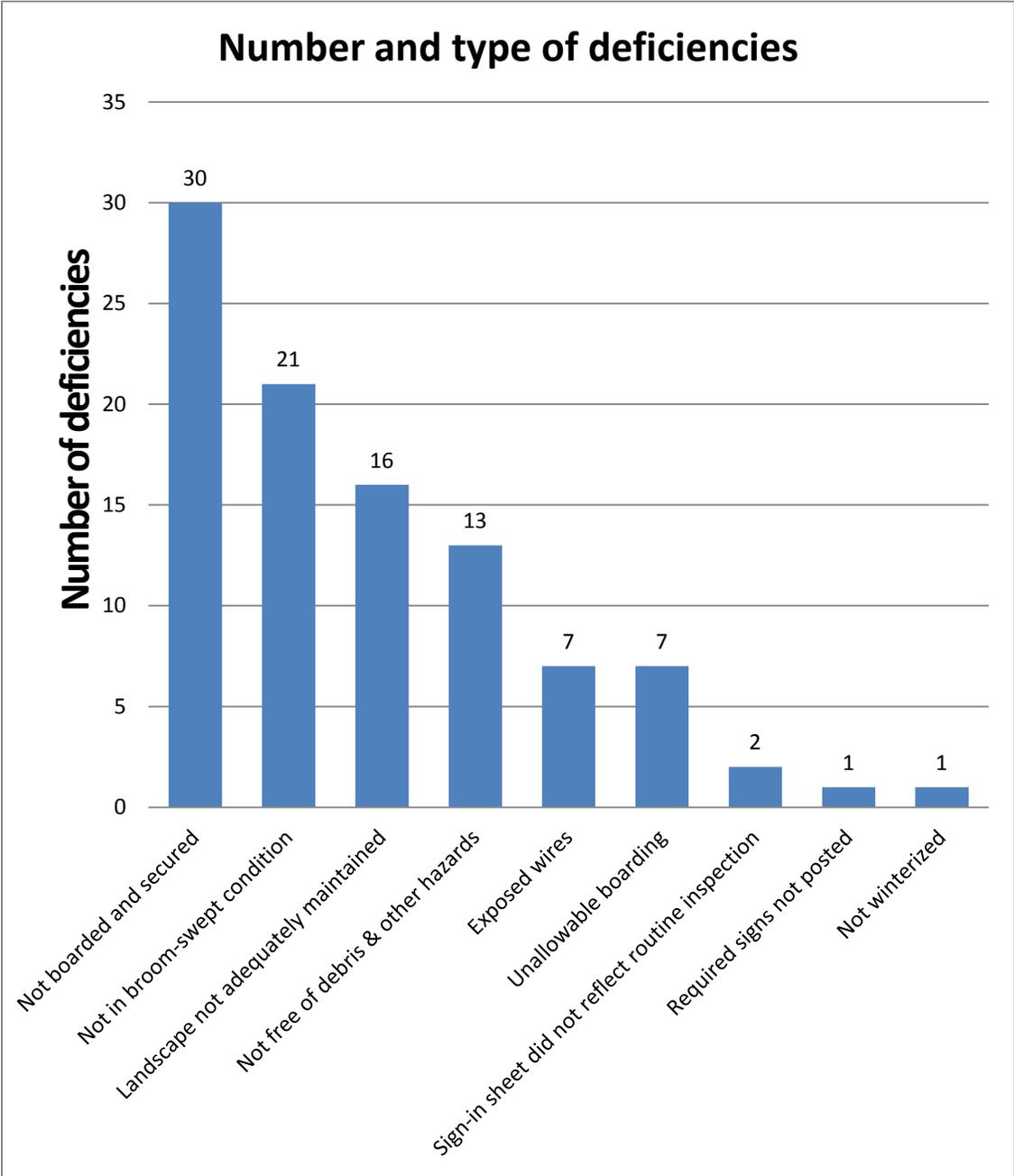
Handrails not secured



Handrail missing screws

As a result of the issues discussed above, HUD had no assurance that Innotion maintained HUD REO homes at the high standard of care required in the performance work statement. HUD paid Innotion \$11,210 for monthly services for 38 homes that did not reflect a high standard of care. If Innotion does not implement adequate controls and procedures to address property protection and preservation deficiencies, HUD will spend approximately \$1 million for

inadequate services over the next year.<sup>3</sup> For a detailed listing of property deficiencies, see appendix D. The following table summarizes the deficiencies noted at all 96 properties:



<sup>3</sup> Refer to the Scope and Methodology section of the report for a detailed calculation of the estimated inadequate services over the next year.

## **Innotion Did Not Always Complete Inspections in a Timely Manner**

According to the performance work statement (contract), section 5.2.3.2 Routine Inspections, Innotion must routinely inspect and take all actions necessary to ensure that (1) properties are free from health and safety hazards and debris, refuse, and personal property, (2) corrective actions are taken on broken windows and doors, (3) properties are properly secured, (4) winterization is maintained, and (5) active leaks are promptly addressed. At a minimum, Innotion must inspect the property once every 2 weeks and report data on the field service manager property inspection form. Based on geography, climate, age, and community needs, some properties may require more frequent inspections and a higher level of maintenance than others. Upon HUD's request, Innotion must provide within 2 business days the routine inspection forms used by the contractor to perform the inspections.

We examined the inspections uploaded into HUD's P260 system for 20 case files to ensure that Innotion performed biweekly inspections in a timely manner.<sup>4</sup>

Of the 130 inspections reviewed, Innotion did not conduct 18 biweekly inspections in a timely manner. Of the 18 late inspections, 9 were the first inspections after Innotion completed the initial services and moved the property into ready-to-show condition. Since Innotion did not comply with the contract regarding the late inspections, HUD paid for monthly services that Innotion did not complete in a timely manner. HUD's government technical representative identified this issue in a separate review and had started monitoring Innotion's timeliness of inspections.

## **Conclusion**

Since Innotion did not always follow its policies and procedures and had inadequate quality control reviews, HUD did not have assurance that Innotion maintained HUD REO homes at the high standard of care required in the performance work statement. HUD paid Innotion \$11,210 for monthly services for 38 homes that did not reflect a high standard of care. If Innotion does not implement adequate controls and procedures to address property protection and preservation deficiencies, HUD will spend approximately \$1 million for inadequate services over the next year.

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<sup>4</sup> Using auditor judgment, we determined that inspections completed 5 or more days later than the 2-week requirement indicated a material deficiency in timeliness.

## Recommendations

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

- 1A. Require Innotion to develop and implement adequate procedures and controls, including improving its quality control inspections, to ensure that all units meet HUD's REO contract requirements and prevent \$1,035,780 in program funds from being spent over the next year on units that are in material noncompliance with the performance work statement standards.
- 1B. Require Innotion to reimburse HUD \$11,210 for the 38 homes that materially failed to meet the required property preservation and protection services standards (see appendix D).
- 1C. Require Innotion to certify that the violations noted in the 38 materially failed properties have been corrected for any properties that have not closed.
- 1D. Continue to monitor Innotion to ensure that it performs biweekly inspections in a timely manner.

## SCOPE AND METHODOLOGY

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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 findings and conclusions based on our audit objective.

Our audit period covered July 1 to December 31, 2011, but was expanded when necessary. We selected Innotion because it covers four contract areas across the Nation. However, based on the results of a previous review of HUD REO properties in the Las Vegas, NV, area, we reviewed only the Arizona, Idaho, and Nevada contract area. From July 1, 2011, to June 30, 2012, HUD expended more than \$8.7 million for the Innotion field service manager contract in the Arizona, Idaho, and Nevada contract area. We conducted our fieldwork at Innotion's Las Vegas branch office between January and June 2012.

To accomplish our objective, we

- Reviewed the Management and Marketing Support Services: Field Service Manager Performance Work Statement;
- Reviewed HUD regulations and reference materials for management and marketing support services;
- Reviewed 20 randomly selected property files;
- Performed site visits to 96 randomly selected HUD REO properties;
- Interviewed appropriate staff from HUD, Innotion, and Innotion's subcontractors;
- Reviewed Innotion's property management and quality control plans; and
- Reviewed 22 quality control reviews for properties that we determined materially failed our site reviews.

We randomly selected 20 property files using a nonstatistical sample from a universe of 912. The properties were pulled from HUD's P260 system, an Internet-based system that serves as the primary system of record for all REO case management transactions. We selected the sample of units without conscious bias; that is, without a special reason for including or excluding items. This sampling process does not consist of sampling units selected in a careless manner; rather, units are selected in a way the auditor expects to be representative of the population. Since the nonstatistical sample is not the same as a statistical sample, precision at a given confidence level cannot be determined. We did not project our findings to the population using the sample.

We randomly selected 96 properties for onsite reviews from a universe of 722<sup>5</sup>. We pulled the properties from HUD's P260 system. Of the 96 REO properties reviewed, 39.6 percent had a problem that was material enough to negate the value of the maintenance services for which Innotion had been hired. Given the laws of probability, all randomly selected samples are subject to a margin of error or "statistical variance," which must be accounted for. The status of HUD-owned properties during March of 2012 was used as a representative slice in time to sample the simultaneous status of properties while under the care of Innotion. To acquire an accurate sample across the three-State area, we used a cluster sample in which the area was divided into large zones, some of which were randomly selected for sampling. To achieve this selection, a rectangle was drawn around the three States in question (Arizona, Idaho, and Nevada), and a computer program was used to divide it into 64 zones or "clusters," based on longitude and latitude, with equivalent numbers of properties in each cluster. Because the boundaries between clusters landed at arbitrary points, with no correlation to city limits or other geographic boundaries, the clusters often included a heterogeneous mix of urban, rural, and other features of the properties. From these 64 clusters, a sample of 12 clusters was randomly selected across the States of Idaho, Nevada, and Arizona, and we sampled 8 randomly selected properties from each cluster to evaluate the physical status of properties at a given point in time.

This process yielded a total of 96 properties in our sample. While a sample count in the mid-to-high 60s might have been sufficient in a completely random sample, we increased the sample size to 96 to offset any increase in the margin of error (known as the "design effect") that might result from using a cluster sample. The final margin of error (or "variance") was designed to accommodate the fact that a cluster sample is taken from samples, which are grouped together in randomly selected zones.

We used a computer program written in SAS®, a widely accepted platform for statistical calculations, which was specifically designed to evaluate cluster samples, to project the overall percentage of properties with problems based on the audit results.

Based on our cluster sample of 12 groups of 8 properties each, randomly selected across three States, we can say the following:

Within the sample, we found an error rate of 39.58 percent. Applying the Clopper-Pearson method (binomial distribution) of accounting for the margin of error, we can say—with a one-sided confidence interval of 95 percent—that at least 28.68 percent of the properties under contracted maintenance had similar deficiencies at a given point in time.

If this practice continues, it will be costly to HUD. At 1,020 services per month (see table), or 12,240 per year, and a contract value of \$295 per month<sup>6</sup>, we can say—with a one-sided confidence level of 95 percent—that if Innotion is allowed to continue in this fashion, approximately \$1 million will be paid over the next 12 months for services that do not fully meet

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<sup>5</sup> The universes differ since the data was pulled from different dates. The universe of 722 was pulled from REO inventory data as of March 6, 2012, while the universe of 912 was from REO inventory data as of January 24, 2012. HUD's REO inventory is constantly changing due to the acquisition and sale of homes.

<sup>6</sup> The contracted amount of \$295 per month increased to \$303.85 effective June 1, 2012 to May 31, 2013. Since our property site visits occurred in March 2012, we used the more conservative amount of \$295 per month in our calculations.

HUD requirements. The \$1 million in funds represents funds that could be put to better use (FTBPTBU), which are computed below:

\$FTBPTBU

or

$$28.68\% \times (12 \times 1,020 \text{ months}) \times \$295.00/\text{month} = \$1,035,780 \text{ FTBPTBU}$$

<b>Properties under contract</b>	
July (2011)	289
August	1,777
September	1,690
October	1,442
November	1,234
December	971
January (2012)	685
February	441
March	784
April	889
<b>Total</b>	<b>10,202</b>
<b>Average<sup>7</sup></b>	<b>1,020.2</b>

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<sup>7</sup> A ten month period was used since the contract became effective July 1, 2012 and only 10 months of data was available at the time of our calculations in May 2012.

# INTERNAL CONTROLS

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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.

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## Relevant Internal Controls

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

- Controls over property protection and preservation services.

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 Deficiencies

Based on our review, we believe that the following items are significant deficiencies:

- Innotion lacked sufficient procedures and controls to ensure that REO properties were maintained in accordance with the performance work statement (finding).
- Innotion lacked sufficient procedures and controls to ensure that biweekly inspections were performed in a timely manner (finding).

## APPENDIXES

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### Appendix A

#### SCHEDULE OF QUESTIONED COSTS AND FUNDS TO BE PUT TO BETTER USE

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Recommendation number	Ineligible 1/	Funds to be put to better use 2/
1A		\$1,035,780
1B	\$11,210	

- 1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or Federal, State, or local policies or regulations.
- 2/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified. In this instance, if Innotion develops and implements adequate procedures and controls, it will ensure that all units meet HUD's REO contract requirements and will prevent more than \$1 million in program funds from being spent over the next 12 months on units that are in material noncompliance with the standards (see the Scope and Methodology section of the report).

# Appendix B

## AUDITEE COMMENTS AND OIG'S EVALUATION

### OIG Evaluation

### Auditee Comments



Innotion Enterprises Inc (IEI)  
260 Cedar Lane SE, Suite A  
Vienna, VA 22180

Date: 8-23-12

Tanya E. Schulze  
Regional Inspector General for Audit  
US Department of Housing and Urban Development  
Office of Inspector General  
[Tsulze@hudoig.gov](mailto:Tsulze@hudoig.gov)

RE: Innotion Enterprises, Inc. written response to the OIG IEI 15 Draft Proposed Audit Report

Enclosed/Attached: 7 attachments in email including this document. Hard copies mailed US Postage:  
Office of Audit (Region IX), Tanya E. Schulze, 611 W Sixth St, Suite 1160, Los Angeles, CA 90017

### **Comment 1**

Innotion Enterprises Inc (IEI) respectfully provides information and data to support IEI's position and rebuttal on the OIG audit findings and draft conclusion. We respectfully ask for your review of the data IEI has provided along with our written response below and consider modifying the OIG audit conclusions based on the data and logic provided.

### **Comment 2**

- The title of the report on page 4 in the OIG audit draft states the audit opinion and result of the audit and calls out the audit result and highlights this result throughout the report (also in Subject line and in a few page headings ) that: " Innotion Enterprises, Inc. did not always comply with its REO contract requirements". Such a statement would normally be summarized in a results portion of the report. Innotion does not agree with the audit result findings and furthermore it prematurely casts dispersions on Innotion's character. If such findings were to stay the result should not be so damaging in nature and could be presented just as truthfully as: "Innotion Enterprises Inc. generally complied with its REO contract requirements". Further, we ask that a straightforward title and subject be used such as "Innotion Enterprises, Inc. HUD REO 15 Audit".

### **Comment 3**

- On page 6 of the OIG audit draft report under "What We Audited and Why" there is a statement that: We selected Innotion's Las Vegas, NV Branch based on the size and scope of its contract with HUD and because of our previous auditability survey in the Las Vegas area revealed poor

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\*Note: Innotion provided additional attachments with its response that we did not include in the report; however, they are available upon request.

## Comment 4

property management. IEI was not aware of or provided the previous audit results to review those audits and the content of the audit to have a chance to defend and respond to situations that may not be factual, actual or within the scope of the contract requirements or within the control of IEI. IEI would like to have the chance to review the OIG's previous audit results for review and comment.

- Innotion Enterprises Inc. (IEI) reviewed the FSM Inspection results and date stamped photos (attached in separate files with the electronic submission and printed as part of the hard copy IEI submission) of the 38 cases that were noted with failures. The FSM Inspections and FSM date stamped pictures are documented and uploaded in P260 which is HUD's system of record. IEI found that most of the "not boarded or secured" findings from the audit were in fact secured on the FSM Inspection visits before the OIG audit. The audit finding of an unlocked or unsecured also should account for all the activities of individuals/groups that have access to the HUD properties such as local real estate brokers, Asset Managers, other inspectors for AM's and HUD, etc. There are obvious implications here including 1) parties entering the HUD properties and forgetting to relock windows after opening them to check for operational capacity, 2) forgetting to relock doors when they leave the property, and 3) in some cases individuals may intentionally leave a door unlocked so they can come back and view the house without a realtor or authorized individual to properly show the property. The FSM (IEI and other FSM companies) can only ensure that the property is properly secured when leaving the property after their FSM inspections. The activity that happens between FSM Inspections is outside of the FSM's control and it is the responsibility of any authorized individuals entering the property to ensure that the property is secured when leaving. Many times individuals do not properly secure the properties and the OIG audit points out that fact. IEI believes that IEI and IEI contractors did secure the HUD properties upon leaving the properties after the FSM inspections and that these findings should not be part of the audit findings against IEI. Once again the condition may have existed but it was not within IEI's control and should not count against IEI as a deficiency.

## Comment 5

- IEI's review of FSM Inspections (attached in separate files with the electronic submission and provided in hard copy with IEI's formal submission) completed before the OIG audit visit also found that most of the deficiencies relating to debris or "not in broom swept condition" also were due to the activity of individuals that have access to the HUD properties such as local real estate brokers, Asset Managers, other inspectors for AM's and HUD, etc... and recommends that only instances where debris was noted on the FSM Inspection and not remedied should count as a deficiency. Some cases show that the FSM Inspection noted the debris and a work order opened to remove the debris and the debris or condition was not remedied before the OIG audit. IEI believes that only the instances that show debris in the OIG audit and in the prior FSM Inspection should count as deficiency. The other instances show that debris and property conditions are in fact affected by other individuals that visit the property and leave debris or change property conditions; these situations obviously outside the control of IEI or IEI contractors. IEI does correct these situations when conducting FSM inspections to ensure that the properties are maintained in a ready to show condition.

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**Comment 6**

- IEI's review of FSM Inspections (attached in separate files with the electronic submission and provided in hard copy with IEI's formal submission) completed before the OIG audit visit also found that most of the properties that were noted by the OIG audit as "Landscape not adequately maintained" did have lawn care completed within 14 days of the OIG audit and that some of the vegetation grew rapidly between routine lawn care visits but was addressed upon the next lawn care visit. IEI does not agree that these cases should count as a deficiency against IEI given that there are conditions and situations when some types of vegetation can grow rapidly. Innotion did find a few cases when the lawn care was completed but contractor may have missed some growth. These cases have been noted and corrected with IEI contractors.

**Comment 7**

- IEI does recognize that there were some FSM inspections that were not completed at least once every 14 days. IEI had already taken corrective actions to address this situation before the OIG audit and the results are evident with May, June and July FSM inspection on time and completion results being 98+% as noted by the HUD report info attached. IEI will continue to work with contractors to ensure high on-time completion of FSM inspections.

**Comment 8**

- IEI has a comprehensive QC review program that completes both desktop reviews of HPIR and FSM inspections as well as field QC visits and reviews to monitor contractor performance and provide input and guidance to contractors that may need improvement. IEI will add to its QC processes a new tool that allows field QC reps to complete and submit field QC work orders from the property site via web access and immediately assign the work orders to contractors to remedy any situations and issues. IEI also has well documented processes and procedures that ensure contract compliance and conducts regular and continual training with contractors to reinforce IEI HUD standards.

**Comment 9**

After review of the FSM inspections and FSM date stamped pictures IEI recommends that the OIG audit reflects that IEI adequately maintained HUD properties and complied with contract requirements most of the time. IEI also request another debrief and open discussion before the final audit results are determined and posted considering the data IEI has provided.

Respectfully,

Al Espinoza

## **OIG Evaluation of Auditee Comments**

- Comment 1** We reviewed Innotion’s written response including all supporting documentation. Based on the response, we made minor changes to the report. However, the overall conclusions of the report remain the same. In addition to the auditee response in appendix B of this report, the auditee also provided reports, photos, and other documentation with its response. We did not include this in the report because it was too voluminous; however, it is available upon request.
- Comment 2** Based on our audit work, we do not agree that Innotion generally complied with its REO contract requirements. As a result, the wording in the title remains the same.
- Comment 3** The auditability survey process produced an internal document used to identify possible risks in the HUD REO program and was not a formal audit that followed the standard audit process. The audit of Innotion was one of several that were suggested based on the risks identified in the auditability survey.
- Comment 4** We understand there are various circumstances that can result in an unsecured property and we took these circumstances into consideration. We also used a conservative approach when identifying deficiencies. For example, we went to properties twice if the property did not close before our second review. For properties that we visited twice, we generally only considered the property unsecured if it was unsecured during both site visits, unless other evidence suggested Innotion was at fault. In one instance, an Innotion quality control inspector was at the property earlier on the same day of our review and a door was left unsecured. We also reviewed documentation in P260, including uploaded photographs, to ensure that photographs did not conflict with our audit conclusions. We also interviewed and observed field service managers, and interviewed the quality control inspectors. When we performed our observations of the field service managers, we noted the field service manager inspectors did not check windows at every home. In addition, a quality control inspector stated that he did not always verify that field service manager inspectors secured windows. In addition, some of the windows we noted did not have a locking mechanism in place. We did not remove any unsecured property findings from the audit report.
- Comment 5** We understand there are various circumstances that can result in properties not in broom swept condition and we took these circumstances into consideration. We also used a conservative approach when identifying deficiencies, For example, we went to properties twice if the property did not close before our review. For properties that we visited twice, we only considered the property not broom swept if it was in similar condition during both site visits, unless other evidence suggested Innotion was at fault such as time between inspections. We noted one instance where the property was not broom swept even though the field service

manager inspector inspected the property one day before our site visit. We reviewed documentation in P260, including uploaded photographs, to ensure that it did not conflict with our audit conclusions. We also interviewed and observed field service managers, and interviewed the quality control inspectors. In addition, when we performed our observations of the field service managers, we noted a field service manager that did not note or resolve various items such as a dirty entry way, debris in the hallway, and roaches on the floor. We did not remove any broom swept condition findings from the report.

**Comment 6** We understand there are various circumstances that can result in properties with landscape not maintained and we took these circumstances into consideration. We also used a conservative approach when identifying deficiencies. For example, we went to properties twice if the property did not close before our review. For properties that we visited twice, we only considered the property not landscaped if it was in similar or worse condition during both site visits, unless other evidence suggested Innotion was at fault such as time between inspections. We noted one property where the field service manager was at the property six days before our review and it appeared landscaping duties were not performed. We also reviewed documentation in P260, including uploaded photographs, to ensure that it did not conflict with our audit conclusions. We also, interviewed and observed field service managers, and interviewed the quality control inspectors. There was one property where the field service manager did not document in P260 that it completed landscaping duties for three consecutive inspections before our review. During our site visit, the landscaping for this property was not maintained. We did not remove any landscape findings from the audit report.

**Comment 7** We reviewed the attachments concerning timeliness of inspections and revised our results accordingly. We acknowledge that Innotion is taking steps to improve the timeliness of its inspections. Any corrective actions can be submitted to HUD for review during the audit resolution process.

**Comment 8** We acknowledge that Innotion has a quality control process in place. However, the quality control inspectors allowed property deficiencies to occur. We are encouraged Innotion is continually striving to improve its quality control inspections. Any changes that Innotion makes to its quality control program to capture deficiencies should be submitted to HUD during the audit resolution process.

**Comment 9** After reviewing Innotion's attachment detailing its rebuttal of HUD OIG's property reviews, we removed the leak noted in case file 023-308079. Although we removed this deficiency, the property remained as material fail due to the unsecured property finding. The leak noted in case file 023-308079 is the only revision to the table of property deficiencies in Appendix D. . The evidence provided by Innotion was not sufficient to clear the remaining findings. Our conclusions were based on several methods and sources of information as

specified in the scope and methodology section of this audit report. This included property site visits, interviews, file reviews, and data from the P260 system. We did not rely solely on forms or photos taken by the field service manager or asset managers. We also had concerns with some of the data and photos, including photos taken at advantageous angles. Based on the results of our audit work, we do not agree that Innotion generally complied with its REO contract requirements. As a result, the audit report title remains the same. We held an exit conference with Innotion to discuss the audit report. Since only minor changes were made to the audit report, we do not believe an additional formal meeting is warranted. However, we notified Innotion of the minor changes before report issuance.

## Appendix C

### CRITERIA

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#### Performance Work Statement

##### 1.6 Purpose and Objectives

HUD has identified six primary objectives for its Field Service Managers. They are to ensure that:

- FHA insured properties are maintained in a manner that preserves communities;
- HUD has real time access to all property related information;
- Properties are secured and safe from hazardous conditions;
- Property values are preserved;
- Properties are maintained in a manner that reflects a high standard of care;
- There is a high level of customer satisfaction with HUD's property disposition program.

##### 2.2 Definitions

Secured Properties – a property where all windows, doors and openings are locked, boarded (where authorized), or otherwise secured to prevent unauthorized entrance by person or animal into any portion of the dwelling, including exterior entrances to crawl spaces, and any other structures on the property, e.g. garages and sheds.

##### 3.1.3 P260

P260 is an Internet based system that will serve as the primary system of record for all REO case management transactions. This system will assign each HUD-owned property for Contractors to track the disposition activity from conveyance to sale.

##### 5.1.7.1 Quality Control Plan

The Contractor shall update, maintain, and implement a comprehensive quality control plan. The Contractor's quality control plan will ensure that all aspects of this performance work statement, in accordance with the performance standards listed herein, are performed completely and appropriately, and will contain a plan for corrective action when deficiencies or insufficient performance are identified. The quality control plan will be designed and implemented to result in quality and timely contract performance.

### **5.1.8 Property Management Plan**

The Contractor shall develop and implement a comprehensive Property Management Plan (PMP) that fully describes how the Contractor intends to meet or exceed the performance objectives of this PWS [performance work statement]. The PMP shall address, at a minimum, the methodology and/or standards for:

- Maintenance and level of care;
- Conducting and uploading inspection data into P260;
- Validating work performed at a satisfactory level;
- Subcontracting control and oversight;
- Emergency response;
- Utilizing construction/improvement cost estimating application;
- Ensuring compliance with local and state laws and regulations regarding evictions; vacancies and any other property related compliance issues;
- Servicing properties across geographic areas and in varying ranges of property value.

#### **5.2.2.1.2.1 Health and Safety Hazards and Emergency Repairs:**

If the inspection identifies any health and safety conditions, or there is a need for any emergency repairs the contractor shall remedy those conditions within 1 day of the inspection and update P260 with work orders and before and after photographs within 2 days of completion of the remedial action.

#### **5.2.2.2 Initial Securing**

Concurrent with the completion of Parts I and II of the HUD Property Inspection Report, the Contractor shall ensure that all properties conveyed to HUD are properly secured against unauthorized entry. The Contractor shall perform the initial securing services and routine inspections every two weeks.

#### **5.2.2.3.3 Repair Broken Windows and Doors**

Repair all broken doors and replace broken windows unless the property is in an approved boarding area or as directed by the GTR [government technical representative]. Approved boarding areas are listed in Mortgagee Letter 2002-10. Unless otherwise directed by the GTR, if properties are conveyed to HUD with boarding but are not located in approved boarding areas, then the Contractor shall remove the boarding, repair any broken doors and replace broken windows.

#### **5.2.2.3.5 Winterization**

The Contractor shall perform winterization of all operating systems and equipment including, but not limited to, shutting water off for external spigots and filling internal water systems with anti-freeze in accordance with the requirements of Mortgagee Letters 2002-10, 2003-05 or any subsequent policy directives.

#### **5.2.2.3.6 Prevent Further Moisture Damage**

Contractor must stop active leaks that may cause deterioration of the property or pose an imminent health or safety hazard.

#### **5.2.2.3.7 Install Sign-In Sheets**

Contractor must place and maintain a sign-in sheet in the property. A separate sign in sheet will be required in each unit of a multi unit property. The Contractor and all Subcontractors and workmen shall sign-in each time they enter the property.

#### **5.2.3.1 Ready to Show Condition**

Prior to the Asset Manager listing any HUD-owned property for sale, the Contractor shall ensure that it is in Ready to Show Condition which means the property is free of debris, visible insect/rodent infestations and health and safety hazards. All cabinets, refrigerators, freezers, counter tops, and windows must have been wiped clean and the house must be free of bad smells. All floors and carpets must be clean. All repairs required to correct safety hazards and any approved repairs to be done prior to listing the property must be completed in order for the house to be in ready to show condition. The yard must be free of trash and debris. The grass must be cut, bushes trimmed and holes patched, and or properly secured to protect the public. Swimming pools and wells must be properly secured to protect the public. The Contractor shall also ensure that the property remain in the ready to show condition until sold.

#### **5.2.3.2 Routine Inspections**

The Contractor shall routinely inspect and take all actions necessary to ensure that properties are free from health and safety hazards, free of debris, refuse, and personal property, that corrective actions are taken on broken windows and doors, that properties are properly secured, that winterization is maintained, and active leaks are promptly addressed. At a minimum, the Contractor shall inspect the property once every two weeks and report data on FSM Property Inspection Form. Based on geography, climate, age and community needs, some properties may require more frequent inspections and a higher level of maintenance than others. Upon HUD's request, the Contractor must provide within 2 business days the routine inspection forms used by the Contractor to perform the inspections.

## Appendix D

### PROPERTY DEFICIENCIES

Case number	State	Landscape issues	Debris & other hazards	Exposed wires	Inspector did not sign in	Not in broom-swept condition	Required signs not posted	Not boarded and secured	Unallowable boarding	Property not winterized	No issues/passed	Material fail	Minor fail	Ineligible funds <sup>8</sup>
022-186880	AZ	X	X					X				X		\$295
022-194702	AZ							X				X		\$295
022-201080	AZ										X			
022-153028	AZ		X										X	
022-167004	AZ										X			
022-181234	AZ							X				X		\$295
022-183545	AZ					X		X	X			X		\$295
022-186160	AZ	X	X									X		\$295
023-381607	AZ							X				X		\$295
023-174371	AZ	X	X	X		X		X				X		\$295
023-242608	AZ	X						X				X		\$295
023-250565	AZ					X						X		\$295
022-199042	AZ	X											X	
022-203107	AZ										X			
022-203292	AZ	X										X		\$295
022-183376	AZ	X						X				X		\$295
023-327874	AZ	X											X	
023-204277	AZ					X		X				X		\$295
023-222046	AZ										X			

<sup>8</sup> Refer to Scope and Methodology section of the report for a detailed description of ineligible funds.

Case number	State	Landscape issues	Debris & other hazards	Exposed wires	Inspector did not sign in	Not in broom-swept condition	Required signs not posted	Not boarded and secured	Unallowable boarding	Property not winterized	No issues/passed	Material fail	Minor fail	Ineligible funds
023-001192	AZ										X			
023-273282	AZ										X			
023-337220	AZ										X			
023-382843	AZ	X						X					X	
023-213233	AZ										X			
023-193264	AZ		X	X									X	
023-270991	AZ										X			
023-245265	AZ										X			
023-169370	AZ							X				X		\$295
023-227969	AZ		X	X		X		X				X		\$295
023-309428	AZ		X										X	
023-270203	AZ										X			
023-221388	AZ				X	X							X	
023-286524	AZ							X				X		\$295
023-348124	AZ							X				X		\$295
023-266430	AZ							X				X		\$295
023-273186	AZ	X				X						X		\$295
023-383519	AZ										X			
023-305881	AZ				X								X	
023-266155	AZ	X						X				X		\$295
023-105621	AZ										X			
023-422215	AZ							X				X		295
023-208091	AZ										X			
023-245205	AZ					X							X	
023-308079	AZ		X					X		X		X		\$295
023-275179	AZ										X			
023-318143	AZ										X			
023-240353	AZ		X										X	
023-368328	AZ										X			
332-474261	NV							X					X	

Case number	State	Landscape issues	Debris & other hazards	Exposed wires	Inspector did not sign in	Required signs not posted	Not boarded and secured	Unallowable boarding	Property not winterized	No issues/passed	Material fail	Minor fail	Ineligible funds
332-453878	NV									X			
332-465339	NV							X				X	
332-494509	NV									X			
332-448441	NV									X			
332-459129	NV									X			
332-479282	NV									X			
332-497471	NV									X			
332-436984	NV									X			
332-364700	NV									X			
332-460229	NV						X				X		\$295
332-434760	NV		X				X				X		\$295
332-465180	NV									X			
332-470182	NV						X				X		\$295
332-436061	NV											X	
332-474293	NV									X			
332-440160	NV						X	X			X		\$295
332-337561	NV									X			
332-365943	NV		X	X				X			X		\$295
332-432933	NV			X				X			X		\$295
332-435346	NV									X			
332-452943	NV									X			
332-433829	NV									X			
332-462350	NV									X			
331-118742	NV	X									X		\$295
331-123212	NV	X										X	
331-129366	NV											X	
331-145660	NV										X		\$295
331-124969	NV											X	
331-126239	NV	X									X		\$295

Case number	State	Landscape issues	Debris & other hazards	Exposed wires	Inspector did not sign in	Not in broom-swept condition	Required signs not posted	Not boarded and secured	Unallowable boarding	Property not winterized	No issues/passed	Material fail	Minor fail	Ineligible funds
331-120926	NV	X					X					X		\$295
331-130317	NV					X							X	
121-236804	ID		X										X	
121-221913	ID		X										X	
121-218072	ID									X				
121-263971	ID									X				
121-277446	ID			X					X			X		\$295
121-249347	ID							X				X		\$295
121-236493	ID								X				X	
121-243689	ID									X				
121-233509	ID					X		X				X		\$295
121-234084	ID							X				X		\$295
121-227767	ID	X						X				X		\$295
121-229897	ID							X				X		\$295
121-255640	ID							X					X	
121-239238	ID		X	X		X		X				X		\$295
121-259455	ID									X				
121-217437	ID									X				
<b>Total homes</b>		<b>16</b>	<b>13</b>	<b>7</b>	<b>2</b>	<b>21</b>	<b>1</b>	<b>30</b>	<b>7</b>	<b>1</b>	<b>37</b>	<b>38</b>	<b>21</b>	<b>\$11,210</b>
<b>Percentage of homes failed</b>		<b>17</b>	<b>14</b>	<b>7</b>	<b>2</b>	<b>22</b>	<b>1</b>	<b>31</b>	<b>7</b>	<b>1</b>	<b>39</b>	<b>40</b>	<b>22</b>	