



Ofori & Associates, PC, Hartford, CT

Single Family REO Contract Administration



Issue Date: February 19, 2013

Audit Report Number: 2013-BO-1001

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

FROM: *Edgar Moore*
Edgar Moore
Regional Inspector General for Audit, Boston Region, 1AGA

SUBJECT: Ofori & Associates, PC, Hartford, CT, Did Not Always Comply With Its REO
Contract and Marketing Plan Requirements

Enclosed is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General (OIG), final results of our review of Ofori & Associates, PC, regarding compliance with case processing requirements and timeframes to obtain the highest net return for HUD's REO inventory and minimize holding time.

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 212-264-4174.



February 19, 2013

Ofori & Associates, PC, Hartford, CT, Did Not Always Comply With Its REO Contract and Marketing Plan Requirements

Highlights

Audit Report 2013-BO-1001

What We Audited and Why

We audited Ofori & Associates, PC, regarding its U.S. Department of Housing and Urban Development (HUD) real estate-owned (REO) Management and Marketing (M&M) III program. This review was part of the Office of Inspector General's efforts to improve the integrity of the single-family insurance program. Our audit objective was to determine whether Ofori complied with case processing requirements and timeframes to obtain the highest net return for HUD's REO inventory and minimize holding time.

What We Recommend

We recommend that the Deputy Assistant Secretary for Single Family Housing require Ofori officials to establish sufficient internal controls to ensure that contract and marketing plan requirements are performed adequately and in a timely manner. We also recommend that the Deputy Assistant Secretary for Single Family Housing provide guidance to Ofori officials regarding adequately documenting P260 and the property case files, and ensure that it develops adequate controls to ensure that all required documentation is included in the property case files and uploaded to P260.

What We Found

Ofori officials did not always comply with case processing requirements and timeframes for the disposition of REO properties assigned to them. Specifically, they did not always perform all case processing requirements or perform case processing requirements in a timely manner to minimize holding time and costs to HUD. They also did not adequately document information in case files and the P260 computer system.¹ This condition occurred because Ofori officials did not always follow contract and marketing plan requirements; have adequate controls in place to ensure that case processing requirements were completed and documented; and adequately address procedures, processes, and timeframes they would follow. As a result, HUD did not have assurance that it always received the highest net return on its REO inventory and that holding time and costs were minimized.

¹ P260 is an Internet-based system that serves as the primary system of record for all REO case management transactions.

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BACKGROUND AND OBJECTIVE

The Federal Housing Administration (FHA) provides mortgage insurance on loans made by FHA-approved lenders throughout the United States and its territories. FHA mortgage insurance provides lenders with protection against losses as a result of homeowners defaulting on their mortgage loans. When a homeowner defaults, the lender deeds the home to the Secretary of Housing and Urban Development in exchange for an insurance claim payment. The property then becomes part of the U.S. Department of Housing and Urban Development's (HUD) real estate-owned (REO) inventory from which HUD offers the property for sale to recover the loss from the foreclosure claim.

Since 1999, HUD has outsourced the disposition of its REO inventory under the management and marketing (M&M) contracting process. M&M contractors manage and market single-family properties owned by or in the custody of HUD. HUD has launched the third generation of its M&M program, known as M&M III. Before M&M III, contractors were responsible for both maintenance and marketing of HUD's REO properties. However, under M&M III, these functions have been separated to increase the effectiveness of HUD's asset disposition program.

To foster competition among the contractors, thereby improving responsiveness, reducing risk, and increasing net returns to the agency, HUD awarded multiple field service manager and asset manager contracts in each area. Field service managers are companies that provide property preservation and protection services consisting of but not limited to inspecting the property, securing the property, performing cosmetic enhancements and repairs, and providing ongoing maintenance. Asset managers are responsible for the marketing and sale of REO property in a manner that maximizes net return, minimizes holding time, and expands home ownership.

HUD selected Ofori & Associates, PC, as one of its asset managers covering four contract areas (1A, 2A, 2P, and 3P). We focused our audit efforts on two of Ofori's contract areas, known as 2P and 3P,² covering 15 States with a contract effective date June 1, 2010.

HUD identified five primary objectives for its asset managers according to its performance work statement. They are to ensure that

1. Properties are accurately and competitively valued,
2. Sales achieve the highest net return,
3. Holding time is minimized,
4. Sales create owner-occupant opportunities, and
5. Closing proceeds are properly accounted for and delivered to HUD in a timely manner.

For properties located in the 2P and 3P jurisdictional areas, HUD expended more than \$12 million on Ofori's asset manager contract fees between June 1, 2010, and March 31, 2012. The

² 2P consists of the District of Columbia, Delaware, Ohio, Maryland, Pennsylvania, Virginia, and West Virginia; 3P consists of Connecticut, Massachusetts, Maine, New Hampshire, New Jersey, New York, Rhode Island, and Vermont.

total value of Ofori's contracts was more than \$57.8 million, including the base year and 4 option years. HUD's Homeownership Center in Philadelphia is responsible for the direct oversight of Ofori's contracts. Our overall audit objective was to determine whether Ofori complied with case processing requirements and timeframes to obtain the highest net return for HUD's REO inventory and minimized holding time.

RESULTS OF AUDIT

Finding: Ofori Officials Did Not Always Comply With Their REO Contract and Marketing Plan Requirements

Ofori officials did not always comply with case processing requirements and timeframes for the disposition of REO properties assigned to them. Specifically, they did not always perform all case processing requirements or perform case processing requirements in a timely manner to minimize holding time and costs to HUD. They also did not adequately document information in case files and the P260 computer system. This condition occurred because Ofori officials did not always follow contract and marketing plan requirements; have adequate controls in place to ensure that case processing requirements were completed and documented; and adequately address procedures, processes, and timeframes they would follow. As a result, HUD did not have assurance that it always received the highest net return on its REO inventory and that holding time and costs were minimized.

Case Processing for Disposition Not Always in Accordance With Requirements and Timeframes

Ofori officials did not always perform all case processing requirements in accordance with their contracts and marketing plans. Specifically, they did not always

1. Ensure that properties were in ready-to-show condition.
2. Follow up on appraisal-related discrepancies.
3. Disclose all available property information to purchasers.
4. Document the reanalysis of properties or a detailed plan to sell properties that had been on the market for 90 days or perform reanalysis in a timely manner.
5. Perform counteroffers in accordance with the marketing plan.
6. Perform or perform in a timely manner all required inspections.
7. List or relist properties when contracts were canceled, execute sales contracts, or close on properties within the required timeframes.
8. Adequately perform closing procedures.

Of the 62 case files reviewed, we found at least one error in each case. The details are described below and summarized in appendix C.

1. Properties Not Always in Ready-To-Show Condition

In 19 of 62 cases reviewed, Ofori officials did not follow up on discrepancies between the appraisals, the property inspections, or both related to the property's condition. In seven of these cases, the properties were not in ready-to-show condition³ when listed, and Ofori officials should have submitted a work order for correction by the field service manager⁴ before listing the property for sale and notified HUD of the property condition as required. Additionally, health and safety hazards were sometimes noted in the appraisals or appraisal pictures but not included in the inspection reports performed by Ofori's listing brokers⁵ or narrative of the appraisal reports. As a result, these properties may not have been in ready-to-show condition.

For example, in case number 411-3843905, the appraisal pictures showed standing water in the basement; however, Ofori officials did not issue a work order for the field service manager to correct this issue. The appraisal narrative did not discuss the water in the basement. In this case, Ofori officials did not order a ready-to-list inspection; therefore, one was not performed before the property was listed. In addition, there was no documented follow-up with the field service manager or government technical representative.⁶



Standing water in the basement

³ Ready-to-show condition is defined as “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.”

⁴ According to section 5.2.1.1.of Ofori's contracts and section 2 of its marketing plans, after receipt of the appraisal and before listing the property for sale, Ofori will perform a walk-through inspection (ready-to-list inspection) to ensure that all initial services, work orders, and repairs, if applicable, are completed as intended and ensure that the property is in ready-to-show condition.

⁵ Ofori's agreements with its listing brokers required the listing brokers to perform the initial, ready-to-list, and ready-to-close inspections.

⁶ According to section 5.2.1.1.of Ofori's contracts, the government technical representative should be notified of property condition variances.

In another example, case number 352-5601402, the housing property inspection report performed by the field service manager before assigning the property to Ofori stated that the property was structurally unsound and unsafe to enter. Pictures in the report showed a collapsed foundation wall and mud on the basement floor. However, inspections performed by the listing broker did not identify this deficiency, and the appraiser did not mention the collapsed foundation wall in the appraisal narrative. However, the appraisal pictures showed the collapsed foundation wall in the basement and snow and mud in the basement where the collapsed wall was located. There was no documented follow-up on these issues with the government technical representative or field service manager.



Collapsed foundation wall with snow and mud in the basement

2. No Follow-up on Discrepancies or Deficiencies in Appraisals

Ofori officials did not always follow up on deficiencies or discrepancies with appraisal information in 16 of the 62 cases reviewed (26 percent). We found instances in which (1) the appraised value was inconsistent in different sections of the appraisal, (2) the appraisers did not always adequately explain value adjustments for comparable properties when they exceeded HUD guidelines,⁷ and (3) the appraiser did not include all repair information when determining the insurability of the property.

For example, in case number 249-2937521, the appraiser made an error on the report and showed an appraised value of \$120,000 on the cover page, when the

⁷ According to appendix D of HUD Handbook 4150.2, Valuation Analysis for Home Mortgage Insurance for Single Family One- to Four- Unit Dwellings, generally adjustments should not exceed 10 percent for line items, 15 percent for net sales price adjustments, and 25 percent for gross sales price adjustments. If any adjustments exceed stated guidelines, an explanation must be provided.

correct “as is value,” as reported in the body of the report, was \$60,000. Ofori officials used the incorrect amount that was shown on the cover page and listed the property at \$120,000. In this case, the adjusted comparable values did not exceed \$75,000, and the listing price opinion obtained from the listing broker had a suggested list price of \$49,000. The property was listed for 187 days before it was sold at a sales price of \$15,257. As a result, HUD had no assurance that it received the highest net return on this property with minimal cost since Ofori officials did not adequately review or check the accuracy of the appraisals to ensure that the property was correctly valued and listed.

3. All Available Property Information Not Always Disclosed

Ofori officials did not always document that all available property condition information was provided to the bidders or purchaser before executing the sales contract in 13 of the 62 cases reviewed in accordance with its contracts. For example, Ofori did not always document that it provided the property condition report and lead-based paint disclosures and in one case, did not notify the purchaser that the property was condemned. In five cases, Ofori officials did not document that they provided the final purchaser of the property with the lead-based paint inspection report that was performed for a previous bidder whose contract was canceled, and in two cases, the home inspection report from a previously canceled contract was not provided to the final purchaser before the contract was executed. Failure to disclose all available property condition information can result in delays in closing the property and additional holding costs to HUD.

4. Reanalysis and Detailed Plan Not Documented or Performed in a Timely Manner

The marketing plan listed detailed steps that Ofori would perform when reanalyzing properties. However, reanalysis of properties was not documented in the files or in the P260 system, and the procedures used when reducing the price of properties were not consistent with those specified in Ofori’s marketing plan. Instead, after a specified period, Ofori officials reduced the price of the property by a fixed percentage during each reanalysis period. According to discussions with HUD officials, this price reduction was a standard reduction. Further, the marketing plan was not always consistent with the contract. Specifically, revision 3 of Ofori’s marketing plan provided that Ofori would reanalyze the property after 30 days on the market; however, Ofori’s contracts stated that properties would be reanalyzed after 45 days. Ofori officials revised their marketing plan from 30 to 45 days in October 2011.

Ofori officials did not reanalyze properties in a timely manner in 15 cases in accordance with their contract and marketing plan. According to the marketing plan, Ofori officials would reanalyze properties after a certain number of days on

the market. However, they did not always perform the initial reanalysis or subsequent reanalysis in a timely manner in accordance with the marketing plan.

Additionally, although the marketing plan discussed detailed steps Ofori would take for properties that were on the market for 90 days, in nine cases, Ofori officials did not document that they had developed a detailed plan to sell these properties. As a result, properties may have been on the market longer, and HUD may not have received the highest net return on the property. Thus, Ofori officials need to follow their marketing plan for property reanalysis and for properties that have been on the market for 90 days.

5. Counteroffers Not Always Performed in Accordance With Ofori's Plan

Ofori officials did not always counteroffer bids in accordance with their marketing plan. Specifically, officials did not always provide counteroffer bids that met the trigger amount for counteroffers, and in some cases, bids did not meet the trigger amount to counteroffer; however, counteroffers were made without documented HUD approval. Ofori officials later revised their marketing plan based on discussions with HUD officials, which gave them the right to counter any and all bids; however, before this revision, they should have documented HUD's approval for counter bids that did not meet the trigger amount, and they should have countered bids in accordance with their marketing plan. According to discussions with Ofori officials, HUD wanted them to counteroffer more and implement these changes before the revised marketing plan.

6. Inspections Not Always Performed or Performed in a Timely Manner in Accordance With Requirements

Ofori officials did not always perform or perform in a timely manner all required inspections in accordance with requirements of its contracts and marketing plan. Specifically, in 19 of the 62 cases reviewed, the ready-to-list or ready-to-close inspections were not performed. The ready-to-list inspection is performed to ensure that all of the initial services, work orders, and repairs, if applicable, are completed as intended and ensure that the property is in ready-to-show condition before listing the property for sale. The ready-to-close inspection is required to ensure that the property is in the same condition as listed or as contained in the contract for sale.

In 46 cases, at least one of the required inspections was not performed within the required timeframes specified in Ofori's marketing plan and contracts. Although Ofori's policies and procedures adequately addressed performing these inspections, Ofori officials did not always order or order in a timely manner the inspections as required, and their listing brokers did not always perform the inspections in a timely manner. The initial inspection is performed to determine whether the property is in ready-to-list condition and is ready for an appraisal.

Also, according to Ofori's marketing plan, initial inspections must be completed within 2 days of assignment from the field service manager, ready-to-list inspections should be performed immediately upon receipt of the appraisal, and the ready-to-close inspection should be completed within 5 days before the closing. However, in six cases, the ready-to-list inspections were performed after the property was listed.

7. Failure To List in a Timely Manner, Relist When Contracts Were Canceled, Execute Sales Contracts, or Close on Properties

Ofori officials did not always perform all case processing requirements in a timely manner in accordance with their contract and marketing plan to minimize holding time and cost.⁸ Specifically, they did not always list or relist properties in a timely manner, execute sales contracts, or close on properties in a timely manner in 31 of the 62 cases (50 percent) reviewed.⁹ Ofori officials stated that the delays were caused by the huge influx of inventory at the beginning of their contracts and the lack of P260 system access for many staff members during this time.

For example, in case number 413-3955605, Ofori officials did not cancel and relist the property in a timely manner when the original contract had expired, yet they executed a second sales contract with one of their listing brokers. In this case, the second sales contract was not canceled until contract expiration, which was 45 days later. Ofori officials suspended the listing broker; however, the broker agreement did not contain a provision prohibiting them from bidding on or purchasing REO properties. The listing broker was later reinstated, and a new certification was obtained that included the provision. Ofori officials also did not have written policies and procedures in place detailing what steps staff should take to monitor conflicts of interests. This listing broker placed many bids on other properties, of which two of the property sales closed and the broker received commissions totaling \$3,800.¹⁰ According to section 5.1.13.1 of Ofori's contract with HUD, Ofori may not permit any conflicts of interest. Therefore, HUD should require Ofori officials to repay this amount and determine whether further action should be taken.

8. Closing Procedures Not Always Adequately Performed

Ofori officials did not always adequately perform closing procedures in accordance with their contract. Specifically, they did not always (1) follow the requirements for two discount program sales; (2) notify HUD of amounts paid at closing, including those that may be the responsibility of the field service

⁸ According to the Philadelphia Homeownership Center, holding costs in quarter 4 of 2011 for 2P were approximately \$26 per day and for 3P were \$35 per day.

⁹ We noted that a majority of these delays were during the first 9 months that properties were assigned to Ofori.

¹⁰ In these two cases, the property was listed by another listing broker, but the listing broker-purchaser was paid a selling broker commission on these properties. These two properties were outside our sample of 62 cases shown in appendix C.

manager or lender in 43 of the 62 cases reviewed; and (3) ensure that the costs on the form HUD-1 (Settlement Statement) were correct.

a. Discount Program Sale Requirements Not Met

One property reviewed, case number 374-4334673, was a Good Neighbor Next Door (GNND) sale, whereby the purchaser received a 50 percent discount on the sale in exchange for agreeing to occupy the house for a period of not less than 3 years. However, Ofori officials did not ensure that the second mortgage and note for the 50 percent discount amount of \$57,500 were executed and recorded. Ofori officials also did not document that the required post-closing package was sent to HUD's National Service Center for occupancy monitoring. This condition occurred because Ofori's policies and procedures did not include GNND sale requirements. The second mortgage and note are intended to act as an absolute bar to the sale of the property during the 36-month required occupancy term without repaying the appropriate portion of the discount. Ofori officials also did not verify that the purchaser did not already own property as prohibited by the contract. Since Ofori's policies and procedures did not include GNND sale requirements, HUD had no assurance that properties sold under the GNND program were sold to eligible purchasers and that its interest in these properties was properly secured. According to the P260 system, as of November 19, 2012, there were a total of 36 GNND sales, including the one reviewed.

b. HUD Not Always Notified of Amounts Paid at Closing

Ofori officials did not always notify HUD of amounts paid at closing, including amounts that may be the responsibility of the field service manager or lender, such as taxes, utility costs, homeowners' association fees, and associated penalties and interest. Additionally, Ofori's process for notifying HUD was not consistent for each contract area, as the government technical representative for each area required a different method for reporting these payments. Specifically, the representative for contract area 2P required that a spreadsheet be provided monthly, showing amounts paid at closing from the proceeds, such as taxes, penalties, interest, homeowners' association fees, and utility payments. The representative for contract area 3P required that he be notified via email of any amounts to be paid at closing from the proceeds. As of January 2012, contract areas 2P and 3P were both using the spreadsheet. In some cases reviewed, the case was included on the spreadsheet to HUD, however, interest and penalties were not broken out as required. As a result, HUD paid \$1,394 in costs that may have been the responsibility of the field service manager or lender, including penalties and interest on taxes, utilities, and homeowners' association fees.¹¹

¹¹ Related to case numbers 372-1680833, 412-6043294, 341-0927619, 441-7769920, 061-2876843, 548-4350643, 251-3824725, 548-4392990, 351-3794529, 374-4458795, 441-6742401, 541-7782122, 352-5601402, 412-5067701, and 412-5096171

c. Costs on HUD-1 Not Always Correct

Ofori officials approved duplicate costs in two cases (case numbers 548-4392990 and 061-3005865) for homeowners' association fees that were paid by the field service manager and were also paid from the proceeds to HUD at closing. Although the field service manager's payment of these fees was uploaded to the P260 system before closing, it was not checked by Ofori officials before they approved the preliminary HUD-1. Therefore, HUD should obtain reimbursement for the \$450 in duplicate payments. In one of these cases (548-4392990), the closing agent also included \$1,517 in additional costs on the HUD-1 that were not approved by Ofori officials.

Case Files and P260 Not Documented Adequately and in a Timely Manner

Based on our review, Ofori officials did not adequately document case files, and information was not always uploaded to the P260 computer system as required by their contracts. Ofori's contracts require that officials maintain adequate case files documenting property disposition until closeout of the property and also require them to document this information in the P260 system. Case files did not include documentation related to property disposition, and property reanalysis was not documented in the files or in the P260 system. This included documentation such as relevant emails that were generated outside the P260 system and approvals by HUD for property reanalysis. The case files also did not always include final closing packages, and the reasons for canceled contracts were not always documented in the file or the P260 system.

Additionally, the initial, ready-to-list, and ready-to-close inspection reports were not always uploaded to P260 or uploaded in a timely manner as required by Ofori's contract and marketing plan, nor were they always included in the files. Based on discussions with Ofori officials, this condition may have been caused by the volume of inventory transferred at the beginning of the contracts, a lack of P260 access for many of Ofori staff until April or May 2012, and confusion by Ofori officials regarding what documentation should be included in the file and P260.

Conclusion

Ofori officials did not always comply with case processing requirements and timeframes for the disposition of REO properties assigned to them. Specifically, they did not always perform all case processing requirements or perform case processing requirements in a timely manner to minimize holding time and costs to HUD, nor did they adequately document case files and the P260 computer system. This condition occurred because Ofori officials did not always follow contract

and marketing plan requirements; have adequate controls in place to ensure that case processing requirements were completed and documented; and always adequately address procedures, processes, and timeframes they would follow. As a result, HUD did not have assurance that it always received the highest net return on its REO inventory and that holding time was minimized.

Ofori officials had begun addressing the deficiencies identified during our review, including a checklist for Ofori’s marketing specialists to use to improve the review of appraisals and for hard-to-sell properties; had updated their inspection and closing procedures; and were revising their marketing plans to address deficiencies identified during the audit. Ofori officials also began notifying HUD of amounts paid at closing that were not previously reported to HUD, however, Ofori needs to ensure that the interest and penalties are broken out on the spreadsheet. HUD needs to ensure that the added controls address the deficiencies identified in the report, including conflicts of interest, and are followed.

Recommendations

We recommend that the Deputy Assistant Secretary for Single Family Housing require Ofori officials to

- 1A. Develop and implement adequate procedures and controls that adequately addresses their processes and timeframes and encompasses the eight specific issues identified in the Finding section relating to “Case Processing for Disposition not Always in Accordance with Requirements and Timeframes.”
- 1B. Reimburse HUD \$3,800 in ineligible commissions paid to the listing broker that purchased two properties and determine whether additional action is necessary.
- 1C. Review the 36 GNND closed sales, determine whether the purchasers were eligible participants, and submit documentation to support that the second mortgage and note for these cases, including the \$57,500 discount on case number 374-4334673 were recorded and that the all document delivery requirements were met for the 36 cases.
- 1D. Ensure that HUD is properly notified of the \$1,394 in costs paid on the HUD-1 that may be the responsibility of the field service managers, the lenders, or both.¹²

¹² Related to case numbers 372-1680833, 412-6043294, 341-0927619, 441-7769920, 061-2876843, 548-4350643, 251-3824725, 548-4392990, 351-3794529, 374-4458795, 441-6742401, 541-7782122, 352-5601402, 412-5067701, and 412-5096171.

- 1E. Ensure that HUD is reimbursed for the \$450 in duplicate payments included on the HUD-1s and made on case numbers 548-4392990 and 061-3005865.
- 1F. Determine whether the \$1,517 in unapproved closing costs included on the HUD-1 and related to case number 548-4392990 are supported and if not, obtain reimbursement from the appropriate contractor.

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

- 1G. Ensure that all of Ofori's employees who require access to the P260 system obtain timely access.
- 1H. Provide guidance to Ofori officials regarding adequately documenting P260 and the property case files and ensure that it develops adequate controls to ensure that all required documentation from disposition to closeout is included in the property case files and uploaded to P260.

SCOPE AND METHODOLOGY

Our audit covered the period June 1, 2010, to February 29, 2012, but was expanded when necessary. We selected Ofori's Hartford office because Ofori was one of four asset managers in the Philadelphia Homeownership Center area that was awarded contracts in two geographic locations. We reviewed property case files for contract areas 2P (Ohio, Pennsylvania, Virginia, West Virginia, Maryland, the District of Columbia, and Delaware) and 3P (Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Rhode Island, and Vermont). We performed our fieldwork between April and December 2012 at Ofori's Hartford office.

To accomplish our objective, we

- Reviewed the performance work statements in Ofori's M&M III asset manager contract and its marketing plan(s) in effect during our audit period.
- Reviewed HUD regulations and reference materials and policies and procedures in place during our audit period.
- Interviewed Ofori officials and followed up with Homeownership Center officials as necessary during the audit.
- Reviewed Ofori's quality control plan, to ensure that it met contract requirements, and quality control reviews and the Homeownership Center's most recent review to identify deficiencies in performance.

We selected our sample of case files using computer-processed data maintained by HUD in its information system that provides case-level data on single-family housing properties and loans (Single Family Data Warehouse) to identify properties that were acquired by HUD and closed during our audit period. We compared these data with information provided by the Philadelphia Homeownership Center obtained from HUD's P260 system to ensure that the number of closed cases agreed. We did not rely on these data to reach our conclusions; therefore, we did not assess the reliability of the data.

We reviewed a nonstatistical sample of 62 closed case files assigned to Ofori between June 1, 2010, and February 29, 2012. During this period, there were 6,561 closed cases. The sample represented property case files from both 2P and 3P contract areas. We selected the sample units without conscious bias; that is, without a special reason for including or excluding them. This sampling process does not consist of sampling units selected in a careless manner; rather, units are selected in a way that 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. Therefore, we did not project our findings to the population using the sample.

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.

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:

- Controls over case processing requirements, timeframes, and bid thresholds to ensure that asset management requirements were met.

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:

- Ofori officials did not always have adequate controls in place to ensure that case processing requirements included in their marketing plans and contracts were performed adequately and in a timely manner and documented.

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS

Recommendation number	Ineligible 1/	Unsupported 2/
1B	\$3,800 ¹³	
1C		\$57,500
1D.		\$1,394
1E.	\$450	
1F.		\$1,517
	<u>\$4,250</u>	<u>\$60,411</u>

- 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/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.

¹³ This amount is not included in appendix C, as these properties were not part of our sample of 62 cases.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments



Ofori & Associates, PC

January 30, 2013

Mr. Edgar Moore

Regional Inspector General for Audit

U.S. Department of HUD – Office of Inspector General for Audit

26 Federal Plaza, Room 3430

New York, NY 10278-0068

RE: Ofori & Associates, PC Audit Report 2013-BO-100X

Response to Final Audit Report

Dear Mr. Moore,

We appreciate this opportunity to respond to the referenced final audit findings, and to confirm our understanding of the Exit Conference conducted with Ofori representatives, the OIG and representatives of the Philadelphia HUD HomeOwnership Center (HOC) on January 23, 2013.

The HUD OIG completed an audit of 62 cases with assignment dates beginning on 10/4/2010 through 1/4/2012. 71% of the audit cases in this review were assigned to Ofori during the first 9 months of the Contract, with the balance of audit cases received during the second half of 2011 and one case assigned on 1/4/2012. All audited cases were sold by Ofori and are presently closed. Since start up, we have operated under HUD approved Marketing and QC Plans. We have provided regular training for our employees that encompass the HUD contract requirements, and internal operating processes that we have developed in response to specific needs and to ensure that our operation is in compliance with HUD's requirements. There was a change in the Project Manager for Area 3P in March, 2011 due to performance concerns.

Comment 1

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Comment 1

The CPARS report completed by HUD in August 2012 (2P) supports that there has been tremendous improvement in Ofori's performance. This report, covering the period of 6/1/2011-5/31/2012, gives Ofori a "Very Good" rating and comments that "Ofori is very effective, the staff provides all the necessary documents required within designated time, properties are marketed within the scheduled timelines. All necessary information is uploaded into P260. All required reports are available as required. Ofori management team has shown that they are knowledgeable as to what is expected from the government. They continue to go above and beyond what is required in the PWS." For 3P, the CPARS evaluation covering performance between 3/1/2011-2/29/2012 notes Very Good performance in most areas evaluated.

The 2P & 3P Ofori Contract Office received (in total) the assignment of 3,401 properties between 9/1/2010 and 1/31/2011. These assignments consisted of new acquisitions plus transfer cases from M&MII contractors. Ofori continued to add staff during the ramp up period, and processed the cases with limited P260 access. Our records indicate that we acquired nine (9) P260 IDs during the first 6 months of operation, out of approximately 30 applications submitted.

Since the start up of the 2P & 3P Contracts through the present time, Ofori has sold over 11,000 single family properties for HUD. In 2P the average sales price equaled 81% of the final appraised value and in 3P the sales reflected 85%.

The next section of Ofori's response will address specific areas of performance as noted in the OIG final report draft:

(1) OIG Finding: Properties Are Not Always in Ready-To-Show Condition

Ofori Response: Our process has been updated to include greater detail in the instruction for the Marketing Specialists to follow when preparing a property to list. Compliance with Section 5.2.1.1 (notification to FSM GTR) is achieved through communication in P260. We have established a performance report card system to assist in the management of our NLBs and ensure that inspections and other NLB tasks are performed consistently and timely. Failure to meet requirements will result in suspension or termination of services. Our QC Plan is regularly updated to reflect the most recent processes and needs of HUD. Quarterly training materials have been reviewed and updated. To provide a complete picture of the case with the flooded basement used as an example, Ofori would like to add the following comments:

Comment 1

Comment 2

We agree that the condition of standing water existed, but not at the initial inspection of the property. The subsequent development of the appraisal checklist will eliminate the

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Comment 1

human error during a document review. Further research indicates that the property sold and closed within 64 days of acquisition bringing 89% of the appraised value.

(2) OIG Finding: Inconsistent Follow up on Discrepancies or Deficiencies in Appraisals

Ofori Response: Our process has been updated to include additional detailed steps, including the Appraisal Review Checklist, to ensure that deficiencies and/or discrepancies are identified and addressed.

(3) OIG Finding: All Available Property Information is not Always Disclosed

Ofori Response: Each disposition is reviewed and approved by a manager prior to listing. This review is designed to ensure that all appropriate property information and documentation is included. We are including a second level of review of all listings as additional QC to further ensure that HUDHomeStore listings are complete.

(4) OIG Finding: Property re-analysis Process is not performed consistently with plans and timeframes.

Ofori Response: Updates have been made to our internal written processes and to the Marketing Plans that reflect compliant timeframes with accompanying methodology. For Hard to Sell properties, we designed a special inspection for the assigned NLB to complete providing details about (1) why the property has not sold and (2) recommendations for marketing and selling the property. In all cases where there is an exception to timeframes, P260 is noted.

(5) OIG Finding: Counteroffer Process Inconsistencies

Ofori Response: During the audit process, the 2P Project Manager provided the IG with email communication from HUD that supports the counteroffer process used by Ofori. Presently, both contract area Marketing Plans are revised and approved by HUD to reflect our current process.

Comment 3

(6) OIG Finding: Inspection Performance Inconsistencies:

Ofori Response: The findings reported in the audit were for cases that were not subject to our current inspection procedures which were implemented in April, 2012. Our processes as of that date include; Initial Inspections: We run the AM Overdue Initial Inspection report on a daily basis to ensure that staff complete the inspection form in P260 within two (2) days of the inspection. The QC team reviews 10% of assigned cases to ensure timely upload of inspections. Prior to List Inspections: Staff upload

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Comment 1

Prior to List inspections as attachments to P260 upon review. The Closing Specialist entering the closing package confirms that the inspection is uploaded as an attachment prior to entering the closing package and alerts the appropriate specialist if the inspection is missing. The QC team reviews 10% of all newly listed cases to ensure timely upload of inspections. Ready to Close Inspections: Staff upload Ready to Close inspections as attachments to P260 upon review. The Closing Specialist entering the closing package confirms that the inspection is uploaded as an attachment prior to entering the closing package and alerts the appropriate specialist if the inspection is missing. The QC team will review 10% of all closed cases to ensure timely upload of inspections.

(7) OIG Finding: Timely Listing and Relisting, Delays in Contract Execution and Closing Delays.

Ofori Response: We (Ofori) do not dispute that during the first nine months of operation essential timelines were not met in many cases included in the audit. Critical timelines are now closely monitored and met with regularity. Exceptions are properly noted in the system.

Conflict of Interest investigative procedures have been developed within the limitations of available information to prevent any NLB from purchasing a property from HUD. As discussed with the IG and HUD during the Exit Conference, a recommendation to resolve this problem (for all AM Contractors) would be for HUD to provide a global search feature in P260 to allow AMs access to NLB information prior to executing sales contracts.

Comment 4

The OIG provided two case numbers (413-492998 & 413-378379) during the Exit Conference with a recommendation that the sales commission HUD paid to the selling broker should be returned to HUD. Research indicates that the commissions were paid in keeping with 24 CFR 291.205(2).

(8) OIG Finding: Closing Procedures not always adequately performed in the areas of HUD special programs, notification to HUD of amounts paid at closing that may be the responsibility of the FSM or Lender, and HUD-1 approvals.

Comment 5

Ofori Response: Discount Sales Program: For case 374-433467 (GNND) The original documents have been submitted for urgent recording. The delay in this process was traced back to the closing agent who was not submitting acceptable documents to

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Comment 5

the Recorder's office. Ofori is following this situation on a daily basis until it is completely resolved.

Ofori has completed an audit of the 35 other GNND sales completed during this Contract. For the files found with incomplete steps, Ofori has taken steps to complete the GNND process in compliance with HUD guidelines.

Comment 6

As agreed to at the Exit Conference with the OIG and HUD, the statement made in this section that the Project Manager is not aware of GNND requirements is inaccurate. The PM in question was a participant in the Conference and explained that his statement to the IG indicated a document was not available in one of the audit files. The IG indicated that this finding would be corrected and restated in the Final Letter.

Comment 7

CCLRC Sale: The IG's report noted case 412-492290 as a special program sale deficiency because it lacks a discount sales addendum. In this situation, HUD did not require a discount sales addendum as it is part of the CCLRC program and there is no discount reflected on the sales contract. As discussed during the Exit Conference it is agreed that this finding was not accurate.

Comment 8

HUD Notification: Ofori has been notified HUD of all amounts paid at closing that may have costs attributed to the FSM, mortgagee or other parties. We also provide this information on a monthly basis in the format requested by HUD.

HUD-1 Approvals: To prevent duplication of payments, Ofori closing specialists review all potential pending payments in P260 to ensure that no duplicate payments are approved on the HUD-1 to be paid at closing.

In the final section, Ofori responds to the HUD IG Recommendations

Comment 1

1A. We have implemented many changes since the beginning of the Contracts and we continue to do so based on HUD's needs, our contract requirements and the results of our regular QC review and monitoring. Our most recent Marketing Plans have been reviewed and approved by HUD, we are in the process of updating our QC Plans. Ofori's QC and Contract Administrators will complete a very detailed review of all current processes to determine ways to further improve and to ensure that there are adequate controls in place to address time frames and continue to meet HUD's 8 objectives in this Contract and at all times try to exceed HUD's expectations. As discussed earlier in this response, our improvement is confirmed by HUD within their

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Comment 1

CPARS evaluations completed during 2012 for both contracts. The CPARS report completed by HUD in August 2012 is a review of (2P). This report, covering the period of 6/1/2011-5/31/2012, gives Ofori a "Very Good" rating and comments that "Ofori is very effective, the staff provides all the necessary documents required within designated time, properties are marketed within the scheduled timelines. All necessary information is uploaded into P260. All required reports are available as required. Ofori management team has shown that they are knowledgeable as to what is expected from the government. They continue to go above and beyond what is required in the PWS." For 3P, the CPARS evaluation covering performance between 3/1/2011-2/29/2012 notes Very Good performance in most areas evaluated.

Comment 4

1B. Ofori's research of the two cases in question suggest that HUD paid the commissions to the broker in keeping with 24 CFR 291.205(2), and as such, HUD would not request to be reimbursed for the commissions.

Comment 9

1C. For case 374-433467 (GNND) The original documents have been submitted for urgent recording. The delay in this process was traced back to the closing agent who was not submitting acceptable documents to the Recorder's office. Ofori is following this situation on a daily basis until it is completely resolved.

Ofori has completed an audit of the 35 other GNND sales completed during this Contract. For the files found with incomplete steps, Ofori has taken steps to complete the GNND process in compliance with HUD special program requirements.

Comment 8

1D. Ofori has completed the review of all GNND cases and is taking appropriate follow up actions where needed.

Comment 10

1E. Ofori has provided the HUD GTR with notification of the cases via the ARR report.

1F. We disagree with the recommendation that HUD be reimbursed by Ofori since the errors occurred because the closing took place with unapproved HUD-1s. We will show that there is ongoing follow up to recover the amounts from the third party. This was discussed with the IG and HUD during the Exit Conference and the IG agreed to this change to reimbursement by the responsible third party.

1G. This is a duplication of the findings outlined in 1F. See above.

1H. We agree with the IG's recommendations.

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Comment 11

11. Ofori does understand what documents that HUD requires to be put into P260 on a regular basis. We do request guidance to determine exactly what should be put into the paper file. During the IG audit period we updated our file contents checklist to reflect the documents that HUD looks for during quarterly reviews. There was a question at that time by the IG as to whether or not the documentation was sufficient. We discussed this with the IG and HUD during the Exit Conference and it was agreed by all parties that guidance from HUD would assist not only Ofori, but all of the AM contractors.

Again we thank you for this opportunity to respond to the OIG audit findings.

Very truly yours,

Susan Blackard
Contract Administrator
Ofori & Associates, PC

OIG Evaluation of Auditee Comments

- Comment 1** Ofori officials cite an August 2012 HUD CPARS report that mentions that they have made tremendous improvements in their performance. They cite over 3,400 properties acquired many sold at 81 to 85 percent of the appraised value. They also mention changes in instructions for marketing specialist to follow when preparing a property to list and a report card system to ensure compliance, along with other procedures implemented after the audit period. OIG during the time period audited, acknowledges that Ofori officials made improvements in case processing steps and improvements to its processes and Plans. Therefore, these procedures should be presented to HUD during the audit resolution process for review.
- Comment 2** Regarding the case with the flooded basement, OIG removed the reference to the initial inspection report in the finding; however, there was no documented follow up on the condition shown in the appraisal. Property condition affects the marketability of the property and since the property was not in ready to show condition, HUD did not have assurance that the property was appraised properly, sold as quickly as possible, and whether officials obtained the highest net value for the property.
- Comment 3** The email provided to OIG was in response to the finding and was not from the time when the counteroffers were made and did not state when HUD wanted Ofori to begin implementing the changes. The counteroffers made by Ofori were not in compliance with its approved marketing plan in effect at the time; therefore, Ofori should have documented HUD approval for the deviation from the marketing plan at the time the counteroffers were made.
- Comment 4** OIG acknowledges that commissions can be paid by HUD, however, in these two cases, the sales commission was paid to the selling broker, who had a conflict of interest given that she was a listing broker for Ofori and also the purchaser of the property.
- Comment 5** Regarding case number 374-433467, OIG acknowledges that subsequent to Ofori official's response included in this report, the original document submitted for urgent recording, was in fact recorded on January 31, 2013. Ofori officials' actions are responsive to our recommendations, as such; Ofori officials need to provide HUD documentation supporting the results of their review of the GNND cases during the audit resolution process.
- Comment 6** OIG removed the statement from the report related to the project manager being unaware of the GNND requirements based on additional explanation provided at the exit conference.
- Comment 7** OIG removed the CCLRC sale from the report based on explanation from HUD that the discount sales addendum was not required in this case.

Comment 8 OIG acknowledges that Ofori officials have begun notifying HUD of the cases brought to their attention during the audit, however, Ofori Officials must ensure that the information provided on the spreadsheet breaks out any penalties and interest paid at closing as required.

Comment 9 Regarding Ofori official's comment related to draft recommendation 1D, this recommendation has been merged with the current recommendation 1C; nevertheless see our evaluation in Comment 5 above.

Comment 10 OIG revised the recommendation to require that HUD be reimbursed for these payments by the appropriate party.

Comment 11 Ofori officials actions to request guidance is responsive to our recommendation; as such, OIG acknowledges that HUD needs to provide guidance related to required case file documentation.

Appendix C

PROPERTY DEFICIENCIES BY CASE NUMBER

Case number	Assignment date	Original list price did not equal appraised value	Not in ready-to-show condition	Not listed in a timely manner	Sales contract not executed in a timely manner	Not closed in a timely manner	No follow-up on discrepancies with ready-to-show condition	No follow-up with appraisal deficiencies	Missing inspections	Inspections not timely	All available property condition information not disclosed	Reanalysis not timely	Counteroffers not in accordance with plan	No detailed plan	Deficiencies with closing procedures	Unsupported amount	Ineligible amount
372-1680833	12/03/10								X	X					X	\$29	
412-6043294	12/22/10			X				X	X	X	X				X	\$22	
249-5120461	10/05/10			X					X	X	X	X					
341-0927619	12/14/10			X											X	\$162	
061-2862959	12/02/10			X						X				X	X		
412-5155149	12/17/11					X				X							
441-8034480	05/16/11												X	X			
441-7769920	10/21/11									X					X	\$106	
061-2876843	07/29/11							X		X					X	\$118	
548-4350643	11/15/10				X	X		X							X	\$60	
231-0878747	10/04/10			X						X					X		
541-7948160	03/28/11					X		X	X	X	X				X		
541-5412718	09/19/11					X	X		X	X					X		
412-4801679	11/01/10			X		X		X	X						X		
412-4922900	06/24/11														X		
413-3777072	12/14/11							X	X								
411-2718984	07/11/11			X						X	X		X	X			
441-8557854	05/09/11			X		X											
411-3607849	12/14/10			X						X					X		
061-3005865	09/06/11					X	X					X			X		\$250
571-0771231	06/09/11			X				X	X			X	X				
412-6069070	11/15/10		X	X		X				X			X		X		
541-7508151	11/09/10			X			X					X		X			
413-4650522	12/07/10								X	X					X		
251-3824725	10/20/11									X					X	\$108	
442-2259744	10/27/10			X						X		X		X	X		
548-4392990	12/07/10			X		X	X			X					X	\$1,862	\$200
351-3794529	09/17/10			X						X		X			X	\$73	
374-4458795	12/13/10			X	X		X			X	X				X	\$123	
241-7847865	04/11/11		X			X				X	X				X		
413-4061332	05/27/11									X					X		
541-6080812	01/04/12		X			X											

Case number	Assignment date	Original list price did not equal appraised value	Not in ready-to-show condition	Not listed in a timely manner	Sales contract not executed in a timely manner	Not closed in a timely manner	No follow-up on discrepancies with ready-to-show condition	No follow-up with appraisal deficiencies	Missing inspections	Inspections not timely	All available property condition information not disclosed	Reanalysis not timely	Counteroffers not in accordance with plan	No detailed plan	Deficiencies with closing procedures	Unsupported amount	Ineligible amount
413-3955605	01/29/11			X	X				X	X	X						
061-2929244	11/22/10			X	X		X								X		
413-3771317	12/04/10							X	X				X		X		
061-3463508	10/21/10			X						X		X			X		
441-7639304	04/20/11									X							
412-5716386	09/29/10			X	X			X	X	X					X		
441-6742401	10/14/10			X						X		X	X	X	X	\$89	
541-7782122	08/26/11		X				X				X				X	\$60	
541-7862756	09/13/11									X		X	X		X		
374-4334673	08/04/11					X		X		X	X				X	\$57,500	
413-3694612	10/29/11								X	X							
352-5601402	12/20/10		X	X			X			X		X		X	X	\$5	
411-4294473	11/29/11									X							
411-4098966	12/07/10			X			X	X			X				X		
412-5601536	01/06/11			X						X		X					
412-5067701	06/23/11						X		X		X		X		X	\$64	
251-3360258	08/12/11									X			X		X		
249-2937521	04/28/11	X ¹⁴		X				X		X		X	X	X			
413-4020741	05/23/11							X		X					X		
251-3292815	01/11/11			X						X			X		X		
412-6253559	08/04/11									X					X		
412-5920827	07/07/11											X	X				
411-3864963	02/09/11		X	X	X		X	X	X	X	X				X		
411-2969926	03/26/11						X			X		X			X		
413-4389905	02/04/11									X			X		X		
441-7973682	05/11/11					X		X		X		X	X	X			
411-3843905	12/14/11		X				X		X								
412-5096171	02/12/11			X	X				X	X	X				X	\$30	
442-2688222	07/07/11								X	X							
412-4681698	02/23/11			X	X				X	X					X		
Total cases with deficiencies		1	7	29	8	2	19	16	19	46	13	15	14	9	43	\$60,411	\$450

¹⁴ This was due to Ofori officials' not adequately reviewing the appraisal, which had two different values.