

**PROVIDING ADEQUATE HOUSING: IS HUD
FULFILLING ITS MISSION?**

HEARING

BEFORE THE

SUBCOMMITTEE ON CRIMINAL JUSTICE,
DRUG POLICY, AND HUMAN RESOURCES

OF THE

**COMMITTEE ON
GOVERNMENT REFORM**

HOUSE OF REPRESENTATIVES

ONE HUNDRED SIXTH CONGRESS

FIRST SESSION

NOVEMBER 3, 1999

Serial No. 106-140

Printed for the use of the Committee on Government Reform



Available via the World Wide Web: <http://www.gpo.gov/congress/house>
<http://www.house.gov/reform>

U.S. GOVERNMENT PRINTING OFFICE

66-338 CC

WASHINGTON : 2000

COMMITTEE ON GOVERNMENT REFORM

DAN BURTON, Indiana, *Chairman*

BENJAMIN A. GILMAN, New York	HENRY A. WAXMAN, California
CONSTANCE A. MORELLA, Maryland	TOM LANTOS, California
CHRISTOPHER SHAYS, Connecticut	ROBERT E. WISE, JR., West Virginia
ILEANA ROS-LEHTINEN, Florida	MAJOR R. OWENS, New York
JOHN M. McHUGH, New York	EDOLPHUS TOWNS, New York
STEPHEN HORN, California	PAUL E. KANJORSKI, Pennsylvania
JOHN L. MICA, Florida	PATSY T. MINK, Hawaii
THOMAS M. DAVIS, Virginia	CAROLYN B. MALONEY, New York
DAVID M. McINTOSH, Indiana	ELEANOR HOLMES NORTON, Washington, DC
MARK E. SOUDER, Indiana	CHAKA FATTAH, Pennsylvania
JOE SCARBOROUGH, Florida	ELIJAH E. CUMMINGS, Maryland
STEVEN C. LATOURETTE, Ohio	DENNIS J. KUCINICH, Ohio
MARSHALL "MARK" SANFORD, South Carolina	ROD R. BLAGOJEVICH, Illinois
BOB BARR, Georgia	DANNY K. DAVIS, Illinois
DAN MILLER, Florida	JOHN F. TIERNEY, Massachusetts
ASA HUTCHINSON, Arkansas	JIM TURNER, Texas
LEE TERRY, Nebraska	THOMAS H. ALLEN, Maine
JUDY BIGGERT, Illinois	HAROLD E. FORD, JR., Tennessee
GREG WALDEN, Oregon	JANICE D. SCHAKOWSKY, Illinois
DOUG OSE, California	
PAUL RYAN, Wisconsin	BERNARD SANDERS, Vermont (Independent)
HELEN CHENOWETH-HAGE, Idaho	
DAVID VITTER, Louisiana	

KEVIN BINGER, *Staff Director*

DANIEL R. MOLL, *Deputy Staff Director*

DAVID A. KASS, *Deputy Counsel and Parliamentarian*

CARLA J. MARTIN, *Chief Clerk*

PHIL SCHILIRO, *Minority Staff Director*

SUBCOMMITTEE ON CRIMINAL JUSTICE, DRUG POLICY, AND HUMAN RESOURCES

JOHN L. MICA, Florida, *Chairman*

BOB BARR, Georgia	PATSY T. MINK, Hawaii
BENJAMIN A. GILMAN, New York	EDOLPHUS TOWNS, New York
CHRISTOPHER SHAYS, Connecticut	ELIJAH E. CUMMINGS, Maryland
ILEANA ROS-LEHTINEN, Florida	DENNIS J. KUCINICH, Ohio
MARK E. SOUDER, Indiana	ROD R. BLAGOJEVICH, Illinois
STEVEN C. LATOURETTE, Ohio	JOHN F. TIERNEY, Massachusetts
ASA HUTCHINSON, Arkansas	JIM TURNER, Texas
DOUG OSE, California	JANICE D. SCHAKOWSKY, Illinois
DAVID VITTER, Louisiana	

EX OFFICIO

DAN BURTON, Indiana

HENRY A. WAXMAN, California

SHARON PINKERTON, *Staff Director and Chief Counsel*

MASON ALINGER, *Professional Staff Member*

FRANK EDRINGTON, *Professional Staff Member*

LISA WANDLER, *Clerk*

CHERRI BRANSON, *Minority Counsel*

CONTENTS

	Page
Hearing held on November 3, 1999	1
Statement of:	
Beard, D. Michael, District Inspector General for Audit, Texas, Department of Housing and Urban Development; Carolyn Federoff, vice president, Massachusetts State Office AFGE Local 3258; and Saul Ramirez, Jr., Deputy Secretary, Department of Housing and Urban Development	85
Kuhl-Inclan, Kathy, Assistant Inspector General for Audit, Department of Housing and Urban Development; Joyce Gibson, spokeswoman, Coalition for Accountability; Cheryl Peterson, homeowner, Boise, ID; and William Apgar, Assistant Secretary for Housing, Department of Housing and Urban Development	13
Letters, statements, et cetera, submitted for the record by:	
Apgar, William, Assistant Secretary for Housing, Department of Housing and Urban Development:	
Information concerning previous participation experience	52
Prepared statement of	35
Beard, D. Michael, District Inspector General for Audit, Texas, Department of Housing and Urban Development, prepared statement of	87
Federoff, Carolyn, vice president, Massachusetts State Office AFGE Local 3258, prepared statement of	111
Gibson, Joyce, spokeswoman, Coalition for Accountability, prepared statement of	30
Kuhl-Inclan, Kathy, Assistant Inspector General for Audit, Department of Housing and Urban Development, prepared statement of	16
Mica, Hon. John L., a Representative in Congress from the State of Florida:	
Memo dated September 10, 1999	165
Prepared statement of	6
Ramirez, Saul, Jr., Deputy Secretary, Department of Housing and Urban Development, prepared statement of	121

PROVIDING ADEQUATE HOUSING: IS HUD FULFILLING ITS MISSION?

WEDNESDAY, NOVEMBER 3, 1999

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON CRIMINAL JUSTICE, DRUG POLICY,
AND HUMAN RESOURCES,
COMMITTEE ON GOVERNMENT REFORM,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:10 a.m., in room 2154, Rayburn House Office Building, Hon. John L. Mica (chairman of the subcommittee) presiding.

Present: Representatives Mica, Mink, Kucinich, and Tierney.

Staff present: Sharon Pinkerton, staff director and chief counsel; Steve Dillingham, special counsel; Mason Alinger and Frank Edrington, professional staff members; Lisa Wandler, clerk; Cherri Branson, minority counsel; and Jean Gosa, minority staff assistant.

Mr. MICA. I would like to call the Subcommittee on Criminal Justice, Drug Policy, and Human Resources to order.

This morning I would like to open with a statement and yield to other Members as they arrive, but we would like to proceed. We have a full agenda, two full panels. We will try to expedite the hearing as quickly as possible today.

Today's hearing before the Subcommittee on Criminal Justice, Drug Policy, and Human Resources will examine recent developments at the Department of Housing and Urban Development. Specifically, we will focus on changes in two HUD program areas. The first topic will be the Federal Housing Authority [FHA], Marketing and Management Program. The second topic will be HUD's Community Builders Program. As I pointed out to our subcommittee members, we do have oversight jurisdiction and investigation jurisdiction over HUD, and I believe this is our first subcommittee hearing and probably our only one this year, so we will cover these two areas.

As we examine changes that have occurred and problems that have arisen in these two programs, it is important to remember that program problems are not new at HUD. In fact, HUD has had the continuing distinction of being classified by the General Accounting Office [GAO], as being a department at which is termed "high risk."

The reasons that underlie this "high risk" designation by GAO are numerous and, of course, documented. They include a series of problems which are internal control weaknesses, unreliable information and management systems, organizational deficiency, and ineffective program monitoring and oversight, which is due, in part,

to staff with inadequate skills. Again, these are some comments and observations and determinations by the General Accounting Office.

The seriousness of these deficiencies is magnified when you consider the scope of the Department's responsibilities, which continue to multiply. FHA now insures about 6.5 million loans totaling over \$400 billion. In fiscal year 1998, FHA paid out more than 76,000 claims valued at almost \$6 billion, and had more than 42,000 properties in its inventory. HUD staff now includes approximately 9,300 Federal employees, and its annual budget exceeds \$26 billion. This subcommittee needs to explore and know a little bit more about whether taxpayers are, in fact, getting the most for their tax dollars and whether housing needs for those who need these public housing assistance programs are being met.

Today, we will examine changes regarding two HUD programs and attempt to learn whether recent changes have made things, in fact, better or worse.

First, we will hear from witnesses on the topic of HUD's Marketing and Management Program, which replaced the Real Estate Asset Management Program. The new program contracts out critical marketing and management responsibilities. We will try to find out why HUD decided not to follow OMB Circular A-76 in studying the costs and benefits of the program prior to implementing it. If a comprehensive study had been conducted, could current problems have been avoided? Is the program now working properly, or do risks continue? What needs to be done in light of the fact that the largest contractor, Intown, has filed for bankruptcy, apparently leaving others holding the bag?

On March 29, 1999, HUD awarded 16 Management and Marketing contracts to seven contractors for a 5-year value of about \$927 million, nearly \$1 billion. The contractors manage nearly every aspect of the property disposition, including acquiring and maintaining property, and marketing and selling it. The Office of Inspector General will testify today that HUD, in fact, and this is from their testimony, "did not adequately document or evaluate basic business decisions before executing these contracts."

We will also hear testimony that some properties are not being maintained as they should be, and some are not being disposed of efficiently. There are continuing reports of damage, vandalism, neglect and delay, probably also decay. Overall inventory has increased, and defaults are up. Why does this occur? Is there adequate incentive for contractors and subcontractors to protect and enhance property values? Should properties continue to be sold in a condition as is?

A serious problem identified by the Office of Inspector General is that the contracts are not clear about how contractor costs will be reimbursed or whether penalties can be assessed for poor performance. This omission and lack of clarity reportedly results in needed repairs and maintenance being ignored.

A major marketing and management failure is the recent experience of the largest contractor, Intown. That contractor, Intown, successfully bid on and received 7 of 16 management contracts, covering some 39 percent of HUD's properties. The company's recent bankruptcy filing has caused contractor liens to be placed on many

properties, creating serious financial and legal problems for both subcontractors and also for people in need of affordable housing. Why did one company get the lion's share of the contracts and then go bankrupt within months? Is the problem being remedied? These are questions which I think this subcommittee must ask and which we must seek answers for today.

Let me run this tape here.

[Videotape played.]

Mr. MICA. This is just one television account of some of the problems that have occurred across the country. I saw a similar piece here in the District of Columbia because of some of the problems, the default situation and the condition of properties. We could play many of these tapes, as I said. This one was from Idaho.

Our second topic today that we are going to address, briefly, is the controversial Community Builders Program. We want to look at specifically why the program was developed and implemented in the manner that it was, and what the successes and failures of that program are to date. Why wasn't a comprehensive study conducted on the need for such a program when it was started, and how has that project developed to date? Those will be some of the questions we will ask.

The Department claims to have relied upon recommendations from a 1994 consultant report performed by the National Academy of Public Administration in proposing the program. A clear reading of the NAPA report recommends that a small number of staff be assigned to State coordinators, and that experienced staff, "who can work well with community leaders" and "effectively across the complexity of HUD's programs" be selected through a "merit system process." That was their recommendation.

How can this recommendation be misconstrued as justifying the hiring of hundreds of persons, persons lacking HUD knowledge and experience, outside of normal competitive merit system selection rules and procedures? Having chaired the Civil Service Subcommittee, I can tell you that I am aware of no one who envisioned the hiring of hundreds of individuals for this type of program relying on a minor revision in regulations governing the provision that we have in Civil Service for excepted service. I am very troubled that the Department chose to drive a Mack truck through a small regulatory opening intended to provide some flexibility under unique hiring circumstances. I think we are up to 800 Community Builders in a program the size of some small agencies.

In the recent fiscal year 2000 appropriations language, Congress is requiring that HUD conduct an open competition for these positions and evaluate job applicants pursuant to normal hiring practices in the future.

Perhaps veterans' preferences will now be properly evaluated and applied to new hires, as was not done originally, and happens to be one area that we have focused on. We were able in Civil Service to get some changes in the law, and now the law has been circumvented.

I am also very concerned about certain conflicts of interest and ethical lapses of some Community Builders, resulting in reprimands and employment terminations. Why would HUD allow federally employed Community Builders to hold partisan elective of-

fices? Were these employees adequately briefed and assessed at the beginning of the hiring process? Hopefully, these deficiencies have been corrected.

I am very pleased that the appropriators have attempted to correct this situation, but I am uncertain that they have done enough. I will seek more assurances from HUD that further corrections have been made and that past irregularities in this program and hiring practices will not be repeated. I am awaiting the findings of the review of HUD's personnel practices by the Office of Personnel Management, as requested by the Office of Inspector General.

The concerns that I have outlined with these two programs raise a much broader issue that is very important to our subcommittee and to many others, including some of our witnesses today.

Is HUD focusing on obtaining affordable homes for deserving people, or is it investing too much time, energy and money in promoting its image, and on an off-track agenda? HUD's stated mission is to, and let me quote from their mission statement, "promote adequate and affordable housing, economic opportunities, and a suitable living environment free from discrimination." I think we will hear testimony today that brings into question HUD's progress in promoting this mission.

I am very concerned that millions of dollars have been unwisely expended on training and travel for temporary employees who will be leaving their positions soon. I am also concerned about the millions of dollars devoted to HUD's TV studio. I am also concerned that the Secretary is traveling 30 percent of his time, making public appearances across the Nation, while his Department continues to experience significant problems and to be, not as I have termed it, but as GAO has termed it, at risk for even more.

I do not accept the Department's response that public relations has not been a major factor in HUD's operations and programs. An OIG audit found that a significant number of Community Builders state that they spend 50 percent or more of their time on public relations activities.

Today, HUD has released the findings of the Ernst & Young analysis of the Community Builder Program, a study that was designed, funded and reviewed by HUD. The conclusions of the study indicate that Community Builders improved customer services and perceptions.

The report also mentions expanded outreach, increased partnering, valuable experiences, and furtherance of strategic objectives. While I realize that HUD prefers the terminology "customer relations" rather than "public relations" in describing Community Builder roles, I think there is an obvious overlap of the two terms in this program.

Furthermore, I am not persuaded that HUD should distinguish its employees with public trust responsibilities from Community Builders. I also fail to understand how HUD's strategic goal of restoring public trust is served by filling hundreds of positions with employees dedicated to improving HUD's image and/or customer relations. It is my opinion that capable Federal employees with knowledge, training and experience in performing HUD business effectively and efficiently can, in fact, earn public trust. From what I see, a new public relations core may be, in fact, unnecessary. It

is also wasteful and harmful to employee morale, and, most importantly, it drains significant personnel resources from HUD programs that remain at risk.

In conclusion, the Community Builders Program has been a topic of considerable controversy in the Department, in the press, and in Congress. On September 16, 1999, the Senate Appropriations Committee reported, and again this is their report, "There is no valid evidence that these Community Builders are communicating HUD programs effectively or providing a link for the delivery of program services, and much of the activity seems to be primarily for public relations. In many cases, the Community Builders do not appear to act like HUD staff, but instead act in the capacity of lobbyists for a particular community or group." Again, not my comment, but the Senate appropriations report.

Because of these concerns, appropriations conferees mandated that the existing Community Builders Program with temporary fellows is to terminate effective September 1, 2000. Any functions now being performed by the Community Builders fellows will be carried out by regular Civil Service employees. I hope that meaningful lessons have been learned from this unfortunate and sad chapter in HUD's history and will not be repeated again.

I would like to thank our witnesses for appearing today, some of whom have traveled at a great distance with personal sacrifice, and I look forward to hearing from each of you as we explore how best we can meet our Nation's critical housing needs and ensure a maximum return on our Nation's precious tax dollars.

With that background and those opening remarks, I am pleased to yield to our ranking member, the gentlewoman from Hawaii.

[The prepared statement of Hon. John L. Mica follows:]

OPENING STATEMENT
Chairman John L. Mica

Subcommittee on Criminal Justice,
Drug Policy and Human Resources

November 3, 1999

Hearing:

"Changes at HUD: Promoting Home Ownership or Agency Image?"

Today's hearing before the Subcommittee on Criminal Justice, Drug Policy and Human Resources will examine recent developments at the Department of Housing and Urban Development (HUD). Specifically, we will focus on changes in two HUD program areas. The first topic will be the Federal Housing Authority (FHA) **Marketing and Management Program**. The second topic will be HUD's **Community Builders Program**.

As we examine changes that have occurred and problems that have arisen in these two programs, it is important to remember that program problems are not new to HUD. In fact, HUD has the continuing distinction of being classified by the General Accounting Office (GAO) as being a department at "**High Risk**."

The reasons that underlie this "High Risk" designation by GAO are numerous and documented. They include: internal control weaknesses, unreliable information and management systems, organizational deficiencies, and ineffective program monitoring and oversight, which is due, in part, to staff with inadequate skills.

The seriousness of these deficiencies is magnified when you consider the *scope* of the department's responsibilities, which continue to multiply. FHA now insures about 6.5 million loans totaling over \$400 billion. In FY1998, FHA paid more than 76,000 claims valued at almost \$6 billion, and had more than 42,000 properties in its inventory. HUD staff now includes approximately 9,300 federal employees and its annual budget exceeds \$26 billion. This Subcommittee needs to know whether taxpayers are getting the most from their tax dollars, and whether housing needs are being met for those in need.

Today we will examine changes regarding two HUD programs, and attempt to learn whether recent changes have made things better or worse.

First, we will hear from witnesses on the topic of HUD's **Marketing and Management Program**, which replaced the Real Estate Asset

Management program. The new program contracts out critical marketing and management responsibilities.

Why did HUD decide not to follow OMB Circular A-76 in studying the costs and benefits of the program prior to implementing it? If a comprehensive study had been conducted, could current problems have been avoided? Is the program now working properly or do risks continue? What needs to be done in light of the fact that the largest contractor, Intown, has filed for bankruptcy, apparently leaving others holding the bag?

On March 29, 1999, HUD awarded 16 Management and Marketing contracts to seven contractors for a five-year value of about \$927 million. The contractors manage nearly every aspect of the property disposition -- including acquiring and maintaining property, and marketing and selling it. The Office of Inspector General will testify today that HUD "did not adequately document or evaluate basic business decisions before executing these contracts." We will hear testimony that some properties are not being maintained as they should be, and some are not being disposed of efficiently. There are continuing reports of damage, vandalism, neglect and delay. Overall inventory has increased, and defaults are up. Why does this occur? Is there adequate incentive for contractors and subcontractors to protect and enhance property values? Should properties continue to be sold "as is"?

A serious problem identified by the Office of Inspector General is that the contracts are not clear about how contractor costs will be reimbursed or whether penalties can be assessed for poor performance.

This omission and lack of clarity reportedly results in needed repairs and maintenance being ignored.

A major Marketing and Management failure is the recent experience of the largest contractor, Intown. Intown successfully bid on and received 7 of 16 Management contracts, covering some 39 percent of HUD's properties. The company's recent bankruptcy filing has caused contractor liens to be placed on many properties, creating serious financial and legal problems for subcontractors and people in need of affordable housing. Why did one company get the lion's share of the contracts and then go bankrupt within months? Is the problem being remedied? These are questions for which we will seek answers today.

[Let us watch a minute or two of recent televised accounts of some of the problems that have occurred across the country.]

Our second topic today relates to the controversial Community Builders Program. Why was the program developed and implemented in such a questionable manner that it appeared destined to fail?

Why wasn't a comprehensive study conducted on the need for such a program and how it should be developed?

The department claims to have relied upon recommendations from a 1994 consultant report performed by the National Academy of Public Administration (NAPA) in proposing the program. A clear reading of the NAPA report (see page 21) recommends that a small number of staff be assigned to state coordinators, and that experienced staff "**who can work well with community leaders**" and "**effectively across the complexity of HUD's programs**" be selected through a "**merit system process**."

How can this recommendation be misconstrued as justifying the hiring of hundreds of persons -- persons lacking HUD knowledge and experience -- outside of normal competitive merit system selection procedures? Having chaired the Civil Service Subcommittee, I can tell you that I am aware of no one who envisioned the hiring of hundreds of "fellows" for this type of program relying on a minor revision in regulations governing the "excepted service". I am very troubled that the department chose to drive a Mack truck through a small regulatory opening intended to provide some flexibility under unique hiring circumstances.

In the recent FY2000 Appropriations language, Congress is requiring that HUD conduct an open competition for these positions and evaluate job applicants pursuant to normal hiring practices in the future.

Perhaps veteran's preferences will now be properly evaluated and applied to new hires, as was not done originally.

I also am very concerned about certain conflicts of interest and ethical lapses of some Community Builders, resulting in reprimands and employment terminations. Why would HUD allow federally employed Community Builders to hold partisan elective office? Were these employees adequately briefed and assessed at the beginning of the hiring process? Hopefully these deficiencies have been corrected.

I am very pleased that appropriators have attempted to correct this situation, but I am unsure that they have done enough. I will seek more assurances from HUD that further corrections have been made and that past irregularities will not be repeated. I am awaiting the findings of the review of HUD's personnel practices by the Office of Personnel Management (OPM), as requested by the Office of Inspector General.

The concerns that I have outlined with these two programs raise a much broader issue that is important to this Subcommittee and to many others, including some of our witnesses today.

Is HUD focusing on obtaining affordable homes for deserving people, or is it investing too much time, energy and money in promoting its image?

HUD's stated mission is to: "**Promote adequate and affordable housing, economic opportunity, and a suitable living environment free from discrimination.**" I think we will hear testimony today that brings into question HUD's progress in promoting this mission. I am very concerned that millions of dollars have been unwisely spent on training and travel for temporary employees who will be leaving their positions soon. I am concerned about the millions of dollars devoted to HUD's TV studio. I am also concerned that the Secretary is traveling 30% of his time making public appearances across the nation while his department continues to experience significant problems and to be "at risk" for even more.

I do not accept the department's response that public relations has not been a major factor in HUD operations and programs. An OIG audit found that a significant number of Community Builders state that they spend 50% or more of their time on public relations activities.

Today HUD has released the findings of the Ernst & Young analysis of the Community Builder Program, a study that was designed, funded and reviewed by HUD. The conclusions of the study indicate that Community Builders improved customer services and perceptions.

The report also mentions expanded outreach, increased partnering, valuable experiences and furtherance of strategic objectives. While I realize that HUD prefers the terminology "**customer relations**" rather than "**public relations**" in describing Community Builder roles, I think there is an obvious overlap of the two terms in this program.

Furthermore, I am not persuaded that HUD should distinguish its employees with **public trust** responsibilities from Community Builders. I also fail to understand how HUD's strategic goal of restoring public trust is served by filling hundreds of positions with employees dedicated to improving HUD's image and/or customer relations. It is my opinion that capable Federal employees with knowledge, training, and experience in performing HUD business effectively and efficiently can earn public trust. From what I see, a new public relations corps is unnecessary. It is also wasteful and harmful to employee morale. Most importantly, it drains significant personnel and resources from HUD programs that remain at risk.

In conclusion, the Community Builders program has been a topic of considerable controversy in the department, in the press, and in Congress.

On September 16, 1999, the Senate Appropriations Committee reported: "...there is no valid evidence that these community builders are communicating HUD programs effectively or providing a link for the

delivery of program services, and much of the activity seems to be primarily for public relations. In many cases, the Community Builders do not appear to act like HUD staff, but instead seemingly act in the capacity of lobbyist for a particular community or group.”

Because of these concerns, appropriations conferees mandated that the existing Community Builders program with temporary fellows is to terminate effective September 1st, 2000. Any functions now being performed by the Community Builders Fellows will be carried out by regular civil service employees. I hope that meaningful lessons have been learned from this sad chapter in HUD's history and will not be repeated.

I would like to thank our witnesses for appearing today, some of whom have traveled at great distance and with personal sacrifice. I look forward to hearing from each of you as we explore how we can best meet this nation's critical housing needs, and ensure a maximum return on our nation's precious tax dollars.

Mrs. MINK. Thank you very much, Mr. Chairman. I would like to also join with you in welcoming the panelists that have been called to examine these two areas that the chairman has so carefully outlined as problem areas that he feels oversight responsibility in examining. And while I agree certainly that we do have that responsibility to make sure that the programs that are implemented by all of the executive departments are working well and have consistent missions that relate to their statutory functions, in both of these cases today I raise some of my own personal qualms about the necessity of pursuing these issues.

In the first place, the full Committee on Government Reform not too many months ago conducted a hearing about the whole matter of the foreclosures and the management of the properties under foreclosure, the long-term possession by the HUD department, and the failure to put these properties out to market in a reasonable length of time. And it seemed to me that as an outcome of that hearing, that much was said, and the Department, I thought, responded to the questions of the chairman of the full committee quite adequately.

We are placing on the department a huge responsibility to be able to balance the demands of efficiency and also productivity and to assure against loss of public funds in this whole program of mortgages and foreclosures and management. As a matter of deeply held personal commitment, I generally do not support the notion of privatizing what I consider to be functions that government could very well perform adequately, and it seems to me that this whole idea of property management is one area in which HUD could have retained responsibility. But given the huge hue and cry about the management program, I can see why HUD felt compelled under the demands for reform and change and responding to criticism, opening up a whole new area of privatization. And now that they have done that, responded to the private cry—the public cry for privatization, it seems a bit hasty to now fall upon the Department for having retained someone who totally failed, as a private contractor, from performing its responsibilities.

I think that the Department should answer the questions as to the propriety of this particular contract, and why the contractor was selected, and how it performed, and why the contract was terminated. I think those are reasonable questions. But the whole concept of challenging the government's decision to privatize because of one failure I think is a bit premature and certainly something that I don't fall readily to, basically because I really don't like the whole idea of privatization in the first place. But having done that, it seems to me that the government has done, in this case, a fairly reasonable job in making sure that there was reasonable value performed by the contractor.

On the matter of the community development—developer or Community Builders Program, again, in the years that I have been in Congress, there has always been a hue and cry by the Congress and others in the public that the Department needed to find ways in which to respond to the public criticism of connecting its major responsibilities to the public so that the public would have a better understanding of what its functions were, and we have demanded, in fact insisted, that the Department look for ways to revise its

functioning, to reform its general mission and the way in which its responsibilities were being conducted. So, here is an initiative which the Department has embarked upon, and now it is being mercilessly criticized for failures to conform to the expectations of the public.

Now, I personally have some views and conclusions that I have made about this initiative, but I certainly don't fault the Department for having moved in this direction.

I am pleased that, and hopefully, with the decisions made by our appropriators in terms of revision of this program, I hope that the criticism has now been put to rest, and we can analyze it from the viewpoint of whether any substantial advantages have been developed as a result of the implementation of this program. I have been advised that, yes, there have been some substantial improvements to the overall conduct of the Department because of the Community Builders participation in implementation of the Department's mission.

So yes, I look forward to the panelists, Mr. Chairman, today to elucidate on both of these issues. I must say in advance, next door my Committee on Education and the Workforce is having a markup on four bills, and I may have to drift in and out, and I apologize if I am called to vote next door. Thank you very much.

Mr. MICA. Thank you.

I recognize the gentleman from Massachusetts Mr. Tierney.

Mr. TIERNEY. Thank you, Mr. Chairman.

I really have nothing to add to the remarks that have previously been made, except to also say that I am on the same committee as Mrs. Mink, and that you may find me coming in and out to vote on the markup over there, but I would prefer, if we could, to get on with the witnesses and thank them all for sharing their time and thoughts with us this morning. Thank you.

Mr. MICA. Thank you.

Mr. Kucinich, would you like to make an opening statement?

Mr. KUCINICH. I just want to join my colleagues in welcoming the witnesses and particularly those who are serving the Department of Housing and Urban Development, thanking them for the work that they do, and I look forward to working with you.

Mr. MICA. Thank you, Mr. Kucinich.

Let me just say as I introduce our first panel that we did, in fact, on March 23rd hold a full committee meeting on the question of Marketing and Management Programs. It is my understanding, just for the record, that, in fact, Intown Properties won a contract in March to manage and market a \$367 million program. Since that time, Intown, as I stated, has filed for bankruptcy, so that has occurred since then; in fact, on September 22nd. Since then, the press has exposed and others have found that the contractor that HUD contracted with was a convicted felon with a string of and histories of bankruptcies.

So I think our subcommittee is moving in a proper fashion of oversight and investigations to see how that contract got in that situation, what is going on with this program. Community Builders has been battered around. We have put off a hearing, and the Senate has gone before us and appropriators. But we still have an obli-

gation to look at what has happened there and how that program will be phased down or replaced.

With those comments, let me introduce our first panel of witnesses. You will have to help me with the name here. Ms. Kathy Kuhl-Inclan. Ms. Kathy Kuhl-Inclan is Assistant Inspector General for Audit of the Department of Housing and Urban Development; Ms. Joyce Gibson is a spokeswoman from Chicago, IL, for the Coalition for Accountability; and Ms. Cheryl Peterson is a homeowner from Boise, ID. We also have the Honorable William Apgar, who is the Assistant Secretary for Housing with the Department of Housing and Urban Development.

I would like to welcome all of our witnesses. We are an investigations and oversight subcommittee of Congress. We do swear in our witnesses, so if you would stand to be sworn.

[Witnesses sworn.]

Mr. MICA. Let the record reflect that the witnesses answered in the affirmative.

I would like to again welcome our panelists. I think what we are going to do is, we have had you sworn, take about a 15-minute recess, run to the floor, vote and come back. So if you will excuse us for about 15 minutes, we will vote and then return. This subcommittee will stand in recess.

[Recess.]

Mr. MICA. I would like to call the Subcommittee on Criminal Justice, Drug Policy, and Human Resources back to order.

Our first agenda item again is panel one, and deals with the Marketing and Management Program. I have introduced our witnesses, so we will go directly to Ms. Kathy Kuhl-Inclan, who is Assistant Inspector General for Audit with the Department of Housing and Urban Development. I did swear you in, and I also will advise each of our witnesses that if you have lengthy statements or documentation or reports that you would like made a part of the record, if you will just request that, and by unanimous consent, we will include as much as possible of that information in the record.

So with that, we will recognize the Assistant Inspector General for Audit with HUD. Welcome, and you are recognized.

STATEMENTS OF KATHY KUHL-INCLAN, ASSISTANT INSPECTOR GENERAL FOR AUDIT, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT; JOYCE GIBSON, SPOKESWOMAN, COALITION FOR ACCOUNTABILITY; CHERYL PETERSON, HOMEOWNER, BOISE, ID; AND WILLIAM APGAR, ASSISTANT SECRETARY FOR HOUSING, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Ms. KUHL-INCLAN. Thank you. Chairman Mica and other members of the subcommittee, I appreciate the opportunity to appear before you today to discuss the Management and Marketing contracts for HUD's property disposition activities.

On September 17, 1999, our Southeast/Caribbean District issued a comprehensive audit of HUD property disposition activities entitled, "Nationwide Internal Audit of Federal Housing Administration's Single-Family Property Disposition Program." When we began this review, plans for contracting out property disposition activities were still under discussion. By the end of our audit, the

M&M contracts, as they have been called, had been awarded, but had not yet been started.

I want to make it clear that we have not audited the current Management and Marketing contracts. We made a conscious decision to hold off on any detailed audit work until the M&M contracts had sufficient time to get up to speed. We believe that sufficient time has elapsed, and we plan to begin that audit this month.

We did have an opportunity to review the M&M contracts and the contracting monitoring policies toward the end of our property disposition audit. We also looked at the M&M contracts in an audit of the departmental procurement activities earlier in the year. Our property disposition audit noted that while the M&M contracts and contract monitoring policies were comprehensive, there were some areas in need of improvement. Contracts did not contain sufficient information regarding FHA's reimbursement to contractors for property repair costs or monetary penalties for contractor non-compliance.

In addition, the new Contracting Monitoring Manual did not provide comprehensive guidance to review and approve reimbursements of repair costs, conduct contract risk assessments, and document monitoring results. We thought clarity and consistency in applying this policy was needed, and I would like to add that the HUD staff agreed with us almost immediately and indicated that they would make these changes to their policies.

Our recent internal audit followup review of HUD contracting was dated September 30th and examined the contracting actions leading up to the M&M contracts. The Department carried out this procurement action without conducting an OMB Circular A-76 cost comparison to determine if contracting out was warranted. While these M&M contracts were at an anticipated cost of \$927 million over the next 5 years, the Department believed that a cost comparison was not legally required. We disagreed. The supplement to Circular A-76 states that the circular is not designed to simply contract out; rather it is designed to balance the interests of the parties in a make or buy cost comparison, provide a level playing field between public and private offerors to competition, and encourage competition and choice in the management and performance of commercial activities.

The Department stated that there is no requirement to conduct an A-76 review if the contract is not affecting more than 10 HUD employees. Additionally, it said that it is the program office's responsibility to evaluate all the procurement activities and the contracting office's responsibility to ensure that once the decision is made, that the award is carried out efficiently. We believe the Office of Procurement and Contracts needs to be more involved.

We reviewed the implementation and pre-award files for the M&M contracts. Prior to award, these kinds of functions were handled by a combination of HUD staff and the Real Estate Asset Managers [REAM], contractors. Even though these procurements have a 5-year spending authority of almost \$1 billion, and the contractors will have substantial control over HUD's multibillion-dollar single-family property inventory, the Office of Housing did not adequately document or evaluate basic business decisions before executing these contracts. Instead of preparing an A-76 cost study,

the Office of Housing requested a determination from the Chief Financial Officer that a study was not technically required. The memorandum did not explain Housing's intent to contract out the entire process at the cost of almost \$200 million a year.

The CFO did agree with Housing that since the Department was not reducing staff, the study was not required, but that didn't make sense to us, because of all of the downsizing and the restructuring of the Department that had been done and was being considered.

In addition to the absence of a cost analysis for the M&M procurement, we questioned the Department's examination of the financial and operational capacity of the bidders. Intown Management Group was awarded contracts comprising almost 40 percent of HUD's work, making Intown one of the largest property managers in the country. We asked contracting staff if they considered Intown's financial capacity to manage such a large contract. We reviewed the summary of negotiations and technical evaluation reports and did not see a discussion of their capacity. The staff indicated that these matters were discussed, and it was determined that the Intown had sufficient financing.

During negotiations, Intown reduced its original bids from \$565 million to \$367 million. That is a 30 percent drop. Revised best pricing schedules provided by Intown during the negotiation process may have been overly ambitious. In fact, Intown's estimated costs would actually decrease due to improved efficiencies. By contrast, staff stated that Intown had the highest technically rated proposal and believed the negotiation process evidenced HUD's interest in procuring the best value.

When we completed our field work in August 1999, Intown had sold only 2.8 percent of its assigned inventory. M&M contracts receive 30 percent of the fees when properties are listed and the remaining 70 percent when properties are sold. Consequently, there was a concern that Intown would not be able to adequately maintain the 20,000 HUD properties assigned to them without the revenues it generated from property sales.

On September 23rd, HUD announced it had terminated the M&M contract with Intown Management Group. We hope that those contractors remaining can manage this large workload that is left. We anticipate a report from our upcoming audit in about 6 months, and we will be happy to keep you apprised. Thank you.

Mr. MICA. Thank you.

[The prepared statement of Ms. Kuhl-Inclan follows:]

**Statement of
Kathryn Kuhl-Inclan, Assistant Inspector General for Audit
U.S. Department of Housing and Urban Development
November 3, 1999
Before the Subcommittee on Criminal Justice, Drug Policy and Human
Resources
U.S. House of Representatives**

Management and Marketing Contracts for Real Estate Owned Activities

Chairman Mica, Ranking Member Mink, and other Members of the Subcommittee, I appreciate the opportunity to appear before you today to discuss the Management and Marketing (M&M) Contracts for HUD's property disposition activities. On September 17, 1999, our Southeast/Caribbean District issued a comprehensive audit of HUD property disposition activities titled: "Nationwide Internal Audit of Federal Housing Administration's (FHA) Single-Family Property Disposition Program" When we began this review, plans for contracting out property disposition activities were still under discussion. By the end of our audit, the M&M contracts had been awarded but not yet started.

I want to make it clear that we have not audited the current Management and Marketing (M&M) Contracts. At the time of our property disposition audit, HUD had more than 350 contracts nationwide with Real Estate Asset Mangers (REAMs). The M&M concept was an effort to move to fewer and larger contracts that would require less contract monitoring staff. We have been tracking the progress of the property disposition contracting efforts through periodic management reports and discussions with program staff. We made a conscious decision to hold-off on any detailed audit work until M&M contractors had sufficient time to get up to speed. We believe that sufficient time has elapsed and we will begin our audit later this month.

We did have an opportunity to review the M&M contracts and the contract monitoring policies towards the end of our property disposition audit. We also looked at the M&M contracts in a separate review of

Departmental Procurement earlier this year. I'll comment on both audits in a moment, but first let me give some background on the property disposition program. The following information is from HUD's Single Family Acquired Asset Management System. During fiscal year 1999, HUD sold about 62,000 properties and about 51,000 properties remain in inventory at year end. For Fiscal Year 1999, HUD's average acquisition cost was \$85,934. It took an average of 201 days to sell each property. The average sales price was \$63,791 and all the costs incurred between acquisition and sale averaged \$9,749. The average loss on each property was \$31,892.

During our property disposition review, property inventories increased by 71% from 24,800 properties at the end of fiscal year 1996 to 42,300 properties at the end of our audit period in February 1999. Much of this growth was attributable to an overwhelmed HUD staff. We found that staff shortages, inexperienced staff, a growing workload, and limited travel funds prevented program staff from effectively overseeing their activities. Further complicating the problem was FHA's expectations that the M&M contracts would be operational by October 1998. These problems were costly to the Department. FHA's goals to sell properties at 98% of appraised value in an average of 150 days were not being met. If FHA had attained these goals, the insurance fund would have taken in an additional \$269 million in Fiscal Years 1997 through 1998.

I might add, the current inventory has grown to 51,516 properties at the end of September 1999. Much of this jump in inventory is attributable to the inability of one contractor, Intown Properties, to promptly list and sell properties. As you know, Intown's contract was terminated in September 1999. Intown was awarded 7 of the 16 M&M contracts. These seven contracts accounted for approximately 40% of the property disposition workload. Most of Intown's workload was turned over to other M&M contractors and in two locations, to HUD staff.

Our property disposition audit noted that while the M&M contracts and contract monitoring policies were comprehensive, there were some areas in need of improvement. Contracts did not contain (1) sufficient information regarding FHA's reimbursement to contractors for property repair costs, or (2) monetary penalties for contractor noncompliance. In

addition, the new contract monitoring manual did not provide comprehensive guidance to review and approve reimbursement of repair costs, conduct contract risk assessments, and document monitoring results. Clarity and consistency in applying policy is needed to prevent contractor noncompliance and abuse.

Our recent "Internal Audit Follow-up Review of HUD Contracting", dated September 30, 1999, examined the contract actions leading up to the M&M awards. The Department carried out this procurement action without conducting an OMB Circular A-76 cost comparison to determine if contracting out was warranted. While these M&M contracts were anticipated to cost \$927 million over the next five years, the Department believed that a cost comparison was not legally required. We disagreed. The Supplement to Circular A-76 states that the Circular is not designed to simply contract out, rather, it is designed to balance the interests of the parties in a make or buy cost comparison; provide a level playing field between public and private offerors to competition; and encourage competition and choice in the management and performance of commercial activities.

The Department stated that there is no requirement to conduct an A-76 review if the contract is not affecting more than 10 HUD employees. Additionally, it said that it is the program office's responsibility to evaluate all of the procurement alternatives, and the contracting office's responsibility to ensure that once the procurement decision is made that the award is carried out efficiently. We believe the Office of Procurement and Contracts needs to be involved much earlier in the contract process.

We reviewed the implementation and pre-award files for the M&M contracts. Prior to the awards, these functions were handled by a combination of HUD staff and REAM contractors nationwide. Even though these procurements have five year spending authority of approximately \$1 billion and the contractors have substantial control of HUD's multi-billion dollar single family inventory, the Office of Housing did not adequately document or evaluate basic business decisions before executing these contracts. Instead of preparing an A-76 cost study, Housing requested a determination from the Chief Financial Officer (CFO) that a study was not technically required. The memorandum did not explain Housing's intent to

contract out the entire process at a cost of about \$200 million annually. The CFO agreed with Housing that, since the Department was not reducing staff, the study was not required. This rationale is particularly questionable given all the downsizing and restructuring that had been and was being considered by the Department.

The National Academy of Public Administration, which recently complimented HUD for its procurement reforms, stated “HUD must have performance standards and operating principles for the new model procurement system that are based on sound business principles and replicate best practices in government agencies and private sector firms.” We believe the decision not to conduct an A-76 study is contrary to these principles.

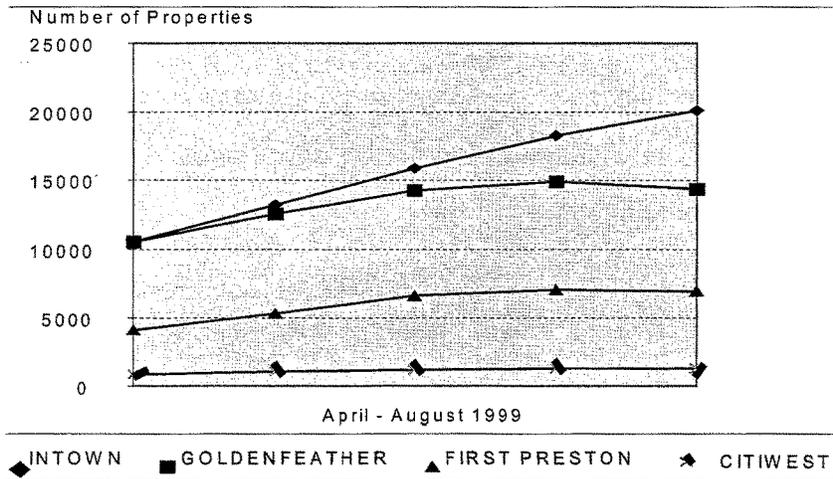
In addition to the absence of a cost analysis for the M&M procurement, we questioned the Department’s examination of the financial and operational capacity of bidders. Intown Management Group was awarded contracts comprising 40% of HUD’s work, making Intown one of the largest property managers in the country. We asked contracting staff if they considered Intown’s financial capacity to manage such a large contract. We reviewed the summary of negotiations and technical evaluation reports and did not see a discussion of capacity. The staff indicated these matters were discussed and it was determined that Intown had sufficient financing to manage these contracts.

During negotiations Intown reduced its original bids from \$565.5 million to \$367 million, a 30 percent drop. Revised best pricing schedules provided by Intown during the negotiation process may have been overly ambitious, as they did not account for any cost increases over the five year life of the contract, which included employee costs. In fact, Intown’s estimated costs would actually decrease due to improved efficiency and reduced overhead and profit. HUD Contract staff stated that Intown had the highest technically rated proposal, and believed the negotiation process evidenced HUD’s interest in procuring the best value.

Our analysis of acquired property inventory reports from the Single Family Acquired Management System showed that there was a large increase in property inventories during the first four months of the M&M

contract. While all of the contractors seemed to be having performance difficulties, Intown's lack of performance stood out from other large contractors.

	April Inventory	August Inventory	Inventory Increase (%)
Intown	10,540	20,150	91%
Goldenfeather	10,542	14,370	36%
First Preston	4,082	6,911	69%
Citiwest	<u>871</u>	<u>1,324</u>	52%
Totals	26,035	42,755	64%



When we completed our fieldwork in August 1999, Intown had sold only 2.8 percent of its assigned inventory. M&M contractors receive 30 percent of their fees when properties are listed and the remaining 70 percent when

they are sold. Consequently, there was a concern that Intown would not be able to adequately maintain the 20,000 HUD properties assigned to them without the revenues generated from property sales.

On September 23, 1999, HUD announced it had terminated Management and Marketing contracts with Intown Management Group. I recently read a news article which quoted an Intown employee as saying that the Government had "unsound and insane expectations" of this contract and that it was designed to fail. We hope those contractors remaining can manage this large workload. We anticipate a report from our upcoming audit in about six months and we will be happy to keep you apprised of our findings.

Controls Over M&M Contracts Need Strengthening

HUD's new M&M contracts and contract monitoring policies are comprehensive, but need some improvement. We found that contracts did not contain (1) sufficient information regarding FHA's reimbursement to contractors for property repair costs, or (2) monetary penalties for contractor noncompliance. In addition, the new contract monitoring manual did not provide comprehensive guidance to review and approve reimbursement of repair costs, conduct contract risk assessments, and document monitoring results. Clarity and consistency in applying policy is needed to prevent contractor noncompliance and abuse.

M&M Contracts

On March 29, 1999, 16 M&M contracts went into effect with a 5-year value of about \$927 million. The seven companies that received these contracts will manage nearly every aspect of the property disposition process from property acquisition and maintenance to marketing and sales. In general, FHA pays contractors an initial fee when they list properties for sale. This fee is determined by multiplying a contract price factor by the list price. The result is multiplied by 30 percent. For example, \$80,000 (list price) x 3.5 percent (price factor) x 30 percent = \$840. A final payment is made when the property is sold. It is based on the net sales price. For example, \$75,000 (net sales price) x 3.5 percent (price factor) less \$840 (first payment) = \$1,785. FHA also pays a fixed amount per month (e.g., \$95 per property) for managing its custodial and unimproved properties.

Costs for most services between acquisition and sale are built into the fees and paid by the contractors. These include costs for such services as the appraisals, debris removal, and advertising. This system provides an incentive for contractors to sell properties quickly at prices that provide the most return for them and FHA. The lower the contractors' costs; the higher their profits.

Finding 3

In addition to fees, FHA also reimburses contractors for other costs incurred. These "pass-through" costs are primarily third-party charges such as for taxes and utilities. Under certain circumstances, some property repair costs are reimbursable with FHA's prior approval. These include costs of repairs for:

- natural disasters,
- extraordinary acts of vandalism,
- mortgagee neglect,
- remediation of environmental hazards,
- latent defects to properties not reasonably detectable, and
- major deficiencies not related to normal maintenance when properties are received by contractors (e.g., repairs for properties to meet Minimum Property Standards (MPS)).

We found the contracts provided little information to contractors regarding when and how these costs are to be reimbursed. Program officials told us that FHA staff will rarely approve payment for property repair costs under any circumstances. One official said that FHA will not reimburse contractors for MPS related repairs. Properties are generally sold "as is." The official stated that if properties are insured, funds to pay needed repairs will be included in an escrow account at closing or contractors will pay for the repairs.

Failure to provide contractors enough information about the reimbursement of repair costs may lead to confusion and abuse. For example, our review of one contractor's draft quality control plan found extensive steps devoted to assessing properties for needed MPS repairs, obtaining FHA authorization, and initiating action to make the repairs. An official in the Santa Ana HOC stated that depending on the circumstances, MPS related repairs will be authorized. Reimbursement of repair and maintenance costs has been subject to fraud and abuse in the past. FHA has tried to reduce the problem in these contracts by including most costs in contractors' fees and requiring prior approval for reimbursement of other costs.

The contracts contain no provision for monetary penalties if contractors fail to comply with contract terms. Program officials told us they did not believe monetary penalties are necessary because most property management and marketing costs are included in the fees. They believe that extensive noncompliance and abuse under the prior property disposition process should be significantly reduced. Officials said that there are provisions in the contracts for termination, if necessary.

Our review disclosed that during the last 2 years FHA rarely sanctioned REAM contractors although noncompliance was pervasive. No monetary penalties were imposed and only four contracts were terminated. We believe the M&M contracts should contain specific monetary penalties (e.g., liquidated damages clause) to help ensure compliance and to offset losses to the fund caused by the contractors. ✓

M&M Management
Control Manual

FHA designed an extensive manual entitled *Management Controls For The Single-Family REO M&M Contracts* covering contract management, financial, and monitoring controls. If FHA properly implements and consistently follows the manual, most of the contract management problems shown in Findings 1 and 2, should be eliminated. However, several areas of the manual need strengthening to ensure its effectiveness. ✓

Except for the review and approval of repair of latent defects, the new manual has no policies or procedures to approve, justify, and document FHA payment of other repair costs. For example, there is no definition in the manual of what constitutes extraordinary vandalism and no requirements for contractors to justify reimbursement of the costs (e.g., police report). The contracts state that all repairs caused by ordinary vandalism (broken windows, graffiti) are not reimbursable.

Finding 3

The manual provides numerous standard review instruments for FHA staff to use in monitoring contract activities. For example, there are 94 pages of review documents for conducting risk assessments on each of 11 critical events (e.g., mortgagee claims, property inspections, appraisals, sale closings). A low risk rating requires that the contractor acknowledge any deficiencies and correct them. A medium rating requires a reprimand, suspension, or termination of key personnel or subcontractors. A high risk rating requires issuance of a cure notice placing the contractor on probation or contract termination. The manual also requires that an overall risk assessment be made on each contract. Contractors are to be given the assessments, required to respond, and take corrective action.

However, the manual is not clear on how often all documents should be completed and there is no standard document or procedures for conducting the overall assessment. Each critical event is weighted equally. Therefore, a high risk rating on a contractor's handling of property maintenance is weighted equally with a high risk rating on its handling of rental properties. A program official in FHA's national office told us that all forms must be completed and an overall risk rating made monthly on each contract. A Government Technical Representative responsible for oversight of one of the contracts said he did not know how often the assessments should be conducted.

The manual requires that a final assessment report must be prepared each month on each contract. The report must contain a performance/risk assessment, contractor's response, and FHA's determination of corrective action. This report is to be sent monthly to the HOC Director, the Deputy Assistant Secretary for Single Family Housing, and the FHA Commissioner. However, there is no standard format for the report and no requirement that it be sent to the contracting officer who is the only person who can sanction contractors. Also, the manual does not provide sufficient details regarding what documentation is needed and what specific actions to take when contractor sanctions are necessary. Although program officials told us that verbal procedures have been established for working with the contracting officers, we believe that written guidance is necessary.

FHA Comments

FHA generally agreed with the finding and recommendations. FHA stated that it should provide additional guidance to staff regarding reimbursements to M&M contractors for property repairs. It agreed to revisit the potential for incorporating monetary penalties for contractor noncompliance and to strengthen its monitoring approaches.

Recommendations

We recommend that you:

- 3A. Issue detailed written policies and procedures for approving reimbursement and documenting the need for repairs associated with natural disasters, extraordinary vandalism, mortgagee neglect, environmental hazard remediation, latent defects, and MPS.
- 3B. Modify the M&M contracts to require monetary penalties (e.g., liquidated damages) for specific recurring contract deficiencies.
- 3C. Revise the M&M management control manual and/or issue written policies and procedures:
 - (1) detailing how often risk assessments must be made for all critical events and providing a standard document for completing the overall risk assessment including risk rating weights for each event; and
 - (2) providing a standard document for completing the monthly final assessment report and requiring that copies be sent to applicable contracting officers.
- 3D. In conjunction with contracting staff, issue written policies and procedures specifying what actions to take and documents needed to enforce compliance and sanction deficient contractors.

Finding 3

- 3E. Develop a system to track and summarize monitoring results to identify trends and systemic weaknesses for corrective action.

Mr. MICA. We will next hear from Ms. Joyce Gibson, who is the spokesperson for the Coalition for Accountability from Chicago, IL. Welcome, and you are recognized.

Ms. GIBSON. Good morning, Mr. Chairman. My name is Joyce A. Gibson. I am the president and owner of J.A. Gibson Realty & Associates in Chicago. I would like to thank the committee for allowing me this opportunity. I am here today as a spokesperson for the Unity Coalition for Accountability, a loosely formed coalition of 70 small businesses, 240 churches, and a handful of community organizations in Illinois and Indiana who are concerned about the lack of responsibility and accountability HUD has exhibited with respect to its M&M contracting program.

Our coalition was formed after Intown Management, a HUD Marketing and Management prime contractor, lost its contract and declared bankruptcy. That was September 22, 1999. For many small businesses in Illinois and Indiana, and 20 other States around this country, that day will live in infamy. It was the day we learned that after providing millions of dollars in labor and material over a period of 5 months to maintain HUD-owned properties, we would not be paid.

From the information we have gathered, the amount owed in Illinois alone is \$3.5 million, and that just represents the contractors who have heard about our efforts and contacted us. As we began to talk to more people over the Internet, we realized that this problem was much larger than just a few vendors not being paid in Illinois. We have heard from an appraiser in Maryland who is owed \$411,000, a contractor in Virginia owed \$41,000, a property manager in New York owed \$54,000, and the list goes on, totaling more than \$7.5 million. Mind you, this figure only represents moneys owed to approximately 87 subcontractors.

When we started this effort, we were only focused on the short-term view: Our money. As we talked to more people in our respective communities, we began to see an even bigger problem, one of abandoned homes that create unsafe, unhealthy environments; lost tax revenues to local municipalities; and a destabilization and devaluation of the communities where these properties are located. It is why our efforts have been joined by local ministers and community groups concerned about housing issues.

I am here to represent the small voice of hard-working citizens that often get overlooked. We don't have the millions to hire lobbyists to speak for us. We pass the hat, hope we have enough money for airfare and room accommodations, and pray that we can spare the time from our businesses to make the trip. That is why we are extremely grateful that someone in our government is willing to spare the time to listen to what we have to say.

It is our understanding that HUD has taken the position that they are not responsible for the actions of their contractor. We disagree. We believe that HUD contracted an agent, Intown Management, and the agent provided management and marketing services for the owner of this property: HUD. As a realist, this says that an agency relationship existed, and under an agency relationship, they cannot just walk away and not be accountable for the actions of their agent. HUD still has accountability and responsibility.

Most of the vendors were willing to provide services because Intown was HUD's prime contractor. To many of us, that meant payment would be slow in coming, but it was guaranteed payment. That is why people felt confident in refinancing their homes to buy equipment and purchase materials. That is why people continued to provide services even after there was no payment for 90 days. It wasn't because of Intown; we didn't know them, nor do we know them now. We trusted that our government had made a wise selection and that our government was behind these people.

I am sure that it was not HUD's intention to stick it to small business, but that is exactly what has happened in the M&M program. Intown is the second contractor that HUD has had in the Chicago area. There are vendors who contacted us who have not only not been paid by Intown, but who are still owed money from a contractor called Citywide. And to add insult to injury, we have been informed as of yesterday that many of the vendors who were promised payment in 14 days by the new contractor, Goldenfeather, are now 30 days due, and counting.

I don't know how much money was paid to Intown, but it would seem to me that HUD has a responsibility to pay for the services that were contracted on their behalf up to and including the day that they pulled the plug.

Additionally, HUD has got to take responsibility for the condition of the properties that are in our communities. These properties belong to the taxpayers. HUD cannot delegate its responsibility to no-name companies and then walk away.

We believe that HUD needs to rethink its current use of national contractors and return to the model that allows for local-based management and marketing of HUD properties. We also believe that HUD must establish more effective monitoring guidelines. We cannot continue with a program that erodes the credibility of our government and causes economic devastation to its citizenry. Thank you.

Mr. MICA. Thank you for your testimony.

[The prepared statement of Ms. Gibson follows.]

Unity Coalition For Accountability

Good morning. My name is Joyce A. Gibson. I am the President and owner of J.A. Gibson Realty & Associates of Chicago. I would like to thank the committee for allowing me this opportunity. I am here today as the spokesperson for The Unity Coalition For Accountability, a loosely formed coalition of seventy small business, 240 churches and a handful of community organizations in Illinois and Indiana who are concerned about the lack of responsibility and accountability HUD has exhibited with respect to its M&M contracting program.

Our coalition was formed after InTown Management, a HUD marketing and management prime contractor lost its contract and declared bankruptcy. That was September 22, 1999. For many small businesses in Illinois and twenty other states around this country *that day* will live in infamy. It was the day we learned that after providing millions of dollars in labor and material over a period of five months to maintain HUD-owned properties, we would not be paid.

From the information we have gathered, the amount owed in Illinois alone is 3.5 million dollars and that just represents the contractors who have heard about our efforts and contacted us. As we began to talk to more people over the internet, we realized that this problem is much bigger than just a few vendors not being paid in Illinois. We have heard from an appraiser in Maryland who is owed four hundred and eleven thousand dollars, a contractor in Virginia owed forty one thousand, a property manager in New York owed fifty four thousand and the list goes on, totaling more than 7.5 million dollars. Mind you, this figure only represents monies owed approximately eighty seven sub-contractors.

When we started this effort we were only focused on the short term view -- our money, but as we talked to more people in our respective communities we began to see an even bigger problem -- one of abandoned homes that create unsafe, unhealthy environments, lost tax revenue to local municipalities and a destabilization and devaluation of the communities where these properties are located.

It is why our efforts have been joined by local ministers and community groups concerned about housing issues.

I am here to represent the small voice of hard working citizens that often gets overlooked. We don't have the millions to hire lobbyist to speak for us. We pass the hat, hope we have enough to pay for airfare and room accommodations and pray that we can spare the time from our businesses to make the trip. That is why we are extremely grateful that someone in our government is willing to spare the time to listen to what we have to say.

It is our understanding that HUD has taken the position that they are not responsible for the actions of their contractor. We disagree. We believe that HUD contracted an agent -- InTown Management and the Agent provided management and marketing services for the owner of this property -- HUD. As a Realist this says that an agency relationship existed and under an agency relationship they can not be just walk away and not be accountable for the actions of their agent. HUD still has responsibility.

Most of the vendors were willing to provide services because InTown was HUD's Prime contractor. To many of us that meant payment would be slow in coming but it was guaranteed payment. That's why people felt confident in refinancing their homes to buy equipment and purchase materials. That's why people continued to provide services even after there was no payment for ninety days. It wasn't because of InTown, we didn't know them then and don't know them now. We trusted that our government had made a wise selection and that our government was behind these people.

I am sure that it was not HUD's intention to stick it to small business, but that's exactly what has happened in the M&M Program. InTown is the second Contractor that HUD has had in the Chicago area. There are vendors who contacted us who not only have not been paid money from InTown, but who are still owed monies from the first contractor -- Citywide. And to add insult to injury, we have been informed today that many of the vendors who were promised payment in 14 days by the new Contractor--Goldenfeather--are now thirty days due and counting.

I don't know how much money was paid to InTown, but it would seem to me that HUD has a responsibility to pay for the services that were contracted on their behalf up to and including the day that they pulled the plug.

Additionally, HUD has got to take responsibility for the condition of the properties that are in our communities. These properties belong to the tax payers. HUD can not delegate its responsibility to some no name company and then walk away.

We believe that HUD needs to rethink its current use of national contractors and return to the model that allows for local based management and marketing of HUD properties. We also believe that HUD must establish more effective monitoring guidelines. We cannot continue with a program that erodes the credibility of our government and causes economic devastation to its citizenry.

Thank you!

Mr. MICA. We will also hear from Ms. Cheryl Peterson, a homeowner from Boise, ID. Welcome, and you are recognized.

Ms. PETERSON. Thank you.

In August of this year, my husband and I bid on a HUD home, and we won that bid. On September 24th, we signed the closing documents and were preparing to move. Earlier in this same week, HUD fired Intown, their management company. The next day, Intown filed bankruptcy, and it became uncertain who would represent HUD in completing our paperwork process.

On September 30th, our paperwork was received back from HUD, and we were in the final stage of acquiring our home. On Monday, October 4th, our title company went to record the deed at city hall, and it was discovered that there was a \$1,320 lien placed on the property and numerous other properties in the State of Idaho.

At this time the situation became very stressful for my family. Within 2 weeks, we really did not have a place to live. We called everyone. We called our realtor, our title company, our lender, our lawyer and our Congresswoman. Within a few days, there was yet no resolve.

So, on October 7th, we paid the \$1,320 lien, believing that we would have our home that day. Yet, when the title company went to city hall to record the deed, they called to say that another lien had been placed on our home. We had a difficult decision to make at that time. It was either to back out, cut our losses, or pay the \$120. And this, of course, was somebody else's debt, not ours.

So on October 8th, we paid the \$120, and we were recorded that day, and the home became ours. As a taxpayer, we paid \$1,440 for property management.

We did have to ask ourselves what we were paying for. The weeds on the right side of the house were chest high, the grass was dead, there was a beehive in the sprinkler box that was a foot in diameter. This home had sat vacant for 6 months. Yet, in the end, we were very thankful that we were never without a place to live and that we now have a place that we call home. Thank you.

Mr. MICA. Thank you for sharing your experience with us.

We will now hear from Mr. William Apgar, who is the Assistant Secretary for Housing of HUD. Welcome, and you are recognized, sir.

Mr. APGAR. I am pleased to testify today about how HUD has—

Mr. MICA. You might pull that mic over.

Mr. APGAR. I am pleased to testify today about how HUD is fulfilling its mission to address the homeownership and affordable housing needs of the Nation and to report on our progress in the management market initiative.

The past 12 months have been historic for the Department. Secretary Cuomo's 2020 reforms have produced substantial evidence that HUD works. At the start of the year, our progress in reforming the Department was recognized by the House and Senate as they approved the best HUD budget in a decade. The year culminated last month when Congress enacted an even smarter and stronger budget, giving us \$1.5 billion more resources to do our programs, including 60,000 new rental vouchers, a homeownership

security program for older Americans, a major job creation program, and new tools to assess the growing crisis of opt-outs.

FHA has also had an outstanding year this year. We have assisted 1.3 million families in purchasing homes, with an all-time record of \$125 billion in mortgage insurance. FHA multifamily mortgage insurance remained at a near record level of \$4.1 billion.

Regarding the implementation of the M&M initiative, I am also pleased to report that after 7 months of operation, six of the seven contractors retained by HUD are generating very positive results and have demonstrated that profit-motivated, private sector real estate professionals can more efficiently and effectively manage, market and sell REO properties. The bottom line is the M&M system is selling more homes faster and doing so in a way that is generating greater returns to the FHA.

Since implementing the M&M initiative nationwide, in March, six of our seven contractors, who had the responsibility of more than 60 percent of the inventory at takeover, had performed well. Over the first 6 months they have increased HUD's average gross property sales by 25 percent; they have increased FHA's recovery on the mortgage insurance claims by some \$3,243 per property. Taken together, these six contractors have sold 16,273 properties through September, and with an improvement in our recovery rates, we have generated savings of more than \$50 million to the Department.

Still, despite the overall success of the M&M initiative, one contractor, Intown Management Group, failed to meet HUD's performance standards. Intown did not properly maintain HUD's properties, as was discussed, and they were extremely slow to list properties for sale and to enter into sales contracts. While this has led to substantial problems for FHA, for homeowners, for communities, for subcontractors, I want to stress that it is the FHA monitoring and control system that identified the problems with Intown and developed a record that facilitated termination of the contract and the proposed debarment of the principals and will be a basis for future actions as we seek to hold Intown accountable for their failure to meet the obligations of this contract.

This monitoring system noted problems in the very early days of the contracts. Within 45 days, we terminated one Intown contract. But, despite our repeated efforts, Intown's overall performance didn't improve. Having started with 16,803 homes, the inventory in the Intown area swelled to 26,000 homes by the end of September, an increase of 9,400 homes. In contrast, over the same period, the other six contractors sold more than 16,000 homes, and collectively the inventory in these areas held more or less steady.

There are a lot of statistics here, and I will explain them more in detail in my written statement, which I would like to have included in the record. But the bottom line is simple. Intown didn't sell homes. They didn't even do a good job of listing homes for sale. As a result, the overall inventory mushroomed.

My testimony also includes detailed descriptions of how we are doing in the 6 weeks since we terminated the Intown contract. I am pleased to report that the new replacement contractors are working well. For example, in just 6 weeks, they have completed the sale of over 1,900 properties, nearly as many as Intown did in

the 6 months that they had the contract. The new contractors in 6 weeks have sold almost as many homes.

I would like to end my testimony with an assessment of how we got to this situation today. My answer is simple. Intown failed because its three principal partners did not deliver the resources that they promised in their proposal. Each of these individuals had performed well in the past under HUD and other Federal contracts.

Consider Larry Latham, a recognized leader in online real estate marketing. The proposal indicated that Mr. Latham would be in charge of marketing, but Intown's marketing effort was slow to start and, even after 6 months, was hopelessly inadequate. I am not a lawyer, but I believe that Intown and its three partners misrepresented to HUD the resources that they would bring to the contract, and in doing so, may have committed fraud against the U.S. Government.

That is why I recently moved to immediately suspend each of Intown's principals from all government contracting and also proposed that they be debarred for a period of 10 years. Moreover, I have asked HUD's Office of General Counsel to refer the three principals to HUD's Office of Inspector General within the Department of Justice for criminal investigation.

In conclusion, I feel that HUD and the FHA are headed in the right direction. I thank you for this opportunity to testify, and I look forward to answering your questions today.

Mr. MICA. Thank you, Mr. Apgar.

[The prepared statement of Mr. Apgar follows:]

**STATEMENT BEFORE THE HOUSE
COMMITTEE ON GOVERNMENT REFORM
SUBCOMMITTEE ON CRIMINAL JUSTICE,
DRUG POLICY AND HUMAN RESOURCES**



**NOVEMBER 3, 1999
WASHINGTON, DC**

BY

**WILLIAM APGAR
ASSISTANT SECRETARY FOR
HOUSING/FEDERAL HOUSING COMMISSIONER**

**TESTIMONY OF ASSISTANT SECRETARY FOR HOUSING/
FEDERAL HOUSING COMMISSIONER WILLIAM APGAR
SUBCOMMITTEE ON CRIMINAL JUSTICE, DRUG POLICY AND
HUMAN RESOURCES
U.S. HOUSE OF REPRESENTATIVES**

Good morning Chairman Mica, Ranking Member Mink and members of the Subcommittee, my name is William C. Apgar, and I am the Assistant Secretary for Housing/Federal Housing Administration Commissioner at the United States Department of Housing and Urban Development (HUD). On behalf of HUD Secretary Andrew Cuomo and the entire HUD team, I am pleased to testify today about how HUD is fulfilling its mission to address the homeownership and affordable housing needs of the nation. I also welcome the opportunity to report back to the Subcommittee on our progress in implementing the Management and Marketing (M&M) initiative – a comprehensive reform of the way FHA disposes of single family Real Estate Owned (REO) properties.

The past twelve months have been a historic year for the Department, as Secretary Cuomo's 2020 Reforms have produced substantial evidence that HUD works. At the start of the year, in October, 1998, our progress in reforming the Department was recognized by Congress, when the House and Senate approved the best HUD budget in a decade; and, the year culminated last month when Congress enacted an even stronger and smarter budget. This budget puts HUD squarely back in the business of creating and preserving desperately needed affordable housing, jobs and economic development for America's people and places in greatest need. The budget recently approved by Congress provides \$1.5 billion more for HUD programs than the Department received in Fiscal Year 1999, including:

- 60,000 new rental assistance vouchers – the largest expansion of affordable housing in seven years. \$347 million to provide new Section 8 rental assistance vouchers to 60,000 low-and moderate-income families. This exceeds the 50,000 new vouchers in HUD's 1999 budget. The expansion in this critical program follows a four year period between FY 1995 and 1998 when Congress failed to appropriate any funds for new Section 8 vouchers.
- A Housing Security Plan for Older Americans that will enable HUD to develop a broad range of housing options to meet the changing housing needs of senior citizens.
- Major job creation and economic revitalization initiatives that include the new America's Private Investment Companies (APIC) initiative, a second round of new Urban and Rural Empowerment Zones, and redevelopment of formerly polluted commercial and industrial sites know as brownfields.

- Increased funding for public housing authorities, homeless assistance and prevention programs, and the fight against housing discrimination. The budget calls for an increase in public housing operating funds from \$2.8 billion in 1999 to \$3.1 billion in 2000, and funding of \$575 million for the HOPE VI public housing revitalization program. These programs are transforming public housing by removing and replacing the worst units, restoring troubled public housing authorities to financial integrity, demanding household accountability and promoting greater income diversity.
- Extending and expanding a HUD initiative that will benefit people already living in apartments that receive Project-Based Section 8 rental assistance subsidies. During the past year, communities across the country have experienced the loss of thousands of units of affordable housing when landlords opted out of the Project-Based Section 8 program. When this happens, residents who can't afford big rent increases have to move out of their apartments, and many have nowhere to go. In the next five years, more than 900,000 HUD Project-Based Section 8 contracts with rental property owners will expire. In April, HUD began an emergency initiative to address the growing problem of opt-outs. The new HUD budget supports the approach HUD took in April by incorporating the emergency initiative into law. The initiative provides market rents to below-market properties most likely to opt out, giving landlords of high-quality housing an incentive to remain in the Section 8 program. To protect residents living in apartments that withdraw from the Project-Based Section 8 Program, the budget allows HUD to provide rental assistance that will allow residents to continue paying their current rents. The budget also takes other steps to protect residents.

Mr. Chairman, I think you can see why we believe this budget is a tremendous vote of confidence in the performance of the Department of Housing and Urban Development and the management reforms we've successfully implemented under Secretary Cuomo's leadership.

Building on the strong Congressional endorsement of HUD's overall efforts to expand affordable housing and create jobs through innovative economic development initiatives, FY 1999 was undoubtedly the best year in the Federal Housing Administration's (FHA) 65 year history. Highlights of the year include:

- Overall, FHA assisted 1.3 million families in securing an all-time record \$125 billion in mortgage insurance;
- HUD's 1998 legislative victory in securing Congressional approval to increase the FHA loan limits to \$208,000 in high cost areas, enabled FHA to help 60,000 more families realize the dream of homeownership in FY 1999;
- FHA multi-family mortgage insurance also reached a record level of \$4.1 billion in mortgage credit.

Over the last year, HUD and FHA also implemented several new initiatives to protect the public trust. These include:

- Stepped-up lender monitoring activities. FHA completed over 900 lender monitoring reviews in FY 1999 - a four fold increase over the 1997 level;
- A new Homebuyer Protection Plan to protect the more than one million American consumers using FHA insurance every year. This plan is anchored by a complete overhaul of the FHA appraisal process and development of new appraisal monitoring and enforcement tools;
- A new physical and financial assessment system that for the first time provides detailed information about the condition of HUD's multi-family assisted and insured inventory.

I am proud, Mr. Chairman of all that HUD is doing to address the homeownership and affordable housing needs of the nation, and I thank you for this opportunity to report to the Subcommittee on our progress to date.

A Report on Implementation of the M&M Initiative

I also am pleased to report back to the Subcommittee that after seven months of operation, six of the seven contractors retained by HUD are generating very positive results, confirming the fundamental premise behind the FHA's Management and marketing (M&M) initiative -- that profit-motivated, private sector real estate professionals can more efficiently and effectively manage, market and sell REO properties.

As you may recall from my Spring testimony to the full Committee on Government Reform and Oversight, the National Performance Review (NPR) report on HUD completed in 1994, first suggested that FHA consider privatizing its REO operation. In that report, the NPR recommended that HUD:

"Outsource its property disposition function in order to create higher returns. Private companies operating in a competitive market can normally provide a business service more efficiently than a government staff, which is protected from the rigors of competition. The management and disposition of problem assets is an essentially business, not government function....This is a suitable task for a business organization with its own money at risk and a clear profit motive tied to maximizing the net return on assets. This is not a suitable task for salaried government staff working from government rules and handbooks"

Mr. Chairman, we tested the power of this idea prior to nationwide implementation, through a more than two year pilot program in three locations – Baltimore, Maryland, New Orleans, Louisiana and Sacramento, California. The results of this extensive pilot showed that private contractors were able to sell REO properties more quickly and at a higher rate of return than HUD. Under the pilot;

- The average time a property was in inventory was reduced from 211 days to 139 days in Baltimore; from 236 days to 132 days in new Orleans; and, from 162 days to 122 days in Sacramento; and,
- The average sales price per property increased by \$17,108 in Baltimore and by \$6,011 in New Orleans.

The M&M Initiative is Generating Greater Returns to FHA

Now we are seeing even more impressive results in our nationwide program. Since implementing the M&M initiative nationwide on March 29, 1999, six of our seven contractors, who had responsibility for more than 60 percent of the total inventory at takeover, have performed very well. They are selling properties much more quickly and at a higher rate of return than HUD did under the old system. For instance, these contractors have:

- **Increased HUD's average gross property sales price** from \$58,815 one year ago, to \$73,254 -- an increase of 25 percent, or \$14,439 per property;
- **Increased FHA's net return on sale**, the percent of property market value we net after paying all costs associated with managing the property, from 79.30 percent one year ago to 81.26 percent. This improvement represents tremendous progress toward one of the primary program goals I articulated to the full Committee in March: to improve our net return to 81.40 after one year of operation under the M&M initiative;
- **Increased FHA's recovery as a percentage of the mortgage insurance claim** from 59.84 percent to 67.53 percent -- an improvement of \$3,243 on average per property;
- **Reduced the average time it takes to sell a property.** On average, the M&M contractors took only 111 days to sell properties, a vast improvement over HUD's prior performance. When accounting for time HUD held properties prior to transferring responsibility to the M&M contractors, the overall time in inventory average has been reduced from 198 to 191 days, representing considerable progress toward our goal of reducing the average time in inventory to between 150 and 160 days after one full year of operation.

Mr. Chairman, these contractors' strong performance has generated considerable savings to the Department. Taken together, they sold 16,273 properties through September. With an improvement in the net recovery to FHA of \$3,243 per property, these sales generated savings of more than \$52 million to the Department.

InTown Management Group, Failed to Meet FHA's Performance Standards

Still, despite the overall success of the M&M initiative to date, one contractor, InTown Management Group (ITMG), failed to fulfill the requirements of the M&M contract. ITMG did not properly maintain FHA properties, and they were extremely slow to list properties for sale and enter into sales contracts. From nearly the first day of the new initiative, FHA's new property disposition monitoring and control system detected poor performance by ITMG.

Through this new monitoring and control system FHA inspects the physical condition of 10 percent of all properties in inventory, audits 10 percent of all M&M contractor case files, and completes on-site process observations at the M&M contractor's offices, on a monthly basis. To complement these monitoring activities, FHA staff also conduct on-going analysis of performance measurement reports, prepare comprehensive contractor performance assessment reports for each contract area, and hold monthly performance reviews with the contractors to assess critical performance measures, identify deficiencies and direct corrective actions, on a monthly basis.

This new system detected ITMG's performance failures and provided the specific information necessary to empower FHA officials to take appropriate contracting actions. These actions included:

- Just approximately 45 days into the new initiative, FHA forced ITMG to withdraw from one contract area through a bilateral agreement, under which ITMG acknowledged failure to perform;
- Within approximately 50 days of the start of the contract, FHA sent formal deficiency notices to ITMG for each of their remaining contract areas. These notices identified specific performance failures, and demanded a comprehensive recovery plan;
- Within approximately 95 days, FHA reviewed and rejected ITMG's recovery plan. To further address on-going deficiencies, FHA subsequently demanded a meeting in Washington, DC with ITMG's senior managers to further discuss performance deficiencies;
- In August, after ITMG showed little improvement, I instructed staff to develop a contingency plan in the event ITMG simply could not recover. By the end of the month, we had entered into contingent takeover contracts with three private contractors for the majority of the areas covered by ITMG, and assembled detailed

staffing plans for FHA to resume responsibility for managing and marketing properties in the remaining areas.

Still, despite these quick and decisive actions, ITMG's performance did not improve. By September, ITMG's failure to sell properties had caused FHA's national inventory of REO homes to swell from 41,579 at the start of the Initiative, to 51,404, an increase of approximately 9,800 homes. Fully 95 percent of this increase in the national inventory was due to ITMG's failure to perform. After starting with just 16,803 homes in inventory for all its contract areas on March 31, ITMG's inventory had grown to 26,165 at the end of September, an increase of 9,362 homes. During this period, ITMG sold just approximately 2,200 homes.

By comparison, all other contractors combined sold more than 16,000 homes during the same time period. As a result, the combined inventory in their contract areas remained relatively stable, increasing only slightly from 24,776 on March 31, to 25,239 at the end of September, an increase of 463 properties, or two percent.

Due to this and other ITMG failures, HUD terminated all ITMG contracts for default on September 22, 1999. On that same day, the three takeover contractors and HUD staff assumed full operation in all of the impacted contract areas.

Takeover Contractors Are Performing Well

Mr. Chairman, I am pleased to report to the Subcommittee that the private contractors and HUD staff who assumed responsibility for the properties formerly under ITMG contracts are performing very well. In the days immediately following ITMG's termination, these contractors placed a priority on: (1) protecting consumers by ensuring that all scheduled sales proceeded uninterrupted; (2) addressing property maintenance deficiencies created by ITMG nonperformance; and, (3) listing more properties for sale to reduce the bloated inventory in these areas. Where necessary, FHA is bonding or providing escrow deposits to remove liens placed by subcontractors who have not been paid by ITMG, and permit the sale of properties to proceed in a timely manner.

Over the last approximately thirty days since ITMG was terminated, these contractors and staff together have:

- Listed or re-listed 6,407 properties for sale;
- Put another 2,487 properties under a sales contract; and,
- Completed the sale of 1,919 properties – nearly as many property sales as ITMG accomplished in more than five months of operation (approximately 2,200 sales).

With the national system freed of the drag created by ITMG's failure to perform, the entire national M&M system sold 7,140 properties in the month of October, the

highest monthly total to date under the new Initiative, and considerably more than the 5,300 sales per month HUD averaged last year under the old property disposition method. As the new contractors gain momentum in their new areas, I anticipate FHA will continue to reduce the national inventory throughout the remainder of this fiscal year.

The Cause of ITMG's Failure

Mr. Chairman, ITMG failed because its three principles simply did not deliver the resources they promised in their proposal for services to the Department – resources they had at their disposal, but they simply did not dedicate to the FHA contract areas. It is important to recognize that ITMG was a partnership of three very experienced principles, each of whom had led companies that previously performed well under HUD and other federal contracts, including:

1. Melton Harrell, President of InTown Properties, Inc., a very experienced property management firm with a strong record of managing thousands of properties in 23 states nationwide for HUD and the Department of the Army;
2. Larry Latham, President of Larry Latham Auctioneers, LTD, one of the nation's premier real estate auction firms, with prior exclusive national contracts with HUD, the Resolution Trust Corporation (RTC), the Federal Deposit Insurance Corporation (FDIC) and the Veterans Administration (VA). Mr. Latham also is a principle of the highly successful online real estate marketing firm, Homebid.Com, which recently was featured in a Forbes magazine article on successful real estate internet companies. ITMG's proposal identified Mr. Latham as a Vice President of ITMG in charge of marketing.
3. Albert Gonzales, of Gonzales Consulting Services, Inc, a successful property management and auditing and quality control system consulting firm, with nearly a decade government contracting experience. Mr. Gonzales also was identified in ITMG's proposal as a Vice President of ITMG, for subcontractor outreach and training.

Taken together, these three principles and ITMG had the resources and capacity to meet all M&M contract requirements. Their proposal for services identified a clear and rational division of labor, with each partner assuming responsibility for an important aspect of ITMG's operation. However, once the contract began ITMG simply did not deliver the resources.

Mr. Chairman, I believe ITMG misrepresented to HUD the resources they would devote to this contact, and in doing so may have committed a fraud against HUD and the U.S. government. That is why I recently moved to immediately suspend each of ITMG's principles from all government contracting, and also proposed that they be debarred for a

ten year period. Moreover, I have asked HUD's Office of General Counsel to refer the three principles to HUD's Office of Inspector General and the Department of Justice, for criminal investigation.

Conclusion

Mr. Chairman, I would like to thank you for this opportunity to testify today. I would like to conclude by reiterating that I believe HUD and FHA reform is headed in the right direction. Thank you for this opportunity to testify, and I look forward to answering your questions.

Mr. MICA. Right off the bat, let's get into the Intown situation. A contract was awarded in March for \$367 million. It defaulted and filed bankruptcy on September 22nd. I have a story from the Atlanta Constitution, and through some simple checking they found that the principal here, Melton L. Harrell, who won the contract, had a record of felony convictions and had a history of filing bankruptcy, I mean a pretty basic check that even the media did.

Was HUD aware of this individual's background and his record of bankruptcy and felony convictions?

Mr. APGAR. We were not aware at the time that the contract was issued. Let me explain our process.

Mr. MICA. Wouldn't you check? This is over a third of \$1 billion.

Mr. APGAR. I hear you. Under our process we have a previous participation review. It is the responsibility of the Inspector General's Office to conduct that review. We asked them in October, when we first had Intown's bid, again in December, to review Intown for their suitability for this contract. I have here letters signed by appropriate officials at the Inspector General's Office that said they conducted such a review and found nothing.

Notice that there is no requirement for the Federal Government in its contracting procedure to check background checks on criminal records going back that far. We did check the Dunn & Bradstreet records. They showed nothing of any nature of financial liability. We checked other performance records relative to HUD contracts. Each of the contractors had substantial contract experience with the Federal Government, and there was no indication of any of that work by Mr. Latham, Mr. Gonzalez or Mr. Harrell had any problem, including substantial contracts with the Department of the Army, the FDIC, and other Federal agencies.

Mr. MICA. Well, Ms. Kuhl-Inclan, the Assistant Secretary, is saying that it was your responsibility to check, and he has a report here that says that you found a clean bill of health; is that correct?

Ms. KUHL-INCLAN. That check was done by another part of the Office of the Inspector General. I am not aware of the letters he has, but I will be glad to check on that when I return to my office.

Mr. APGAR. You are right, it is part of the standard of previous participation experience report. The letterhead is the Office of the Inspector General. I appreciate that this is not done by Kathy's division, so she might not be aware of this, but this is standard contracting procedure. The Inspector General is the responsible party for identifying potential criminal violations on the part of contractors.

Mr. MICA. Well, somewhere it seems like somebody missed the boat. I mean, just a perfunctory check by the Atlanta Constitution seems to reveal that we are dealing with a convicted felon with repeated bankruptcy failures.

Mr. APGAR. Again, in terms of the bankruptcy—

Mr. MICA. It is astounding to me. I have been in the development business, and I couldn't imagine an award anywhere near this size and not having the scrutiny.

Now, we will have to find out where the problem is. Is the Department going after these folks? Are you reporting them to the Department of Justice?

Mr. APGAR. Yes. As I mentioned in the testimony, we have made appropriate referrals to our Office of General Counsel. They are considering a referral to the Inspector General, as well as to the Justice Department, and it is under review. The whole item is now, of course, in bankruptcy court.

Mr. MICA. Did you say considering, or is this under way?

Mr. APGAR. From my point of view, it is under way.

Mr. MICA. So we should expect some action by the Department of Justice.

Is there someone at the Department of Justice now who has already started an investigation?

Mr. APGAR. Working through our Enforcement Center, they have met with people from the Department of Justice. I could get you the names of the Department of Justice people that they have been working with.

Mr. MICA. Could you provide us with that?

Mr. APGAR. Right.

Mr. MICA. The next question is we have people like Ms. Peterson. She has laid out \$1,400. It may not seem like a lot to people in Washington, but probably a good part of her savings to close on this house. A lien was slapped. The lien was really the responsibility of a mistake made by HUD in awarding a contract—the contract to these fleecing artists.

Is there a system now being considered to reimburse people?

And Ms. Gibson told us about subcontractors that haven't been paid to the tune of multimillion dollars. What is the plan for resolution for these folks?

Mr. APGAR. Well, I by no means minimize Ms. Peterson's \$1,400 lien. She is, in fact, an FHA home-buyer and insured her house with the Federal Housing Administration, so we know our customer profiles very well and appreciate that for that family, \$1,400 was a major problem.

In Intown's failure, they failed to pay many contractors across the country. Those contractors rightfully put liens on our property. We now have a system in place where we are bonding the liens. That is the way of preserving our capacity to recover against Intown in bankruptcy, while at the same time allowing the sales to go forward.

Mr. MICA. That has been in only 20 States so far, or some States? It is not in place everywhere?

Mr. APGAR. No. We are going State by State. The proof is in the pudding. We have sold almost 2,000 homes, and so we have substantially attacked the lien problem.

Mr. MICA. What about this lady sitting next to you?

Mr. APGAR. In cases where individuals paid their own liens, we will establish a process in which we will repay them for that lien and assume the responsibility as we have with the other liens in order to let the sales go forward.

Mr. MICA. How much is the taxpayer going to end up paying as a result? Is there any estimate? Has the IG or has your Department estimated what this is going to cost us in the end?

Mr. APGAR. Well, it is our understanding there will be no cost to the government; that, in fact, I would say that our overall program has been generating benefits in excess of the cost of the program.

In terms of the liens, of course, we paid every dollar that Intown billed us, so they had the money to pay many of these contractors. That matter will be resolved in bankruptcy court.

Mr. MICA. But we don't have a clear estimate as to what this will cost?

Mr. APGAR. The bankruptcy court is assembling a nationwide estimate of what was owed and what was paid. I mean, let's be clear. Intown, when we seized their records, were in substantial disarray. We literally had to do almost like a midnight raid in order to get into their offices. And again, the records were in substantial disarray.

Mr. MICA. But what concerns me finally is we have Ms. Gibson testifying today under oath that now we have another contract—well, we have a previous contractor, Citywide, replaced, what is it, Goldenfeather.

Ms. GIBSON. Goldenfeather replaced Intown. Intown replaced, I guess, the previous contractor, Citywide.

Mr. APGAR. If I could say a word about Goldenfeather.

Let me tell you a little bit about Goldenfeather. Goldenfeather was and is one of the best contractors we have had and proven by experience. They took over initially the very difficult southern California market. They have been now selling homes faster than they have been taking them in, lowering the inventory, returning good return, better than we did through our old system.

Mr. MICA. But they are overtaking Citywide, which has not met its obligations.

Mr. APGAR. Now they are in Chicago trying to dig out from the mess that Intown had created, and we fully anticipate that they will be able to work with the contractors, pay the liens where they are appropriate, and move forward.

Mr. MICA. Ms. Gibson, you testified, however, that Citywide, was that the one that—

Ms. GIBSON. The first—there were people who told us that they had worked for, and I don't know if they were M&M or REAM contractors, but they were called Citywide, and that when they came to us, because they had not been paid by Intown, a number of them had said they were still waiting to be paid from Citywide.

Mr. MICA. Which was the previous one?

Ms. GIBSON. Which was the first one.

Mr. MICA. Before Intown.

Ms. GIBSON. Before Intown.

Now, a lot of those people went and signed up to work for Goldenfeather, even though our position was that they should not work for Goldenfeather until Goldenfeather was able to put in writing to us that we would be paid for services. Goldenfeather refused to do that. My position was that I was not going to do anything else on any contract until HUD was prepared to say, these are the people we sent to town to do work for us and we backed them. If that is not happening, then most of the contractors that I represent are not providing services for Goldenfeather, and as of last week, they were begging for contractors because their credibility has been shot. So therefore, the properties are sitting. They do not have enough contractors in the Chicago area to meet the needs, and peo-

ple are not going to provide those services because we don't have any accountability or feel that we are going to be paid.

Mr. MICA. Let me clarify for the record, if I may. Is it C-I-T-Y—Citiwest, not Citywide. I have been saying Citywide. Citiwest, what is more disturbing to me, Mrs. Ranking Member, is Citiwest, who she is talking about, who didn't perform before Intown, who went bankrupt, that didn't perform, has contracts that were given June 19th for business in New England and now hasn't performed in New England; only has 84 of 218 properties available. So the dudes that messed up in her area have now moved into the Northeast to perform their nonperformance tasks.

Mr. APGAR. If I could give you a full report on Citiwest's performance in New England, I am not sure what information you are looking at, but they have performed well under this contract. They also have increased the FHA's—

Mr. MICA. Did you talk to them about meeting their obligation back in—

Mr. APGAR. There is no evidence that they haven't. We would be happy to hear that complaint.

Mr. MICA. We just had testimony to that effect.

I have taken more than my time.

Mr. APGAR. With all due respect to Ms. Gibson, she also testified that Goldenfeather was begging for contractors. Our reports from Goldenfeather, that they are up and operating in Chicago, and they have ample resources to perform these contracts. Obviously, Ms. Gibson is not one of those contractors, but others have stepped forward, and the process is working.

Mr. MICA. Mrs. Mink.

Mrs. MINK. I think that one of our fundamental principles in America is that if people work for whoever, even under bankruptcy laws, that they have a priority commitment on the part of the court and the government that they be paid, and it seems to me that that principle needs to be recognized by HUD.

Now, going back to the Intown contract of \$300-some million, what was that money supposed to represent, if it was a contract of commitment to Intown?

Mr. APGAR. This was a performance-based contract. Intown got paid when they listed properties and when they sold properties.

Mrs. MINK. So the \$360-some-odd million is an estimated value of the properties that was assigned to Intown to sell?

Mr. APGAR. Right. Estimated—the number of properties that they were assigned over a 5-year period over an estimated basis.

Mrs. MINK. So the assumption is if they did their job and sold the properties, then they could pay all of the people that helped them perform in the maintenance and upkeep of these properties before they were sold.

Mr. APGAR. That's right. It was a performance contract. They got an initial just for listing the property, and they got additional payment when they sold the property.

Mrs. MINK. So in some instances then, the properties were actually listed, and the government then paid them the 30 percent advance fee, even though the properties were not sold; is that correct?

Mr. APGAR. Right. We paid them in two stages.

Mrs. MINK. How much was paid to Intown then?

Mr. APGAR. How much was paid to Intown in total? Many millions of dollars. I have to get the exact figure.

Mrs. MINK. Out of that money that Intown was paid, is there any way to make sure that the actual obligations to the subcontractors are actually met for maintenance, or is that not part of the contract that you entered into with Intown, that they pay these obligations first out of that 30 percent?

Mr. APGAR. Yes. They are bound by all kinds of contractual law which says that as contractors and in their relationship to subcontractors, they are obligated to pay.

Mrs. MINK. So what is the overall total then of the subcontractors' claims against Intown? Now that it is all public and it is in the bankruptcy courts, I imagine that that total figure is available.

Mr. APGAR. No. They are still totaling up the figure.

Mrs. MINK. What is your estimate of what the figure would be?

Mr. APGAR. Oh, several millions of dollars, maybe as many as \$10 million.

Mrs. MINK. Up to \$10 million.

Mr. APGAR. Yes. That is just a rough estimate.

Mrs. MINK. Now, is that—

Mr. APGAR. Can I explain why it is difficult to sort this out? We don't have clear information as to whether or not Intown has taken the money we have given them already and paid these contractors.

Mrs. MINK. That was my earlier question; you made the estimate that it is about \$10 million. Is any part of that money somewhere in escrow so that these people can be paid?

Mr. APGAR. We withheld every payment that wasn't made at the time of termination back, and that is part of our resources that are moving forward.

Mrs. MINK. So does HUD consider this to be a firm obligation to meet with respect to all of these subcontractors and workers that have not been paid for work that they have done?

Mr. APGAR. We have, as we noted, taken the step of paying all the liens by posting surety bonds. By doing it that way, of course, it retains our claims in bankruptcy court so that we will be able to recover against those claims. We want to be careful not to pay twice for work that has already been done, and we have no obligation or resources to do that. It was our intention to work to make sure that the subcontractors are made whole, consistent with the operations of the bankruptcy court.

Mrs. MINK. How long do you think that process will take before these people can be paid?

Mr. APGAR. Well, we are paying already, as folks who have liens are being paid. We cleared almost 2,000 houses for sale, and the liens on all of those are being paid.

Mrs. MINK. You are making good on the liens. How about Ms. Peterson's?

Mr. APGAR. Right. It has come to our attention that a few people paid their own liens in order to do this, and then our procedure will be to identify those folks and pay their lien—

Mrs. MINK. So Ms. Peterson can expect to get her money soon?

Mr. APGAR. As soon as we can handle that transaction, that is correct.

Mrs. MINK. Thank you.

I have a whole bunch of other questions, but I am being beckoned to my other committee. But I did want to get to the point of the how come they didn't know about this individual's defaulting on bankruptcies and criminal record, and you stated that it was the Inspector General's responsibility. As I understand it, this is an entirely separate operation, so it is unfair to place that burden of failure of knowing who these people were on the Department when you have an Inspector General that is supposed to be doing the job.

Mr. MICA. Well, let me say just in a quick dialog with the ranking member, if I may, and Mr. Tierney, that there is something wrong on the procedure. I don't know if it is in the law or in the regulations or their administrative procedure, but when you can award a \$367 million contract to a guy with a conviction of felonies and a series of bankruptcies with that much public trust responsibility, there is something wrong.

Mrs. MINK. Can I make an amusing comment, side-bar?

Mr. MICA. Go right ahead.

Mrs. MINK. I understand that the Majority party, however, is adamantly opposed to the administration's recommendation that we do establish a policy in which we examine the records of the would be contractors, and while I think that is a very good stand that the administration's taking, I wonder why it is being so vehemently opposed on your side.

Mr. MICA. Well, I don't oppose it. I happen to be—

Mrs. MINK. Good. Score one.

Mr. MICA [continuing]. In favor of looking at what the problem is here, but obviously, we have a report that was just read by the Assistant Secretary from the IG office within the agency that is supposed to perform this function. Something went wrong, badly wrong, in this process, and whether it is changing the law, the regulation or whatever, we need to look at it. I am open to that, certainly.

Let me yield now to Mr. Tierney, the gentleman from Massachusetts.

Mr. TIERNEY. Thank you, Mr. Chairman. I am not going to take up any time. I think that you have pretty much hit it on the head, that where we ought to be going with this is looking at the process and determining where it broke down and what we should do to make sure it doesn't happen again; because clearly, you are exactly on point, that we should not be giving contracts out of this magnitude without some investigation into the past.

We have now identified that nobody at this table was supposed to do the investigation, but one of the agencies should have. Maybe the next set of hearings should be bringing those people in to find out why they didn't do the appropriate job. Thank you.

Mr. MICA. I thank the gentleman.

We are going to leave the record open for at least 3 weeks, because we will have additional questions that we are going to ask the agency.

Ms. Gibson, let me just clarify again, the contractor you spoke about was Citivest that was in Chicago before Intown, and Citivest was taken over by Intown. But you are telling me that there were—I don't know if there still are, but there were obligations of Citivest, the first one, not met.

Can you again enlighten the subcommittee?

Ms. GIBSON. Some of the subcontractors, again, when they came to us, they said that they were still waiting to receive all of their full compensation out of Citiwest. They had not received that money, and then my question, of course, to them was, if you haven't been paid from the first contract, why are you now with Intown, in this boat with those of us who came on board just with Intown? Their response was, well, we had to work. Those people are probably still with Goldenfeather.

But I just have a question, because I am really not understanding what Mr. Apgar just said to us. I am trying to understand, are you saying that if we put liens on the property, we will get paid, because you are saying you are going to pay off the vendors that put liens on the property. We were advised against putting liens on the property by some attorneys who had done work for HUD, because we have called, I think, every agency in this government trying to find out how we get remedy. We were advised against putting liens. But what I seem to be hearing you say is that if we, as small vendors, put liens on the HUD property, then you will pay us our money. I am just asking for clarification.

Mr. MICA. Secretary Apgar, she raised the question, and I think you addressed how the lien folks—and you did say that in some States you are in a bonding situation, so there are some that aren't. But what about also this question of nonlien obligations?

Mr. APGAR. It is my understanding that State law enables contractors of this type to place liens against the property as a way of securing an interest. I am particularly mindful of the fact that many of these contractors are literally the folks who cut the glass and do small chores all the way up to substantial rehab contractors, and that is essentially a way of getting around issues of bankruptcy court and other complexities. So, in fact, I don't know who advised Ms. Gibson as to how to pursue her rights, but contractors that have placed liens against the properties have secured their interest that way, and we are, in fact, moving ahead with paying those contractors in order to facilitate the sale of the property.

Mr. MICA. But again, those who haven't slapped a lien on, what is their recourse?

Mr. APGAR. They don't lose their claim, and as we work with the bankruptcy court, we are pursuing options so that we can pay contractors directly.

Mr. MICA. Do you know how much money was disbursed to Intown before they filed bankruptcy?

Mr. APGAR. That is a number that I would have to check on.

Mr. MICA. I would like that information.

Mr. APGAR. The annual contract, if they sold the properties, it would have been many millions of dollars. They sold so few that the actual disbursements were small, or less than they would have been if they had been performing.

Mr. MICA. My question would be if the portion—I guess they got a certain amount for management and other—

Mr. APGAR. They got—for initial listing?

Mr. MICA. Well, for their initial activities, right.

Mr. APGAR. They got initial listing fees, that is correct.

Mr. MICA. What percentage was it?

Mr. APGAR. I think it was 30 percent of the overall payment that they eventually received that came up front, and then——

Mr. MICA. I would like to know how much of that they did get, excluding money for the sales, how much money they did get.

Mr. APGAR. Right. I will get you that figure, sir.

Mr. MICA [continuing]. I think that is important.

Mr. APGAR. There are no buzzes coming from the air back here, so I think my supporting folks don't have that. We will give you the exact number. We do have these numbers, of course, in our central computers.

Mr. MICA. All right. Finally, you said you had a report from the IG. Who signed that report? Can you tell us what office it came from?

Mr. APGAR. Yes. It is the previous participation experience. It is the IG's office, and it is signed by a Mary Dickens.

Mr. MICA. Dickens?

Mr. APGAR. I am trying to read this. It is handwritten here. Dickens. I am sure that our contracting office could give you the name of this person because——

Mr. MICA. Are you familiar, Ms. Kuhl-Inclan?

Ms. KUHLL-INCLAN. It is Mary Dickens, yes.

Mr. MICA. Mary Dickens. What office of the IG?

Ms. KUHLL-INCLAN. She works in our Office of Management and Policy.

Mr. MICA. All right. Would you provide us with a copy of that report for the record?

Mr. APGAR. Yes. Be happy to.

Mr. MICA. Without objection, those reports will be included as part of the record.

[The information referred to follows:]

Previous Participation Experience

U.S. Department of Housing and Urban Development
Office of Inspector General



(See Instructions and Privacy Act Notice on Back)

To: Request for Previous Participation Experience Office of Inspector General <i>Attn: Mary Dickens</i>		From: Assistant Regional Administrator or Field Office <i>Office of Procurement and Contracts (NES)</i>	
Name of Requester <i>Tickie Chesley</i>		Title of Requester <i>Contract Specialist</i>	
Name of Component <i>OPC Program Support Div</i>		Location <i>HUD Hdqtrs.</i>	Region <i>Wash DC</i>
Information Requested (Name of individual and/or firm - List Alphabetically) <i>(see attached list of 64 officers)</i>		Social Security and/or Treasury Number	Telephone Number <i>202-708-1585x7156</i>
City, State, and Zip Code		Name of Project <i>Management Marketing Services for HUD-owned properties</i>	
Date of Application <i>10/22/98</i>	Type of Contract <i>fixed price</i>	Location <i>various</i>	
Project Number <i>RFP R-OPC-21230</i>	Title <i>Contract Specialist</i>		Signature <i>Tickie Chesley</i>
Part II - Results of Indices Checked		From: Office of Inspector General	

Results of Checks Revealed the following:

No Information

Set forth below is a short resume of information disclosed

Date: <i>10-27-98</i>	Title: <i>Info. Record Manager</i>	Signature: <i>Mary Dickens</i>
--------------------------	---------------------------------------	-----------------------------------

LIST OF OFFERORS

Solicitation R-OPC-21230

Page 1 of 2

Asset Management Specialist, Inc.
 Alternate Asset Management Company
 Gail Service Industries, Inc.
 Intown Management Group, LLC
 Metro Realty Co

Levittown, PA 19057
 Northbrook, IL 60062
 Bethesda, MD 20814
 Atlanta, GA 30303-1906
 Memphis, TN 38104

Vero Property Management
 Forbes Realty Inc.
 Prose, Inc.
 First Preston Management
 Centre Properties

Vero Beach, FL 32968
 Fort Myers, FL 33907
 Nashua, NH 03060
 Dallas, TX 75244
 Houston, TX 77058

C&S Property Managers
 CMS Property Management
 Gillette Holdings Ltd. &
 The Magi Group
 California Managers Brokers Appraisers, Inc.

Blue Mountain, MS 38610
 Hanover Park, IL 60103
 San Antonio, TX 78221

 Reseda, CA 91335

CitiWest of Georgia, Inc.
 CitiWest Illinois, Inc.
 CitiWest Missouri, Inc.
 CitiWest Virginia, Inc.
 Covenant Real Estate Management Co., Inc.

Atlanta, GA 30329
 Chicago, IL 60607
 St. Louis, MO 63144
 Virginia Beach, VA 23462
 Atlanta, GA 30328

El Hamm & Assoc., Inc.
 Centre Interests, Inc.
 Guardsman Realty Company
 Horizon Consulting, Inc.
 Michaelson, Connor & Boul

Virginia Beach, VA 23462
 Houston, TX 77058
 Atlanta, GA 30339
 Falls Church, VA 22043-2615
 Huntington Beach, Ca 92649

AFR & Assoc. Inc. &
 Holbrook & Assoc Consultants, Inc
 Countryside Agency LLC
 Sykes-CitiWest JV
 Metec Asset Management LC

Ft. Lauderdale, FL 33324

 Fairfield, CT 06430
 Houston, TX 77002
 Miami, FL 33131

The Urban Group, Inc.
 Smith R. E & The Urban Group
 Special Properties, Inc.
 Southeast Alliance of C/C Specialist ?

Fort Lauderdale, FL 33316
 Atlanta, GA 30309
 Lake Ridge, VA 22192
 Dallas, TX 75244

G:\WP\FORMS\21230-AB,STR

LIST OF OFFERORS

Solicitation R-OPC-21230

Page 2 of 2

Down Payment, Inc.	Lakeland, FL 33813
Harser Management & Leasing, Inc.	Binghamton, NY 13901
Federal Property Management Co	Frankfort, IL 60423
Centre Interests, Inc. Dba Centre Properties	Houston, TX 77058
Advanced Research and Appraisal	Hollywood, FL 33021
National Alliance of Foreclosure Specialists	Dallas, TX 75244
M.K. Real Estate Service	Westminster, CO 80030
First Preston Foreclosure Specialists	Dallas, TX 75244
Golden Feather Realty Svc. Inc.	San Antonio, TX 78231
DFW Group	Cedar Hill, TX 75104
Gali Service Industries, Inc.	Bethesda, MD 20814
Westfall & Company	Westminster, CO 80030
Kenneth L. Monson dba M3 Real Estate Services	Reynolds, ND 58275
David Jones Realty	Reseda, CA 91335
Delclos/Walsh Assoc. Inc.	McLean, VA 22101
Builders Alliance, Inc.	Ridgefield, CT 06877
Law Office of George E. Hill	Manchester, CT 06040
MiOh Management LLC	Cleveland, OH 44128
Longley Jones, Inc.	Syracuse, NY 13203
AMS, Inc.	Levittown, PA 19057
Intown Properties	Atlanta, GA 30303-1906
United Housing Services, Inc.	Costa Mesa, CA 92626
M. G. Real Corp./Revere Financial	Montebello, CA 90640
J2 Investment Inc.	City of Industry, CA 91748
World Sales Company	Riverside, CA 92506
R.S.F. Systems, Inc.	West Jordan, UT 84084
California Managers Brokers Appraising, Inc.	Reseda, CA 91335
Optima Property Management Group	Oakland, CA 94612
Electronic Real Estate Services	Tacoma, WA 98466
Berry Realty & Associates	Phoenix, AZ 85036
PEMCO Ltd.	Honolulu, HI 96814
Foster Realty	Waianae, HI 96792

NOV-03-99 WED 09:27 AM HUD CONTRACTING

FAX NO. 215+856+3453

P.08

The Office of Inspector General has checked these subjects against records created by the OIG as a result of OIG Audits, Investigations. These subjects have not been checked against the Government-wide List of Parties Excluded from Federal Procurement or Nonprocurement Programs, Social Security Numbers or any other sources.

REVIEWED BY: *Mary D. De*
DATE: *11-2-98*

WE HAVE INFORMATION ON BERRY REALTY AND ASSOCIATES, ELECTRONIC REAL ESTATE SERVICES.
PLEASE CALLED EDWARD J. DEUTSCH ON 708-2650 EXT. 414.

- ① Michaelson, Connor & Boul, Inc
5151 Oceanus Drive, Suite 108
Huntington Beach, CA 92649
- ② Intown Management Group, LLC
100 Peachtree Street, Suite 450
Atlanta, GA 30303
- ③ Pemco, Ltd.
1600 Kapiolani boulevard, Suite 1130
Honolulu, Hawaii 96814
- ④ CitiWest Properties
635 West Indian School Road, Suite 208
Phoenix, AZ 85013
- ⑤ First Preston Foreclosure Specialists
12240 Inwood road, Suite 400
Dallas, TX 75244
- ⑥ Golden Feather Realty Services
13409 N.W. Military Highway, Suite 210
San Antonio, TX 78231
- ⑦ Just Valuation, Inc.
222 S. Westmonte Drive, Suite 105
P. O. Box 160817
Altamonte Springs, FL 32716-0817
- ⑧ Horizon S/W Properties
2440 Texas Parkway, Suite 219
Missouri City, TX 77489
- ⑨ Sykes Communications
1010 Lamar
Suite 1350
Houston, TX 77002
- ⑩ Southeast Alliance of Foreclosure Specialists
12240 Inwood road, Suite 400
Dallas, TX 75244

Previous Participation Experience

U.S. Department of Housing and Urban Development
Office of Inspector General



(See Instructions and Privacy Act Notice on Back)

Part I -- Request for Previous Participation Experience

To: Office of Inspector General		From: Assistant Regional Administrator or Field Office	
Attn: Mary Dickens		Office of Procurement & Contracts (NO.3)	
Name of Requestor: <i>Tikiia Chesley</i>	Title of Requestor: <i>Contract Specialist</i>		
Name of Component: <i>OPC Program Support Div.</i>	Location: <i>HUD Adpter Wash DC</i>	Region: <i>202-708-1585 x 7156</i>	Telephone Number: <i>202-708-1585 x 7156</i>
Information Requested (Name of Individual and/or Firm -- List Alphabetically): <i>(see attached list of 10 offerors)</i>	Social Security and/or Treasury Number	City, State, and Zip Code	

(Use additional sheet of paper if necessary)

Date of Application	Type of Contract: <i>fixed price</i>	Name of Project: <i>Mgmt + Marketing Services for HUD-owned Properties</i>
Project Number: <i>RFP R-OPC-21830</i>	Location: <i>various</i>	
Date: <i>12/8/98</i>	Title: <i>Contract Specialist</i>	Signature: <i>Tikiia Chesley</i>

Part II -- Results of Indices Checked

To:	From: Office of Inspector General
-----	-----------------------------------

Results of Checks Revealed the following:
 No information
 Set forth below is a short resume of information disclosed

Date: <i>12-9-98</i>	Title: <i>Info Record manager</i>	Signature: <i>Mary Dickens</i>
----------------------	-----------------------------------	--------------------------------

The Office of Inspector General has checked these subjects against records created by the OIG as a result of OIG Audits, Investigations. These subjects have not been checked against the Government-wide List of Parties Excluded from Federal Procurement or Nonprocurement Programs, Social Security Numbers or any other sources.

REVIEWED BY: mary
DATE: 12-14-98

WE HAVE INFORMATION ON HORIZON SAVINGS ASSOCIATION. CALLED EDWARD J. DEUTSCH ON 202-768-2650.

The case is ~~not~~ closed md

**Congress
of the
United States
House of Representatives**

JOHN F. TIERNEY
MASSACHUSETTS
SIXTH DISTRICT



November 22, 1999

The Honorable John Mica
Chairman
Subcommittee on Criminal Justice, Drug Policy and Human Resources
Committee on Government Reform
B373 Rayburn
Washington, D.C. 20515-6148

Dear Chairman Mica:

As a follow-up to the Subcommittee on Criminal Justice, Drug Policy and Human Resources November 3, 1999, hearing entitled, Changes at HUD: Promoting Home Ownership or Agency Image?, I write to request that the following questions be forwarded for responses to the Honorable William Apgar, Assistant Secretary for Housing, Department of Housing and Urban Development. In addition, I request respectfully that my questions and the answers received be placed in the record.

- I. Prior to the consolidation of Single Family activities and contracting out under the Marketing and Management Program (M&M) contracts, the Denver Office conducted a pilot project, IDEA No. 08.00-92-023-0. The pilot project ran for thirteen months from July 20, 1993. Under the pilot, HUD employees were used to conduct all work currently done by the Real Estate Asset Management (REAM) contract, which preceded the M&M contractors. An agency memorandum dated August 31, 1994, reported:

the average number of days from acquisition to list for the 74 [pilot] properties is 51.1 while the average for our REAM is 105.2 days, more than twice as long. At \$20.25 per day, our current holding cost, that equates to an additional cost of \$1,095.52 per property . . . Likewise, the average cost to prepare [pilot] properties for sale is almost half that of the REAM's cost, \$1,350.48 vs. \$2,631.58.

Under the pilot project, one employee was assigned responsibility for the 74 projects. The employee "saved this office \$167,500 in holding costs and \$156,294 in repair costs for a total of \$323,794 over the past thirteen months . . ." Those savings were realized with only 74 properties. The savings are potentially staggering when considering the thousands of properties in HUD's inventory.

120 CANNON
WASHINGTON, D.C. 20515
(202) 225-8020
<http://www.house.gov/tierney>

COMMITTEES
EDUCATION & THE WORKFORCE
SUBC ON POSTSECONDARY EDUCATION, TRAINING & LIFELONG LEARNING
SUBC ON EMPLOYER-EMPLOYEE RELATIONS
GOVERNMENT REFORM & OVERSIGHT
SUBC ON NATIONAL ECONOMIC GROWTH, NATURAL RESOURCES & REGULATORY AFFAIRS

HAVERHILL (978) 469-1942
LYNN (978) 595-7375

Printed on recycled paper.

17 PEABODY SQUARE
PEABODY, MA 01960
(978) 531-1660

Given the documented failures of M&M contractors, and the documented savings that can be realized when HUD staff is used, when will HUD move this work back to HUD staff?

2. The Office of Inspector General Audit No. 99-PH-163-0002 referencing HUD contracting, reported on the M&M contract and the proposed Section 8 Contract Administration contract. An introductory paragraph to this portion of the Audit states:

While the management and marketing contracts and the Section 8 contract administration proposals provide for privatization of functions previously performed in-house, there was little evidence to show that Department seriously considered the costs or effectiveness of HUD staff performing these functions versus the costs of contracting for these functions with the private sector, in compliance with OMB Circular A-76 procedures. Simply speaking, it would follow that if top management's reorganization policies provide for reductions in staff and the privatization of HUD business, then these decisions have been made without evaluating the costs and benefits of these actions. Ultimately, these are the types of decisions that perpetuate the management problems that exist at HUD and will continue, if management does not recognize the need for up-front cost analysis and sound business decision based on a disciplined approach, as provided for under A-76 requirements. (Audit at p. 9.)

According to the Audit, the agency contracts out approximately \$800 million per year without cost comparisons meeting OMB A-76 guidelines. (Audit at pp. 1 and 9.) When does HUD plan to begin comparing the cost of maintaining HUD staff versus the cost of contracting for functions with the private sector? Will HUD publish the cost comparisons?

3. It appears from the Audit that the agency did a non-OMB A-76 cost comparison for the Section 8 Contract Administration contract. The Audit reports that the cost comparison was flawed, inflating the inventory to be contracted out (22,000 versus 18,000) and assuming caseloads for HUD staff well below that of State Housing Finance Agencies (14 versus 25). Nonetheless, the Audit states, Although HUD's analysis appeared to significantly overstate in-house requirements, it still showed that the estimated cost of performing the work in-house was \$38 million less than the cost of contracting out. (Audit at p. 16.)

Given the savings to be realized from maintaining this work in-house, when will HUD cancel its plans to contract out this work?

4. The Section 8 Contract Administration contract will result in the outsourcing of "a core HUD business function that, for the most part, is done in-house." (Audit at p. 16.) The Inspector General has warned that the Section 8 Contract Administration contract "could adversely affect the integrity of the Section 8 program because:

- contracted services are typically used to enhance in-house capability, not replace an entire business function.
- contracting out subjects the entire program to uncertainty." (Audit at p. 16.)

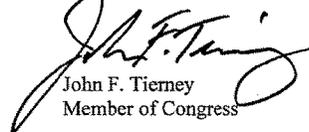
Given the potential impact on Section 8 program integrity, when will HUD cancel its plans to contract out this work?

5. The Audit reports that the extra cost of the contract "will be absorbed by the Section 8 program, reducing the amount of funds that could be provided to intended beneficiaries." (Audit at p. 17.) In the FY 2000 budget, a Section 8 housing certificate for a homeless individual or family was estimated to cost \$5777.77 annually (18,000 certificates cost \$104 million). Even using the agency's flawed cost analysis, more than 6500 certificates will be lost annually if these contracts go through.

Given the impact on homeless families, when will HUD cancel its plans to contract out this work?

Chairman Mica, I thank you in advance for submitting these questions to Mr. Apgar, and I look forward to continuing to work with you and the Subcommittee on Criminal Justice, Drug Policy and Human Resources staff on this important subject.

Sincerely,



John F. Tierney
Member of Congress

JFT/tlc

cc: The Honorable Patsy Mink
Ranking Member, Subcommittee
on Criminal Justice, Drug Policy
and Human Resources



U. S. Department of Housing and Urban Development
Washington, D.C. 20410-8000

DEC 6 1999

OFFICE OF THE ASSISTANT SECRETARY
FOR HOUSING-FEDERAL HOUSING COMMISSIONER

Honorable John F. Tierney
U. S. House of Representatives
Washington, DC

Dear Congressman Tierney:

Thank you for your ongoing interest in the Federal Housing Administration (FHA). I am pleased to submit the following responses to questions you posed in a letter dated November 22, 1999.

FHA's Management and Marketing Contracts

1. Given the documented failures of M&M contractors, and the documented savings that can be realized when HUD staff is used, when will HUD move this work back to HUD staff?
 - A. As I indicated in both my written and oral testimony before the Subcommittee on Criminal Justice, Drug Policy and Human Resources, the overall Management and Marketing (M&M) initiative has been very successful. In the first six months of operation, six of the seven private contractors (excluding InTown Management Group) demonstrated that they can sell HUD Homes much faster and at a much higher return than HUD did under the old REAM system. In the first six months of operation, these six contractors have:
 - Increased HUD's average gross property sales price from \$58,815 one year ago, to \$73,254 -- an increase of 25 percent, or \$14,439 per property;
 - Increased FHA's net return on sale, the percent of property market value we net after paying all costs associated with managing the property, from 79.30 percent one year ago to 81.26 percent. This improvement represents tremendous progress toward one of the primary program goals I articulated to the full Committee in March: to improve our net return to 81.40 after one year of operation under the M&M initiative;
 - Increased FHA's recovery as a percentage of the mortgage insurance claim from 59.84 percent to 67.53 percent -- an improvement of \$3,243 on average per property;
 - Reduced the average time it takes to sell a property. On average, the M&M contractors took only 111 days to sell properties, a vast improvement over HUD's prior performance.

Based on these results, I respectfully disagree with the assertion that the M&M contractors have been a failure. Although one of the seven contractors, InTown Management Group, did fail miserably, the majority of the M&M contractors are performing very well.

In regard to the Denver pilot mentioned in your letter, it generally did not produce results that rival the M&M contractors performance. For instance, in all M&M contract areas, other than those previously managed by InTown, contractors are taking between 20 and 29 days from property acquisition to list, compared to the Denver pilot's average time of 51 days. In all other aspects of REO property management and marketing too, our private contractors are performing better than HUD did under our old system. Therefore, I do not believe it is in the Department's best interest to return this work to HUD staff.

FHA's Contract Administration Initiative

The Department currently contracts with public housing agencies across the country to perform contract administration services for our project-based Section 8 portfolio. As your letter indicates, currently HUD is involved in an effort to expand its use of third-party contract administrators. Throughout this year's budget process, the Department has worked closely with both the House and Senate Housing Appropriations Sub-Committees to explain the importance and value of this effort to HUD's responsibility of protecting the public trust. Furthermore, we have worked closely with HUD Office of the Inspector General to both develop the request for proposals that is the basis for the procurement of contract administration services and to develop monitoring and oversight procedures to ensure that the appropriate controls are in place to assure that the Section 8 program's integrity is not compromised by this effort.

Our work and cooperation with each of the Housing Appropriations Sub-Committees and our own Office of the Inspector General strengthen the Department's resolve that expanded use of third-party contract administrators will help to improve our management of project-based Section 8 portfolio.

Below, we address each of your questions specifically:

2. When will HUD conduct a cost comparison to justify contracting with third parties to perform Section 8 Contract Administration?

A. HUD already has provided detailed cost comparison information and analysis and briefed the relevant staff of both the House and Senate Housing Appropriations Sub-Committees on the initiative to contract with third parties to perform Contract Administration. Attached you will find a Fiscal Analysis that HUD provided to these Sub-Committees. These Sub-Committees used this analysis as the basis for their decision to support of the Contract Administration initiative in this year's HUD Appropriations Bill.

3. Given the savings to be realized from maintaining this work in-house, when will HUD cancel its plans to contract out this work?

A. To perform contract administration services in house would require over 1400 employees, an unrealistic growth given the reluctance of Congress to expand HUD's workforce. Indeed, as



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D.C. 20410-4500

OFFICE OF THE INSPECTOR GENERAL

November 30, 1999

Honorable John L. Mica
Chairman, Subcommittee on Criminal Justice,
Drug Policy and Human Resources
Committee on Government Reform
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

This is in response to your letter of November 10, 1999, with two follow-up questions to the hearing on Community Builders and the Management and Marketing Program.

1. **Performing Background Checks for Potential Contractors of Federal Contracts.**
- Q. **Please describe any background check requirements that the Office of Inspector General may be responsible for completing in order to establish the contractor's suitability and eligibility for a major procurement contract.**
- A. Chapter 6 of HUD Handbook 2000.3 REV-3, Office of Inspector General Activities, describes the previous participation check performed by the OIG. The OIG assists the Department by identifying any information in our files regarding the individual or contractor. This information would generally be information developed in the course of audits or investigations. Our office does not perform suitability determinations. Section 6-8. b. of the Handbook states:

"It is important to note that it is not the responsibility of the OIG to decide whether to conduct business with the individuals or firms requesting to participate in HUD programs or activities. The OIG only supplies information for program management to use in making decisions."

The OIG's previous participation check is not part of the Agency's normal contractor background check required by Subpart 9.4 of the Federal Acquisitions Regulation.

- 2. Previous Participation Check for InTown Management Group.
- Q. Please describe what request HUD made of the OIG in considering Intown for a major procurement contract, and what actions OIG took in response.
- A. On December 8, 1998, the HUD contract specialist filed an information request with the OIG for Intown Management Group, LLC, as well as nine other potential contractors. On December 9, 1998, the OIG responded with no information found for Intown Management Group, LLC.

We would be happy to provide you any additional information. Should your staff have any questions, please have them call me on (202) 708-0364.

Sincerely,



Kathryn Kuhl-Inclan
Assistant Inspector General
for Audit

QUESTIONS FOR ASSISTANT SECRETARY WILLIAM APGAR**1. Issues of Contract Award to Intown Management Group, LLC. (Intown)**

Your testimony indicated that an insufficient background check was performed on Intown by a clerk for the Office of Inspector General (OIG). You and other HUD officials approved the contract providing more than \$367 million to Intown, covering 27 states and representing the largest marketing and management contract awarded. Almost six months later, Intown filed for bankruptcy, leaving subcontractors and purchasers without payments and in legal limbo. Despite previous bankruptcies involving an Intown partner, as well as a felony conviction, you indicated that your office was not responsible.

Records indicate that, in December 1998, OIG performed a check for HUD on ten businesses, including Intown, that were being considered for management and marketing services. The check by OIG reported back to HUD as follows:

"The Office of Inspector General has checked these subjects against records created by the OIG as a result of OIG Audits, Investigations. These subjects have not been checked against the Government-wide List of Parties Excluded from Federal Procurement or Nonprocurement Programs, Social Security Numbers or any other sources."

Given that OIG simply checked its own records for past problems identified within its records, and informed HUD accordingly, why would you and your officials consider this to be the primary check on Intown's past performance problems, previous criminal violations or suitability for this contract? Is this how FHA and HUD normally ensure due diligence in its contracting -- only having OIG check its own records? Why did HUD and FHA fail to perform a more comprehensive check on Intown? Are past bankruptcies and a felony conviction unrelated to past performance? Please explain completely how HUD fulfilled every requirement of the Federal Acquisition Regulations (FAR), including Subpart 9.4, and other pertinent Federal and business standards for awarding a contract of this magnitude.

2) Contract Reforms and Remedies for Intown Contract Default

What reforms have you made to prevent the recurrence of a major contract award to an unreliable contractor? Have reprimands or other disciplinary or remedial actions been taken against you or others involved in this matter? Do you feel that your testimony in blaming an OIG clerk for the deficient check on Intown was both accurate and complete? Describe and explain fully each deficient action of your office or others within HUD in approving the Intown procurement contract. Include the names and positions of procurement officials involved in approving this contract, and explain the contributions of each. What is the estimate of total costs of this award to Intown? Explain fully the basis for your cost calculations. How soon will Intown subcontractors and impacted home purchasers be reimbursed for expenses or compensated for losses? Explain fully the reimbursement process and damage awards likely to result. Which HUD officials will be responsible for handling reimbursement claims?

**ADDITIONAL QUESTIONS FOR MR. APGAR
(FROM OFFICE OF U.S. REP. JOHN M. SHIMKUS)**

Background (Springfield, Illinois case):

Congressman Shimkus office was initially contacted by George Tinkham on August 27, 1999 regarding the status of the property at 427 W. Vine St., Springfield, Illinois. The property had been purchased with a HUD guaranteed loan and subsequently foreclosure had taken place on the property. Between August 27 and November 2, 1999 Congressman Shimkus office coordinated with Mr. Tinkham and the HUD community builder to determine the status of the property and to work towards HUD selling the property to a responsible owner.

Mr. Tinkham knew of a person that was interested in purchasing the property who would have been a good homeowner. The HUD Community Builder worked at finding out the status of the property (i.e. when it would be on the market) and at having the property maintained while the disposition process moved along.

On September 14th, tires and garbage were removed from the property, but the gutters were still in disrepair, causing Mr. Tinkham's basement to flood. The yard was also still overgrown. The potential buyer was still interested, and our office contacted HUD again but were still unable to get any information on how to purchase the property.

During the week of October 8th, a Golden Feather Realty Co. for sale sign was placed in the window of the home. The sign indicated that any interested party should contact any local realtor for more information. Mr. Tinkham called a local realtor and asked for information on the property. The realtor looks into the property and is told by Golden Feather that they have no information on the property because HUD has not yet transferred the records. Golden Feather also tells the realtor that there is an 8-page application that must be filled out and approved before they can do business with HUD owned properties.

A City of Springfield official tells Mr. Tinkham that they have cited the property owner for causing a nuisance by not having gutters. The property owner was given a few months to solve the problem.

On October 9th, HUD Community Builder informs our office that Golden Feather is a new contractor since In Town lost it's contract to provide maintenance and marketing on September 30th. The HUD Community Builder seems to have found a receptive staffer at HUD offices in Chicago and forwards the information we have gathered about the property to him in Chicago for more information.

By October 31, no one has heard anything, but Mr. Tinkham did speak with a realtor who is showing the house to a prospective buyer. The realtor tells Mr. Tinkham that the house went on the market on Friday, October 29th and that all bids for the property are due by close of business on Tuesday, November 2nd. The family looking at the home received notice of the home going on the market via a postcard.

Questions:

- 1) Why doesn't HUD realize and acknowledge that they have this property and why can't they readily tell you their level of involvement in the property (i.e. loan guarantor, property holder etc.)?
- 2) Once HUD recognizes that they are receiving the property back, why isn't there work being done by the contractors to make the property marketable?
- 3) Why is it so difficult for interested parties to get information on the property from the contract liquidators?
- 4) The for sale sign says to contact any local realtor for more information. Shouldn't the sign state any approved realtor and provide a phone number where a list of local approved realtors could be obtained?
- 5) Through this process, Mr. Tinkham received some information on the property through the Internet, and the information on the HUD properties for sale is on their website, but, not everyone has Internet access. Why is the Internet the only way that HUD is marketing these homes? Many of the prospective homeowners do not have Internet access and this limits their ability to know about properties for sale. Why is there not a centralized location with property information posted? Or, why isn't there a toll free number for people to call for more information? Further, if there is a method of receiving information via postcard, why isn't that option readily offered to interested parties?
- 6) How is it that the local HUD offices are not aware of the properties in their own communities? It took several attempts by the Community Builder to find any information on the property. Why isn't that information easily and readily available to the HUD employees working with the public?
- 7) Why is there only a 3 business day window of opportunity for prospective buyers? How are people supposed to see the home and have it inspected in 3 days? Why isn't there a more reasonable window of opportunity for buyers to see the home, have it inspected and arrange financing before they turn in a bid?
- 8) Why isn't there a more readily available means to contact the property managers for reporting problems with the property, find out who is responsible for the property, and learning about the property?
- 9) Why isn't it made clear how and who you contact about HUD properties for problems and more information? Why isn't it prominently displayed in empty homes like the one next door to Mr. Tinkham?

Background (Godfrey, Illinois case):

In June, Congressman Shimkus' office was contacted by the village clerk in Godfrey, Illinois regarding a property at 3405 Forsyth. The property was not being maintained and the village had been in contact with HUD repeatedly about repairing and cleaning up the property.

The Village of Godfrey had been besieged by complaints from angry neighbors complaining of decreased home values, rats, snakes, and lack of action to correct the situation. Perhaps most disturbing is the improperly enclosed in ground pool which presents a danger to the children of the neighborhood. The house is rundown, damaged and vacant.

Madison County tax records show that HUD is the lender, and HUD states that the property is still under the jurisdiction of the lender.

Since June, Congressman Shimkus' office and the HUD Community Builder have worked to have the situation corrected, but it still remains a problem.

Questions:

- 1) Why isn't this property maintained?
- 2) Why won't HUD accept responsibility for the property and acknowledge their ownership of the property?
- 3) Why did it take until November 1 for HUD to acknowledge to their community builder the status of the of the property?
- 4) If the property is between two contractors, why is there no mechanism in place to ensure that the property is maintained?



U. S. Department of Housing and Urban Development
Washington, D.C. 20410-8000

1

OFFICE OF THE ASSISTANT SECRETARY
FOR HOUSING-FEDERAL HOUSING COMMISSIONER

Honorable John Mica
Chairman
House Subcommittee on Criminal Justice, Drug Policy and Human Resources

Dear Chairman Mica:

Thank you for this opportunity to provide additional information and clarification of the record by responding to the additional questions posed by the Subcommittee in relation to the U.S. Department of Housing and Urban Development's (HUD) contracting with InTown Management Group. I am deeply concerned that statements I made at the hearing may have been taken out of context and misconstrued by the press, the Office of Inspector General (OIG) and by Subcommittee staff. Therefore, I appreciate this opportunity to respond further to the Subcommittee's questions.

First, I would like to reiterate that HUD's Office of Procurement and Contracts (OPC) and Office of Housing (Housing) followed the highest standards for federal acquisitions in contracting with InTown Management Group (InTown). InTown was selected from among more than 170 applicants (one of the most competitive procurements in HUD's history), by a twelve member Technical Evaluation Panel (TEP) consisting entirely of senior career staff. Moreover, HUD's contracting officers followed all applicable FAR requirements to determine that InTown met or exceeded the standard for contractor responsibility, satisfactory prior performance, including extensive performance on several prior federal contracts, and demonstrated organization, experience and technical skills necessary to perform all services required in HUD's Management and Marketing (M&M) contracts.

What follows is: (1) a more detailed explanation of all contracting steps OPC and Housing took, consistent with FAR requirements, in awarding M&M contracts to InTown; (2) additional information on the Previous Participation Review process administered by HUD's Office of Inspector General (OIG); (3) information on the cost of InTown contracts, the names of contracting officials who administered the InTown contracting action in a manner fully consistent with FAR and an explanation of HUD's process for payment of form InTown subcontractors' liens on HUD properties.

HUD Followed All Applicable FAR Regulations in InTown Contracting Action

HUD's OPC and Office of Housing met or exceeded all applicable FAR requirements in conducting the InTown contracting action. The Federal Acquisition Regulation (FAR) requires that every offeror selected for contract award be determined by the contracting officer to be responsible. FAR defines the requirements for responsibility at Subpart 9.1, "Responsible Prospective Contractors," specifically at 9.104. (Please note that Subpart 9.4 "prescribes policies and procedures governing the debarment and suspension of contractors" and not procedures for determining the responsibility of prospective contractors.) In accordance with FAR 9.105-2, "The contracting officer's signing of a contract constitutes a determination that the prospective contractor is responsible with respect to that contract."

HUD contracting staff performed a thorough responsibility determination of Intown Management Group L.L.C.'s (ITMG). They obtained and evaluated relevant information to determine that ITMG met all the responsibility criteria set forth at FAR 9.104, which includes:

To be determined responsible, a prospective contractor must --

(a) Have adequate financial resources to perform the contract, or the ability to obtain them (see 9.104-3(a));

(b) Be able to comply with the required or proposed delivery or performance schedule, taking into consideration all existing commercial and governmental business commitments;

(c) Have a satisfactory performance record (see 9.104-3(b) and Subpart 42.15). A prospective contractor shall not be determined responsible or nonresponsible solely on the basis of a lack of relevant performance history, except as provided in 9.104-2;

(d) Have a satisfactory record of integrity and business ethics;

(e) Have the necessary organization, experience, accounting and operational controls, and technical skills, or the ability to obtain them (including, as appropriate, such elements as production control procedures, property control systems, quality assurance measures, and safety programs applicable to materials to be produced or services to be performed by the prospective contractor and subcontractors). (See 9.104-3(a).)

(f) Have the necessary production, construction, and technical equipment and facilities, or the ability to obtain them (see 9.104-3(a)); and

(g) Be otherwise qualified and eligible to receive an award under applicable laws and regulations.

Financial Resources Review

To address the requirement in 9.104(a), the contracting officer ordered and analyzed financial reports from Dun and Bradstreet on ITMG and each of the three partner firms: Intown Properties, Inc., Larry Latham Auctioneers and Gonzales Consulting Services, Inc. Given the partnership's new status, the Dun and Bradstreet report offered no information on the limited liability partnership. However, the report on Intown Properties, Inc., the company owned and operated by Mr. Melton Harrell, rated the firm's history as "clear," financing as "secured," and financial condition as "strong." There was no evidence therefore, of adverse credit or other financial conditions that would have had a negative impact on ITMG's ability to provide or obtain adequate financial resources to perform the M&M contracts. (It is important to note that the ITMG limited liability partnership was created immediately prior to ITMG's competing for the HUD Management and Marketing (M&M) contracts. Intown Properties with 65 percent interest, is the majority partner and therefore, represented the greatest potential risk to the performance of the contract. The contracting officer, therefore, appropriately focused the greatest efforts of the responsibility investigation on Intown Properties, Inc.

The contracting officer also obtained recent annual financial statements (through 1997) from each of the three partners' corporations (Intown Properties, Inc., Larry Latham Auctioneers and Gonzales Consulting Services, Inc.). These statements showed each of the partner firms to have a sound financial history. The combined financial assets of the partners were well in excess of \$15 million.

Past Performance Review

ITMG's ability to meet the requirements in paragraphs 9.104(b) through (d) was investigated through a review of the three ITMG partners' past performance. The request for proposals (RFP) for the M&M contracts required all offerors to provide "a list of all clients, including Government and private sector, for whom the offeror has performed the same or similar services as those required for this RFP during the 3 years immediately prior to this solicitation [...]. Offerors who are newly formed without any past performance data must include the above noted information for all key personnel." This requirement permitted HUD, not ITMG, to select the former customers of ITMG's partners to be contacted, i.e., ITMG could not direct HUD to only the positive reviewers of its performance. The background reference assessment was conducted using criteria which fully comply with the requirements in FAR Subpart 42.15 for evaluating contractor performance.

The contracting officer solicited past performance information from all HUD offices that had experiential knowledge of the firms via prior HUD contracts. Intown Properties had successfully performed approximately 40 property (mostly single family) management contracts for HUD since 1991. These contracts included many of the property management services required by the M&M contracts. Intown Properties performed well on these prior contracts, generally meeting all contract requirements and providing all required services. In fact, ITMG was, for much of the last decade, HUD's largest Real Estate Asset Management (REAM) contractor. As further evidence of ITMG's responsibility with regard to contract performance and management (FAR 9.104(e) and (f)), many of the contracts awarded to Intown Properties were of significant dollar value and at times, Intown performed multiple contracts concurrently.

Likewise, Gonzales Consulting's and Larry Latham Auctioneer's had very strong prior performance records. Larry Latham Auctioneers is one of the nation's premier real estate auction firms, with prior exclusive national contracts with HUD, the Resolution Trust Corporation (RTC), the Federal Deposit Insurance Corporation (FDIC) and the Veterans Administration (VA). Mr. Latham also is a principle of the highly successful online real estate marketing firm, Homebid.Com, which recently was featured in a Forbes magazine article on successful real estate internet companies. And, Gonzales Consulting Services, Inc. is a successful property management and auditing and quality control system consulting firm, with nearly a decade government contracting experience. Therefore, all three principles and organizations that comprised the ITMG partnership had extensive track records of strong performance under multiple contracts with HUD and other federal agencies.

Taken together, these three principles and ITMG had the resources and capacity to meet all M&M contract requirements. Their proposal for services identified a clear and rational division of labor, with each partner assuming responsibility for an important aspect of ITMG's operation. However, once the contract began ITMG simply did not deliver the resources promised in their proposal for services to the Department – resources they had at their disposal, but they simply did not dedicate to the FHA contract areas. As a result, I believe ITMG misrepresented to HUD the resources they would devote to this contact, and in doing so may have committed a fraud against HUD and the U.S. government.

Government List of Suspended or Debarred Contractors Review

The RFP for the M&M contracts included the required FAR certification at 52.209-5, "Certification Regarding Debarment, Suspension, Proposed Debarment, and Other Responsibility Matters" (please see enclosure). It is important to note that paragraph (a)(1)(i)(B) of the FAR regulations **specifically limits** the period of disclosure regarding criminal convictions **to a period of three years immediately prior to the submission of the offer**. ITMG accurately certified that it (i.e., the three partners) had not been convicted of the crimes specified in the certification within the three-year period immediately

preceding ITMG's submission of its offer pursuant to FAR regulations. The contracting officer is not required to request older information relevant to an offeror's past criminal behavior.

FAR 9.405 excludes contractors who are debarred, suspended or proposed for debarment from receiving federal contracts. To ensure that all prospective contractors are not suspended or debarred, HUD contracting personnel always review the most current "List of Parties Excluded from Federal Procurement and Nonprocurement Programs," published by the General Services Administration. The contracting officer reviewed the list before awarding the M&M contracts to ITMG to ensure that none of the partners were on it.

Given that no negative information related to ITMG's creditworthiness, financial status, past performance, ability to perform the contracts was discovered by this thorough responsibility investigation, we believe that the contracting officer acted appropriately and in complete accordance with the responsibility determination requirements of the FAR in awarding the contracts to ITMG. Information about a 25 year old forgery conviction of one of the partner's principals does not change this conclusion. Intown Properties satisfactory performance in over 40 contracts for HUD since 1991 was demonstrable evidence of their capacity and ability to perform. ITMG's termination for default is not related to what one of their principals did over 25 years ago but rather, is the direct result of what they failed to do under their contracts. HUD has taken swift and effective action to deal with that failure.

OIG Previous Participation Process

I would like to respond to your inquiry regarding the role of the Inspector General in this action by saying that my office has an effective and cooperative working relationship with the Department's Office of Inspector General (OIG). As I know you are aware the Inspector General Act created the OIG to assist federal departments in their efforts to protect federal programs from waste, fraud and abuse. As you also are aware the Act provides the OIG with the authority to investigate matters involving criminal activity as well as civil matters which contribute to (or may contribute to) waste, fraud and abuse of federal program resources. In the case of the HUD OIG, Ms. Gaffney has asserted in a Departmental Memorandum of Understanding (MOU) between OIG and HUD's General Counsel that all matters relating to criminal activity are the OIG's exclusive responsibility.

It is in this context that the Department's Office of Procurement and Contracting and the Office of Housing approached the hiring of Intown Management Group. We have tremendous confidence in OIG's handling of those matters within its statutory and agreed to responsibilities. It has always been my assumption that the procedures followed by the OIG are designed to effectively carryout its mission of protecting this Department from waste, fraud and abuse. In this case, I must acknowledge that my assumption and confidence in those procedures should be retracted.

OIG's exclusive authority and obligation to handle all criminal matters includes the sole authority to conduct program audits and investigations, including criminal investigations, and responsibility for conducting a Previous Participation review of all potential contracting entities. For further confirmation that ITMG met the requirements in paragraphs 9.104(c) and (d), the contracting officer requested any negative information previously obtained by HUD's Office of the Inspector General. This internal clearance process, which exceeds the requirements of the FAR, is required by HUD's internal procurement directive, Handbook 2210.3, "Procurement Policies and Procedures." That office, as you are aware, indicated that it had no negative information related to ITMG's responsibility. In this case, HUD's Office of Procurement requested Previous Participation reviews on two different occasions. On October 27, 1998, the Office of Procurement asked OIG to conduct a Previous Participation review of InTown Properties, the corporate entity owned by Melton Harrell that had previously held more than two dozen Real Estate Asset Management (REAM) contracts covering properties in more than twenty states and spanning a period time from approximately 1991 to 1998. Then on December 9, 1998, the Office of Procurement requested OIG to conduct a Previous Participation review of InTown Management Group, LLC, a partnership entity that included InTown Properties and two other companies, Larry Latham Auctioneers and Gonzales Consulting Services, Inc. In both instances, OIG gave Intown Properties and InTown Management Group, a clean bill of health.

Moreover, Mr. Chairman, this contracting action, of all the actions taken by the Department over the last several years, should have produced results from the OIG Previous Participation system. The OIG has been auditing and investigating the Federal Housing Administration's (FHA) REO operation nearly continuously for the last decade. During much of this time (since approximately 1991), InTown Properties, Inc., the first entity reviewed by OIG, was one of the largest REAM contractors, with approximately forty contracts covering over twenty states. Therefore, if the OIG Previous Participation system ever is going to serve its intended purpose, one could reasonably expect it to do so in this case, where it is being asked to assess the background of one of FHA's largest existing contractors in what is possibly the most heavily OIG audited program in the Department.

Finally I wish to reiterate that the Office of Procurement and Contracts and the Office of Housing followed all relevant Federal Acquisition Regulations and generally accepted contracting procedures in this matter, consistent with the highest standards followed by other Federal agencies. Should the Subcommittee conclude that a more stringent review is needed, then I would be happy to work with the Subcommittee to fashion legislation to change the process for reviewing applicants' criminal record in government contracting matters. I believe it would be appropriate for the Subcommittee to consider legislation which might change the process for review of criminal backgrounds in contracting matters, which are performed by HUD's and other Departmental OIG's.

The OIG Previous Participation System, Not an Individual Staff Person, Failed the Department in This Case

I would also like to clearly indicate that my criticism expressed at the hearing as well as in this written response, is directed toward the overall OIG Previous Participation system, not at any one particular OIG employee.

Contrary to the OIG's and your Subcommittee staff's characterization of my testimony, I did not blame an individual OIG employee for the deficient check of InTown Properties and InTown Management Group's Previous Participation. To imply that I blamed Ms. Dickens, who the OIG refers to as a file clerk, is simply wrong. I believe a careful review of the hearing transcript will indicate that I first informed the Subcommittee that FHA had followed proper, established protocol in asking OIG to conduct a Previous Participation check on InTown Properties and InTown Management Group. Mr. Mica then asked a series of follow-up questions, including one that directly asked me to read the name at the bottom of the approval form. It was only in this context, in direct response to a direct question, that I stated Ms. Dicken's name. I do not believe, nor did I in any way indicate at the hearing, that Ms. Dicken's is to blame for the failure of the OIG system to detect criminal issues of concern to the Subcommittee. Inspector General Gaffney is solely responsible for the OIG systems. It is her decision to allocate OIG staff of various grades and experience to OIG systems, including the Previous Participation system.

InTown Contract Cost

All of the M&M contracts contained a base period and four option periods. The contracts only continue if HUD exercises its option to extend them. The contracts contain separate price factors for each contract period. Since HUD awarded only a one-year contract and did not grant additional option years in the case of InTown, the total estimated value of the InTown contracts would be more correctly stated as approximately \$83 million, as the chart below demonstrates. The following are the estimated total values of the base period (12 months) of ITMG's M&M contracts.

Contract Number	Service Area	Estimated Total Value
C-OPC-21329	Atlanta Area 1	\$15,196,565
C-OPC-21330	Philadelphia Area 2	\$8,439,971
C-OPC-21331*	Denver Area 2	\$6,920,656
C-OPC-21332	Santa Ana Area 3	\$3,945,030
C-OPC-21338	Atlanta Area 2	\$14,157,998
C-OPC-21339	Philadelphia Area 4	\$16,648,951
C-OPC-21340	Philadelphia Area 3	\$18,172,312
Total estimated value, all contracts:		\$83,481,483

*Note: This contract was transferred to another contractor by mutual agreement of ITMG and the successor contractor, on May 20, 1999. At the time of termination of its contracts, ITMG had six contracts with a potential total value of \$76,560,827.

However, since the Management and Marketing (M&M) contracts are performance based with the contractor fee set as a percentage of the property sales price, Intown actually only received approximately \$8.5 million in payments from HUD. Under terms of the contract, M&M contractors are paid 30 percent of the fee upon listing of a property for sale, and the remaining 70 percent of their fee upon sale of the property. Therefore, InTown only was paid only upon successfully listing a property for sale and completing a sales transaction. Over the course of the approximately five and-a-half months InTown was under contract with the Department to perform Real Estate Owned property management and marketing (M&M) services, HUD paid a total of approximately \$8,531,760.09 to InTown. These payments consisted of approximately \$7,271,424 in performance fee payments and approximately \$1,260,335 in reimbursable costs for a limited number of eligible pass through expenses.

Names and Positions of Procurement Officials Involved in Approving M&M Contracts

Ms. Maureen Musilli, Philadelphia Operations Branch, New York Contracting Operations, served as the contract specialist assigned to the M&M contracts for purposes of making award. She performed many of the substantive actions required to publicize the requirement, prepare the solicitation, solicit offers, manage the technical evaluation process (but not perform substantive review of the technical portions of ITMG's offers), conduct discussions and negotiations with offerors, prepare file documentation and otherwise assist the contracting officer.

Ms. Jane Atkinson, Chief, Philadelphia Operations Branch, New York Contracting Operations, served as the Contracting Officer assigned to the M&M contracts for purposes of making award. She had primary oversight of all pre-award and award activities, including: publicizing the requirement, solicitation and evaluation of offers (though she had no substantive role in actual technical evaluation) and negotiations.

Mr. Craig Durkin, Director, Office of Procurement and Contracts (HUD Headquarters), reviewed the contractor selection and the documentation of the award process.

Mr. V. Stephen Carberry, Chief Procurement Officer, reviewed the contractor selection and the documentation of the award process.

Payment of Subcontractor Mechanics Liens

HUD is committed to paying all legally valid mechanics liens resulting from InTown's failure to pay subcontractors for work performed on FHA REO homes. To determine the legal validity of liens, HUD will follow applicable state laws and other legally binding statutes. Moreover, determination of the legal validity of liens will be made by attorneys in HUD's Office of General Counsel, in consultation with attorneys working for closing agents retained by the Department.

As I am sure you can appreciate, prior to payment of these liens HUD has a responsibility to verify that all mechanics lien claims are valid and supportable by evidence that the work was properly performed, the sub-contractor had a contract with InTown's and the sub-contractor was not previously paid for the work in question. Once these conditions are verified, then FHA will pay in full all such mechanics liens arising as a result of InTown's termination.

FHA also will reimburse in full families who in the course of purchasing a HUD home, paid valid liens that resulted from work performed by former InTown's subcontractors during the time HUD owned the property. These payments will require the same verification as described above for sub-contractor liens.

Please be assured that FHA will work diligently to expedite payment of all liens. However, due to our reliance on closing agent counsel and staff to facilitate the verification process, payment generally will occur at the time of property sales closing, on a property by property basis. HUD plans to expedite marketing for sale of all current properties in the inventory. Therefore, FHA anticipates all liens will be resolved within approximately six to nine months.

The following are responses to specific questions posed by Congressman Shimkus in regard to a HUD REO property located at 427 W. Vine Street, Springfield, Illinois.

Questions:

- 1.) Why doesn't HUD realize and acknowledge that they have this property and why can't they readily tell you their level of involvement in the property (i.e. loan guarantor, property holder, etc.)?
 - A. HUD normally can provide same day verification of whether or not a property is in our current inventory. For information on current property listings the public as well as real estate brokers can access internet listings of all properties currently offered through HUD's web site at www.hud.gov. Unfortunately, in this case, it sounds as though your constituent's inquiry came to HUD during the transition from InTown Management Group to Golden Feather Realty, which now is responsible for all properties in the Springfield area. Delivery of all property case files was delayed approximately eight days following InTown's termination on September 22, 1999, due to InTown's refusal to turn over the documents upon termination of their contracts. However, all case files were transferred to Golden Feather Realty on September 30, and over the last approximately seven weeks, Golden Feather has made tremendous progress listing properties for sale, and completing sales transactions.

- 2.) Once HUD recognizes that they are receiving the property back, why isn't there work being done by the contractors to make the property marketable?
 - A. Terms of FHA's M&M contract require all contractors to immediately secure and begin maintaining all REO properties immediately upon conveyance from the lender. Furthermore, the contract requires contractors to complete an initial property inspection with 24 hours of conveyance, and complete a property appraisal within ten days of conveyance. Therefore, when contractors are performing up to HUD's standards, the properties should be listed for sale within approximately 20 to 30 days of conveyance.

- 3.) Why is it so difficult for interested parties to get information on the property from the contract liquidators?
 - A. Now that InTown Management Group has been terminated, it should be much easier to receive information on HUD/FHA properties. Golden Feather can be reached by phone at (312) 251-1600, and all current property listings can be viewed on the internet at Golden Feather's web site www.goldenfeather.com or HUD's web site at www.hud.gov.

- 4.) The for sale sign says to contact any local realtor for more information. Shouldn't the sign state any approved realtor and provide a phone number where a list of local approved realtors could be obtained?
 - A. HUD will gladly consider your suggestion to change wording on the sign. However, one of the advantages of referring the public to any licensed real estate broker is that it serves to promote even greater interest in our properties among the public and the real estate brokerage community. In fact, as part of the M&M initiative, FHA has tried to encourage more real estate brokers to participate in our sales programs and broaden the demand for our homes by requiring contractors to list all homes on the Multiple Listing Service (MLS). We believe that these efforts are part of the reason the M&M contractors have been setting sales volumes records for FHA over the last several months.

- 5.) Through this process, Mr. Tinkham received some information on the property through the Internet, and the information on the HUD properties for sale is on their website, but, not everyone has Internet access. Why is the Internet the only way that HUD is marketing these homes? Many of the prospective homeowners do not have Internet access and this limits their ability to know about properties for sale. Why is there not a centralized location with property information posted? Or, why isn't there a toll free number for people to call for more information? Further, if there is a method of receiving information via postcard, why isn't that option readily offered to interested parties?
 - A. In addition to the internet, HUD lists all its homes on local multiple listing services (MLS), the most widely used marketing mechanism in the real estate industry today. Moreover, a list of properties currently offered for sale in Illinois is available from Golden Feather Realty at (312) 251-1600.

- 6.) How is it that the local HUD offices are not aware of the properties in their own communities? It took several attempts by the Community Builder to find any information on the property. Why isn't that information easily and readily available to the HUD employees working with the public?
 - A. All HUD staff have ready access to property inventory listings. I am sorry that we were slow to respond in this instance, and am hopeful that the information provided in this response will make it easier to your constituents to access information on HUD homes in the future.

- 7.) Why is there only a 3 business day window of opportunity for prospective buyers? How are people supposed to see the home and have it inspected in 3 days? Why isn't there a more reasonable window of opportunity for buyers to see the home, have it inspected and arrange financing before they turn in a bid?
- A. Current HUD regulations call for an initial five day offering period for owner occupants only – for those home buying families who plan to live in the home they purchase. At the end of this five day period, if HUD has not received an acceptable offer, then the property is immediately offered to the general public – owner occupants, as well as those buyers looking to purchase the property as an investment. We believe that this initial five day offering to owner occupants is sound policy, because it promotes greater home ownership in communities across the country. In fact, since the start of FHA's new M&M initiative, we have increased the percentage of homes sold to owner occupants from approximately 58 percent nationwide, to more than 70 percent.
- 8.) Why isn't there a more readily available means to contact the property managers for reporting problems with the property, find out who is responsible for the property, and learning about the property? Why isn't it made clear how and who you contact about HUD properties for problems and more information? Why isn't it prominently displayed in empty homes like the one next door to Mr. Tinkham?
- A. Your constituents can contact FHA's M&M contractor, Golden Feather Realty, directly, or contact FHA staff at (404) 331-5001 Atlanta HOC number. The phone number for contacting Golden Feather Realty also can be found on signs posted at every HUD property in the Springfield area (Check to make sure this is happening).

Finally, the following are FHA's responses to questions posed by Congressman Shimkus in regard to a HUD property located at 3405 Forsyth, Godfrey, Illinois.

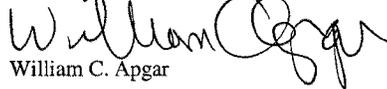
- 1.) Why isn't this property maintained?
 - A. I can assure you that Golden Feather Realty now has successfully rectified any previously existing deficiencies in the property condition due to InTown Management Group's failure to perform. InTown had tremendous problems properly maintaining properties, which is one of the reasons FHA terminated all of InTown's M&M contracts.

- 2.) Why did it take until November 1 for HUD to acknowledge to their community builder the status of the property?
 - A. I apologize for the delay in conveying information on this property to Congressman Shimkus' office. As stated previously, information on the status of every property in our inventory is available to all HUD staff, so there should not be delays of this nature in communicating with your office and constituents.

- 3.) If the property is between two contractors, why is there no mechanism in place to ensure that the property is maintained?
 - A. Golden Feather Realty and other contractors who took over for the geographic areas previously covered by InTown Management Group, were under contract and ready to provide services on September, 22, 1999, the day we terminated InTown's contracts. Therefore, we did have a mechanism in place to maintain properties.

I hope and trust that this letter addresses all the Subcommittee's questions.

Sincerely,


William C. Apgar

3

recently as two years ago, key members of Congress called for further reduction in HUD's workforce to 7500. While Congress has now backed away from that target, the FY 2000 Appropriations Act sets a "hard" HUD ceiling at 9300. Even if HUD concluded that it were in the best interest of the Department to do so, HUD does not have the authority to expand its workforce to perform contract administration in a satisfactory manner with HUD staff.

Furthermore, as the attached analysis demonstrates, the Department is confident that by retaining third party professionals to perform Section 8 Contract Administration, HUD will realize substantial program savings – far in excess of the marginal additional cost of contracting out. Therefore, the Department plans to move forward expeditiously with this contracting action.

4. Given the potential impact on Section 8 program integrity, when will HUD cancel its plans to contract out this work?

A. The Department's use of third-party Contract Administrators is a part of a larger effort to effectively monitor developments with project-based Section 8 subsidy. By contracting out day to day administration, HUD can focus its efforts on critical asset management duties that require the skills only available by using HUD employees. Rather than subject the program to "uncertainties," the Contract Administrator involved will protect the public trust and potentially save taxpayers millions of dollars.

5. Given the impact on homeless families, when will HUD cancel its plans to contract out this work?

A. In developing the FY 2000 Appropriations Bill, both the House and Senate were aware of the Department's intentions to contract with public housing agencies to perform project-based Section 8 contract administration services. HUD is confident that the funding contained in the FY 2000 Budget is sufficient to renew all existing Section 8 contracts and provide for the 60,000 incremental vouchers prescribed in the budget.

Furthermore, the Department also is confident that any potential additional cost associated with contracting out Contract Administration, will be fully recovered through program savings generated by the contractors enhanced performance in protecting the public trust.

Thank you again for your interest in HUD and the FHA.

Sincerely,



William C. Appgar
Assistant Secretary for Housing-
Federal Housing Commissioner

Mr. MICA. Ms. Kuhl-Inclan, what went wrong?

Ms. KUHL-INCLAN. I can only—I really don't know, sir. Intown Management Group was a brand-new organization, and that is the only thing I can speculate is that it was looked at—when the request came in, it came under Intown Management Group. Our experience had been with Intown Properties, Inc., but that is only speculation. I will have to get you a complete answer.

Mr. MICA. Is your office also recommending working with the Department of Justice now to make certain that we pursue both criminal and civil action against these folks?

Ms. KUHL-INCLAN. I have not seen the request to our office, but yes, if it is sent to us, we will make sure that we work with the office, for both civil and criminal.

Mr. MICA. Do you have anything else, Mr. Tierney?

Mr. TIERNEY. No. We are obviously talking to the wrong people, but I would assume the IG's office would check the principals at least for their background.

Ms. KUHL-INCLAN. I have no—I will give you a complete explanation.

Mr. MICA. Well, we may follow through with your request. I think this is a large enough item for us to continue pursuing not only in this hearing, but a subsequent hearing, to make certain the program works well. I mean, we want people like Mrs. Peterson to have housing. We want to dispose of these properties. We don't want folks like Ms. Gibson out there also left holding the bag and other subcontractors across the country. This is a pretty big problem, and when they went down, it has created some incredible problems. But we need to work our way through this and make sure that it doesn't happen again, for God's sake.

Well, I thank this panel. We have fulfilled some of our responsibility in conducting oversight and investigation on this program. We will excuse you at this time, and we will call our second panel.

In the second panel we are going to discuss the Community Builders Program, which we have heard has been the source of a great deal of controversy, to discuss that program and some of the problems surrounding it. We have several panelists. They include Mr. D. Michael Beard, who is the District Inspector General for Audit, Texas, Department of Housing and Urban Development; Ms. Carolyn Federoff, and she is vice president of the Massachusetts State Office AFGÉ, and I am glad to see Mr. Tierney here from Massachusetts; and we have the Honorable Saul Ramirez, Jr., Deputy Secretary, Department of Housing and Urban Development.

Ms. Kathy Kuhl-Inclan, I am told you are also going to sit in on this panel. You have been sworn. If the other three could please stand.

[Witnesses sworn.]

Mr. MICA. The witnesses answered in the affirmative. We welcome the three new panelists. Again, if you have lengthy statements or additional information you would like added to the record, we would be glad to do that upon request.

With that, I will recognize first Mr. D. Michael Beard, District Inspector General for Audit, Texas, Department of Housing and Urban Development.

STATEMENTS OF D. MICHAEL BEARD, DISTRICT INSPECTOR GENERAL FOR AUDIT, TEXAS, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT; CAROLYN FEDEROFF, VICE PRESIDENT, MASSACHUSETTS STATE OFFICE AFGE LOCAL 3258; AND SAUL RAMIREZ, JR., DEPUTY SECRETARY, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Mr. BEARD. Chairman Mica, Ranking Member Mink, and other subcommittee members, I appreciate the opportunity to appear before you today to discuss the results of our audit on Community Builders at the Department of Housing and Urban Development. I am accompanied today by Kathryn Kuhl-Inclan, the Assistant Inspector General for Audit.

Our audit generally found problems with the Community Builder concept, its implementation and its impact on HUD. While we did see some positive results from the 85 Community Builder specialists, overall we concluded that HUD could not afford the Community Builder concept. Over the last two decades, HUD has downsized from 20,000 employees to just over 9,000. During this same period, HUD's programs have increased dramatically. The General Accounting Office placed the Department on its "high risk" list.

Our audits have also identified some weaknesses. A common theme in these audits is the lack of sufficient resources to effectively manage and monitor programs. We do not see how Community Builders contribute to resolving any of those deficiencies. On the contrary, we believe a large number of staff devoted to this function diverted other staff resources from performing oversight functions.

The Community Builders was an attempt to separate the outreach and monitoring functions. However, HUD chose an expensive and controversial solution. HUD did not properly establish the necessity for the Community Builders or the level of resources it required. Rather than targeting staff from within, HUD chose to look to the general public for Community Builder fellow positions. In our view, HUD used Schedule A authority because it offered the most latitude in hiring outside Civil Service rules.

In selecting personnel for Community Builder fellow positions, HUD ignored veterans' preference and OPM's rule of 3 selection process. Senior management dismissed the failure to follow veterans' preference and selection rules as administrative errors. Further, in response to our report, HUD stated they complied with veterans' preference. However, audit evidence shows they did not. In light of the foregoing, we have asked Director Lachance of the Office of Personnel Management to conduct a full review of HUD actions.

The Community Builders' positive impact on HUD's mission is indeterminable. The Community Builders' purpose is everything from providing one-stop customer service to solving the toughest economic and social problems facing communities. This visionary mission is not easily measured or realistically accomplished.

Through the establishment of the Community Builder Program, HUD has redirected a significant amount of its staff resources to outreach and customer relation activities. Since the function was created without any increase in HUD funding, all associated costs

reduced the funds available for other program staff. These other program staff, known as public trust officers, have the responsibility for monitoring and overseeing several HUD programs. At a time when HUD is designated by GAO as a high-risk agency, HUD can ill afford to devote substantial resources to the Community Builder concept. Community Builder activities do little to address HUD's mission and require scarce resources being directed away from areas that could help in addressing the many identified material weaknesses in HUD's program.

Our overall conclusion is HUD should discontinue the Community Builder position. As designed and implemented, the Community Builder function is too costly. Excluding the Community Builder specialists assigned to specific program areas, HUD never established the need for Community Builders, identified skills Community Builders would need, or gave focus to their activities.

In responding to our report, HUD cites favorable comments by other organizations on Community Builders; however, these organizations performed limited reviews. For example, the interim Ernst & Young report stated their work was limited to reporting on 25 case studies identified by HUD.

HUD had also asked to control the selection of the people that we wanted to interview and the sites that we wanted to visit, but we declined.

HUD also cited several instances where Community Builders have had a positive impact. We have no doubt individual Community Builders have had a positive impact; however, we believe career HUD employees have always had a positive impact and could have had an even greater impact if given the same resources provided to the Community Builders.

Let me emphasize that we are the only entity to give the Community Builder Program an independent review. The other organizations that have reviewed it are consultants. I would like to quote from the engagement parameters of the Ernst & Young report which says, "Our sample of case studies was drawn solely from the population of case studies provided by HUD. The terms and scope of our engagement did not provide for us to independently verify or otherwise test the completeness of the overall case study population provided. Further, this report is based solely on information submitted by the Community Builders, HUD, and individuals interviewed. In addition, all case study interview sources were identified from the Community Builders, identified as references in their individual selective case studies. Our findings and observations relate solely to the selected case studies. The scope of our engagement did not provide for us to interview HUD employees regarding the Community Builders Program. These and other engagement parameters are described in more detail in section 5 of the report."

The project was considered a consulting engagement under the standards of the American Institute of Certified Public Accountants. So therefore, it was not an audit engagement.

Thank you very much.

Mr. MICA. I thank the gentleman.

[The prepared statement of Mr. Beard follows:]

**STATEMENT OF D. MICHAEL BEARD,
DISTRICT INSPECTOR GENERAL FOR AUDIT
SOUTHWEST DISTRICT
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
Wednesday November 3, 1999
BEFORE THE SUBCOMMITTEE ON CRIMINAL JUSTICE,
DRUG POLICY AND HUMAN RESOURCES
U. S. HOUSE OF REPRESENTATIVES**

Chairman Mica, Ranking Member Mink, and other Subcommittee members, I appreciate the opportunity to appear before you today to discuss the results of our audit on Community Builders at the Department of Housing and Urban Development. I am accompanied today by Kathryn Kuhl-Inclan, Assistant Inspector General for Audit.

As part of the Office of Inspector General's ongoing assessment of HUD's 2020 Management Reform, we issued a nationwide report on Community Builders on September 30, 1999. The report also responds to requests from members of Congress and numerous citizen complaints. Our audit evaluated Community Builder hiring practices, reviewed their assigned duties and responsibilities, and examined their impact on other organizations within HUD. The audit was conducted in Headquarters and ten field offices. This review was comprehensive. It took nearly 5 years of staff effort to complete and it involved the work of 64 auditors. We examined documents, analyzed data, and interviewed more than 130 HUD staff and more than 90 HUD customers. We conducted our audit in accordance with Generally Accepted Government Auditing Standards. These standards relate to the auditors' professional qualifications, the quality of audit effort, and the characteristics of professional and meaningful audit reports.

This audit was highly sensitive because of the important role of Community Builders in the 2020 Management Reform. We experienced difficulty in obtaining timely information. Senior management provided employees a list of “questions and answers” to be used if they were interviewed in the course of the audit. We were requested to go through certain points of contact for our interviews and documents. In many of our interviews, employees requested confidentiality for fear of reprisal. These limitations made this audit more difficult than most. Accordingly, we reported a scope limitation, which we rarely use.

Background on the Community Builders

The Community Builders come from HUD’s attempt to reorganize to a more community-focused agency. The idea is an outgrowth of the 1993-94 *National Performance Review (NPR)* and the July 1994 NAPA report to HUD and Congress. NAPA suggested HUD: “*Select, through a merit promotion process, staff whose careers demonstrate they can work well with community leaders and are able to work comfortably across the complexity of HUD’s programs.*” In 1996, Secretary Cisneros referred to community building saying: “*Selected HUD personnel will receive intensive training to convert them from administrators performing paperwork processing functions to community-oriented experts who can help communities optimize the necessary layering of local, state, federal and private resources.*”¹¹

¹¹ Cisneros, Henry C., Secretary Essay 5, *Higher Ground: Faith Communities and Community Building*, February 1996, pp 4-9.

Secretary Cuomo stated that Community Builder positions would enable HUD to clearly separate the staff function of facilitating community access to HUD programs from the functions of program monitoring and enforcement. He was of the opinion that requiring employees to be both facilitators as well as monitors was both inconsistent and contradictory. He proposed the Community Builders would serve as the one-stop customer representative in HUD's 81 field offices to provide assistance and information on economic development, homeownership, public housing, homeless assistance, and HUD's other programs. There are over 770 Community Builders, of which more than 400 are Community Builder Fellows with term appointments.

Audit Results

Our audit generally found problems with the Community Builder concept, its implementation, and its impact on HUD. While we did see some positive results from the 85 Community Builder Specialists, overall we concluded that HUD cannot afford the Community Builder concept. Over the last 2 decades, HUD has downsized from 20,000 employees to just over 9,000 employees. During this same period, HUD's programs have increased dramatically. The General Accounting Office placed the Department on its high-risk list because HUD had:

1. In internal control weaknesses such as a lack of necessary data and management processes;

2. Poorly integrated, ineffective, and generally unreliable information and financial management systems;
3. Organizational deficiencies, such as overlapping and ill-defined responsibilities and authorities between its headquarters and field organizations and a fundamental lack of management accountability and responsibility; and
4. An insufficient mix of staff with the proper skills, hampering the effective monitoring and oversight of HUD's programs and the timely updating of procedures.

Our audits have also identified similar weaknesses. For example, the 1998 Financial Audit of the Department cited as a material weakness HUD's need to effectively manage staff resources. The audit noted that because of delays in HUD 2020 implementation, most of the expected staffing efficiencies have not been realized. Additionally, we have conducted several audits of programs impacted by HUD reform changes. A common theme in each of these audits is the lack of sufficient resources to effectively manage and monitor the programs. While HUD has made strides to correct these problems, we do not see how Community Builders contribute to resolving any of the above deficiencies. On the contrary, we believe the large number of staff devoted to this function diverted other staff resources from performing important oversight functions. The Community Builders were an attempt to separate the outreach and monitoring functions. However, HUD chose an expensive and controversial solution. Specific findings in our audit include the following.

Hiring of Community Builders Was Poorly Planned and Implemented

Prior to implementing the Community Builder concept, HUD did not properly establish the necessity for Community Builders or the level of resources required. The Department may have inappropriately used Schedule A hiring authority; failed to adhere to veterans preference when hiring; and dramatically increased its average employee salary expense.

Rather than targeting staff from within, HUD chose to look to the general public for Community Builder Fellow positions. The Community Builder Fellows were hired under Schedule A hiring authority. In our view, HUD used this authority because it offered the most latitude in hiring outside the civil service rules. However, HUD may have inappropriately used Schedule A hiring authority because they did not meet the Office of Personnel Management (OPM) stated requirements. Further, hiring Community Builders at the GS-13 to GS-15 level exceeded the Department's average grade structure.

In selecting personnel for Community Builders fellow positions, HUD ignored Veterans Preference and OPM's "rule of three" selection process. Senior management dismissed the failure to follow veterans preference and selection rules as "administrative errors." Further, in response to our report, HUD stated they complied with Veterans Preference. However, the audit

evidence shows they did not. In light of the forgoing, we have asked Director Lachance of the Office of Personnel Management to conduct a full review of HUD actions.

We reviewed complaints regarding ethical misconduct involving 25 Community Builders. Of these, we considered five valid. One involved false information on a resume, two involved lobbying at the state level, and two involved conflicts of interest. Also, we noted instances of Community Builders participating in activities that would violate Public Law 105-277, which prohibits publicity or propaganda designed to support or defeat legislation pending before Congress.

The Community Builders' Value is Minimal

The Community Builders' positive impact on HUD's mission is indeterminable. The Community Builders' purpose is everything from providing "one-stop customer service" to solving "the toughest economic and social problems facing communities." This visionary mission is not easily measured or realistically accomplished. HUD's Business Operating Plan does not accurately reflect all the Community Builders' activities. Further, most of the Community Builders' goals are activities rather than actual accomplishments. HUD classifies 15 of the Community Builders' 19 goals as activities performed, rather than outcomes measured. Our report cites several of the activity measures used by the Community Builders, one example being participation in HUD homeownership fairs. Also, most of the field offices had an inadequate system in place to document and report the Community Builders activities.

Though most Community Builders claimed to have a positive impact on attaining HUD's goals, only a few provided specific examples of actual accomplishments. Sixty-two of the 77 Community Builders interviewed stated that they had not been involved in leveraging private funds to be used for HUD programs, an important goal for Community Builders. Of the 13 who said they had, only three could describe their activities in specific terms.

We interviewed 91 HUD customers. About one-half believed the Community Builders added value, about one-third believed the Community Builders did not add value, and surprisingly, the remainder stated that Community Builders had an adverse effect. We also interviewed 54 HUD Program Directors; less than half thought the Community Builders added value.

HUD Allocated Large Resources to the Community Builder Position

Through the establishment of the CB program, HUD has redirected a significant amount of staff resources to outreach and customer relations activities. In our interviews with 59 CB staff during the course of our audit, 39 said they spent more than 50% of their time on public relations activities. Since the CB function was created without any increase in HUD funding, all associated CB costs reduce the funds available for other program staff. These other program staff, known as "Public Trust Officers," have the responsibility for monitoring and overseeing several hundred HUD programs. At a time when HUD is designated by the GAO as a "high

risk” agency, HUD can ill afford to devote substantial resources to the CB concept. CB activities do little to address HUD’s mission and require scarce resources being directed away from areas that could help in addressing the many identified material weaknesses in HUD programs.

* * * * *

Our overall conclusion is HUD should discontinue the Community Builder position. As designed and implemented, the Community Builder function is too costly. Excluding the Community Builders Specialists assigned to specific program areas, HUD never established a need for the Community Builders, identified skills Community Builders would need or gave focus to their activities. In creating the Community Builders, HUD gave its program staff a new title, Public Trust Officers. The Public Trust Officers are charged with executing, monitoring, and enforcing HUD’s programs. Resources used to create Community Builders came from the Public Trust Officers. Thus, HUD has hampered its ability to perform its normal program functions or correct the systemic problems it faces as the only agency the GAO lists as high risk. Further, recruiting, hiring, and training Community Builders for short term appointments is a very expensive and resource intensive process.

Requiring Community Builders to be proficient in the full spectrum of HUD’s programs, as well as other Federal programs, is optimistic and even impractical due to the volume, diversity, and complexity of such programs. In view of HUD’s limited staff resources, we question the necessity for maintaining Community Builders.

In responding to our report, HUD cites favorable comments by other organizations on Community Builders. However, these organizations performed limited reviews. For example, the interim Ernst & Young report stated their work was limited to reporting on 25 case studies identified by HUD. HUD had also asked to control our selection of people to interview and sites to visit, but we declined. HUD also cites several instances where Community Builders have had a positive impact. We have no doubt individual Community Builders have had positive impact. However, we believe career HUD employees have always had a positive impact and could have had an even greater impact if given the same resources provided to the Community Builders.



Issue Date	September 30, 1999
Audit Case Number	99-FW-177-0002

TO: Saul N. Ramirez, Jr.
Deputy Secretary, SD

FROM: D. Michael Beard
District Inspector General for Audit, 6AGA

SUBJECT: Nationwide Audit
Community Builders

We performed a nationwide audit of the Community Builders to evaluate their hiring, functions, responsibilities, and their impact on other organizations within HUD. The audit included reviews in Headquarters; Boston, Massachusetts; Denver, Colorado; Detroit, Michigan; Fort Worth, Texas; Houston, Texas; Knoxville, Tennessee; Los Angeles, California; New Orleans, Louisiana; New York, New York; Richmond, Virginia; and Seattle, Washington. The audit found problems with the Community Builder concept, its implementation, and its impact on HUD.

Within 60 days, please furnish this office, for each recommendation in this report, a status on: (1) Corrective action taken; (2) the proposed corrective action and the date to be completed; or (3) why action is not considered necessary. Also, please furnish us copies of any correspondence or directives issued related to the audit.

Please write or call me at (817) 978-9309 if you or your staff have any questions.

Executive Summary

We performed a nationwide audit of the Community Builders to evaluate their hiring, functions, responsibilities, and their impact on other organizations within HUD. This audit is part of the Inspector General's continuing reviews of HUD's 2020 Management Reform Plan, but it also responds to requests from members of Congress and numerous citizen complaints. The audit found problems with the Community Builders' concept, its implementation, and its impact on HUD.

In our opinion, HUD should discontinue the Community Builder position. It cannot afford the Community Builder concept. Over the last 2 decades, HUD has downsized from 20,000 employees to just over 9,000 employees. During this same period, HUD's programs have increased dramatically. Secretary Cuomo acknowledged that the Department was viewed as the "poster child of inept government." The General Accounting Office placed the Department on its high-risk list because HUD had:

1. An internal control weakness such as a lack of necessary data and management processes;
2. Poorly integrated, ineffective, and generally unreliable information and financial management systems;
3. Organizational deficiencies, such as overlapping and ill-defined responsibilities and authorities between its headquarters and field organizations and a fundamental lack of management accountability and responsibility; and
4. An insufficient mix of staff with the proper skills hampered the effective monitoring and oversight of HUD's programs and the timely updating of procedures.

Over the last few years, HUD has made strides in correcting these problems. However, after our review of the Community Builders, we do not see how this position helped to resolve any of the above deficiencies. The Community Builders were an attempt to address one part of HUD's organizational deficiencies. In HUD's view, it was dysfunctional to have the same people attempting outreach and being responsible for compliance because people tended to do one or the other to the detriment of both. The Community Builders was an attempt to separate the two functions completely. However, in implementing the concept, HUD chose an overly expensive and controversial solution that exacerbated any existing problem. If the Community Builder Specialists are an indication, the program offices would probably have better used the resources by advertising for individuals with the necessary skills needed to accomplish specific tasks. HUD would probably achieve far more success with the addition of program staff and better training of existing staff. We believe that HUD should discontinue the Community Builders positions and redirect the resources to correct the above problems.

Executive Summary

The audit disclosed that HUD did not properly plan or implement the Community Builder function. The Department may have inappropriately used Schedule A hiring authority to hire the Community Builder Fellows and violated requirements of the selection process. To establish the Community Builder position, HUD had to allocate salary, training, and travel dollars, as well as personnel, from its monitoring and enforcement role – at a time the Department was already significantly decreasing its workforce. This allocation contradicts one of the primary goals of the Community Builder function, which was to allow HUD personnel assigned to the monitoring and enforcement roles to better perform their jobs. In order to maintain Community Builders, HUD will have to continue spending at high levels to pay and train each successive Fellows class. HUD cannot recover the personnel positions lost to Community Builders without an increase in funding. The impact of Community Builders is difficult to measure, when measurable. The one clear effect of the Community Builders is the dramatic increase in the number of people at HUD not part of a specific program, engaged in customer relations, and owing their jobs to the Department's political management.

We provided a draft of this report to the Deputy Secretary and other senior HUD management officials on September 11, 1999. We discussed the findings and recommendations at a preliminary exit conference with the Deputy Secretary and other senior officials on September, 14, 1999, and in a final exit conference held September 28, 1999. HUD provided a written response to the draft report on September, 29, 1999. We have summarized and evaluated the response in the findings and included it in its entirety as Appendix A. We have also modified this final report from the draft, where appropriate. HUD disagrees with the findings and recommendations in this report.

Table of Contents

Management Memorandum	i
Executive Summary	iii
Introduction	1
Findings	
1 Hiring Community Builders Poorly Planned and Implemented	9
2 The Community Builders' Value is Minimal	35
3 HUD Allocated Large Resources to the Community Builder Position	55
Management Controls	69
Appendices	
A Auditee Comments	71
B Community Builders Goals and Measures Under HUD's Business and Operating Plan	127
C Oped from Secretary Cuomo	131
D Memorandum dated July 20, 1999	135
E Memorandum dated October 22, 1998	143
F Distribution	145

Abbreviations

BOP-PAS	Business Operating Plan-Performance Analysis System
CDBG	Community Development Block Grant
HUD	U.S. Department of Housing and Urban Development
OIG	Office of Inspector General

Introduction

On June 26, 1997, Secretary Cuomo announced as part of his 2020 Reform of HUD, the new positions of Community Builders and Public Trust Officers. In this announcement, he stated the Community Builders would include “several hundred retrained employees” to spearhead an effort to “empower America’s people and local governments to take the leading role in improving lives and strengthening communities.” At this same announcement, Secretary Cuomo introduced Public Trust Officers as “another group of several hundred retrained HUD employees.” These Public Trust Officers would “monitor recipients of HUD assistance to guard against waste, fraud and abuse.”¹

The Secretary maintained these newly created positions would address criticism by the Congress and HUD’s Inspector General for “failing to modernize operations and eliminate fraud and abuse.” In a Senate hearing on the 2020 Management Reform, Secretary Cuomo explained:

“In the past, employees were too often charged with both empowering communities and enforcing the public trust . . . they were given conflicting mandates. Employees were required to play an uncomfortable and difficult job of ‘good’ cop – ‘bad’ cop. This was unfair to our employees and to our customers.”

HUD staff further stated that it was dysfunctional to have the same people attempting outreach and being responsible for compliance because people tended to do one or the other to the detriment of both.

HUD may have had another reason for the establishment of the Community Builders positions. At the June 16, 1999 Business Operating Plan Conference, Secretary Cuomo said:

“Also in my opinion, inarguable, but that we needed, customer relations was a function we didn’t do because we didn’t have the time to do it. A business that does not do customer relations will not long be a business, its that simple. And when you need a reality dose, just think back to when they wanted to eliminate the Department of Housing and Urban Development.

“Remember when they said, maybe we should eliminate HUD. I remember it because I was here. How many people showed up in your lobby of your building the next morning to protest the closing of HUD? How many telegrams did you get? How may letters did you get? How many phone calls did you get saying I’m outraged, don’t you dare think about closing HUD. HUD is to important to me, HUD is too important to my community, HUD is too important to my city, HUD is to important to my state, HUD is too important to my not-for-profit. Where was the outrage, where were all our

¹ June 26, 1997 press release.

Introduction

customers saying, ‘don’t you dare close HUD,’ where were they? We have thousand of grantees under CDBG. Hundreds under HOME. Thousands under the public housing program. Thousands under the homeless programs, where were they? They were nowhere to be found.

“Why? Because we hadn’t cultivated the relationships. We hadn’t developed the relationships. Why? Because we were doing other things, we were running the programs, and we were short staffed. Fine, we’ll separate the tasks. Customer relations and public trust officers because you have to do both.”

Hiring and roles of Community Builders.

In the fall of 1997, HUD advertised the first Community Builder positions. These positions were permanent and limited to HUD staff. *HUD received over 6,000 applications for these limited positions.* HUD hired 361 career employees as Senior Community Builders, Community Builders, and Associate Community Builders.

HUD envisioned these Community Builders as HUD’s “front door” with general knowledge of HUD programs. Serving as the first point of contact, the Community Builders would speak and act “knowledgeably about the full range of HUD services.” Later, HUD reassigned an additional 29 employees as Community Builders. These employees were displaced by other 2020 Management Reforms.

In the spring of 1998, Secretary Cuomo announced 460 temporary positions called Community Builder Fellows. HUD hired the Community Builder Fellows in two classes. The first class consisted of Community Builder Fellows. The second class included Community Builder Fellows and Community Builder Specialists.

In announcing the Fellow positions,² Secretary Cuomo explained that these Community Builders “*will bring to urban revitalization what the Peace Corps continues to bring to global development.*” HUD considers the temporary appointment of these Community Builders as a method of obtaining the energy and ideas of the “*brightest minds*” to address the “*greatest needs in communities.*”

² March 18, 1998 press release.

The examples of work assignments in the announcement were:

- Meeting with community leaders, business owners, educators, and elected officials to help them design effective plans for utilizing funds for government, the private sector, and foundations;
- Helping a small business owner obtain a loan or grant or open a business;
- Working with a group of developers to find financing for a shopping center;
- Scouting out a location for a new park with the neighborhood association; and
- Developing ways to increase home ownership in neighborhoods.

According to the 2020 Program Services and Operations Manual,³ the Community Builders will perform the following functions:

- Serve as the initial point of contact for *all elected and political officials* and the critical link for HUD customers to access the full range of HUD programs and services. Command a thorough understanding of the fundamental components of all HUD programs.
- Coordinate with the Public Trust Officers to ensure program utilization and resolution of policy and regulatory issues.
- Serve as the initial point of contact for all community outreach efforts.
- Facilitate the coordination of all consultation meetings.
- Prepare the comprehensive strategic report on the consultations.
- Prepare all community profiles and briefing papers in *anticipation of Secretarial, Presidential, or Vice Presidential site visits.*
- *Represent the Department in local activities such as groundbreaking, ribbon cuttings, or "HUD for a Day."*
- Organize HUD's response to controversial local issues; meet with special interest and advocacy groups to discuss their issues and concerns; and coordinate and facilitate meetings between HUD program specialists and advocacy groups.

³ Revised March 1999.

Introduction

As discussed later in the report, HUD does not consider the Community Builder activities in any way related to public relations.

As of July 26, 1999, HUD had 778 Community Builders.

Type of Community Builder	GS - Grades ⁴	No. of Community Builders
Senior Career Community Builders	GS-14/15	67
Community Builders	GS-13/14/15	158
Associate Community Builders	GS-7/9/11/12	145
Community Builder Fellows	GS-13/14/15	326
Community Builder Fellow Specialists	GS-13/14/15	82
Total		778

Effect on other HUD areas.

Due to the various management reforms, some HUD staff feel the creation of the Community Builder positions have created friction within HUD because:

- Differences in pay between the existing staff and Community Builders;
- Secretary Cuomo calling the new Community Builders the "best and brightest;"
- The viewpoint from career staff that the Community Builders do not add value;
- The hiring taking place during a period of downsizing;
- HUD assigned the Community Builders with the "fun" part of the job;
- Existing staff had been performing the work; and
- The lack of knowledge the 326 Community Builder Fellows had of HUD programs.

The controversy over Community Builders has appeared in the press (including the *Washington Post*) and has been discussed in Congress.

⁴ HUD uses the Office of Personnel Management's general schedule (GS) to compensate these employees.

Audit Objectives

The overall audit objective was to evaluate the functions and responsibilities of HUD Community Builders, their roles with communities, and their impact on other organizations within HUD. Specific audit objectives were to determine and evaluate:

- The personnel procedures used to hire Community Builders and if the Community Builders are adequately qualified for the positions.
- Headquarters' role, responsibilities, expectations, and performance measurements for the Community Builders.
- The role and responsibility of the Community Builders and how they coordinate with the other program areas. Also, to evaluate the effectiveness or value added by the Community Builders in the HUD process.
- The amount and source of funding for the Community Builders, including salaries, travel, training, and other discretionary funds.

We performed field work at Headquarters and the following field offices:

Boston, Massachusetts	Denver, Colorado
Detroit, Michigan	Fort Worth, Texas
Houston, Texas	Knoxville, Tennessee
Los Angeles, California	New Orleans, Louisiana
New York, New York	Richmond, Virginia
Seattle, Washington	

Auditors from 10 of the Inspector General's 11 Districts participated in the audit along with auditors assigned to Headquarters OIG. Each team operated independently to gather information on Community Builders throughout the country. Over 64 auditors participated in the audit effort which took over 5 staff years to complete. Our audit procedures included:

- Interviewing HUD personnel and its clients (each team independently selected individuals to interview);
- Interviewing Department of Labor and Office of Personnel Management personnel;

Introduction

- Reviewing pertinent Federal Regulations regarding the hiring of personnel;
- Reviewing documents related to the advertising, selection, and hiring of Community Builders;
- Reviewing information pertaining to HUD 2020 Management Reform;
- Comparing hiring goals contained in the National Performance Review to the results of hiring Community Builders;
- Reviewing and analyzing information on the Community Builders (both internal and external to HUD);
- Reviewing activity reports;
- Reviewing individual citizen's complaints involving Community Builders;
- Obtaining and analyzing financial data on training and travel; and
- Obtaining and analyzing number of employees for the period 1997-1999.

The following table summarizes our interviews at field locations.

<i>Site</i>	Number of Community Builders	Number of Community Builders Interviewed	Number of Specialists Interviewed	Number of Public Trust Officers Interviewed	Number of Customers Interviewed
Boston	21	7	1	5	7
Denver	20	8	4	8	10
Detroit	13	7	N/A	6	5
Fort Worth	20	7	N/C	4	15
Houston	13	10	N/A	4	11
Knoxville	4	4	N/A	5	9
Los Angeles	22	10	1	4	3
New Orleans	10	6	N/A	5	16
New York	28	6	N/C	4	6
Richmond	12	6	N/A	5	3
Seattle	19	7	2	4	6
Totals	182	78	8	54	91

Scope limitation

During the course of the audit, HUD senior management: told employees not to talk to us during our planning stage; circulated "questions and answers" for employees to use when we interviewed them;⁵ instructed Senior Community Builders not to talk to us on certain sensitive matters; requested we go through points of contact for interviews and documents (we refused); requested that they identify individuals for interviews with auditors (we refused); and, did not always provide answers to our questions. Several HUD employees who did talk to us asked that we keep their communications in confidence due to feared reprisal. As a result, we cannot be assured HUD staff gave us their candid thoughts or that we obtained all relevant information.

We performed our field work from July through September 1999. The audit period generally covered January 1997 through July 31, 1999. We updated our report to reflect current actions by the Department. We conducted our audit in accordance with generally accepted government auditing standards.

⁵ N/A = Not Applicable. Office does not have Community Builder Specialists.

⁶ See Appendix D.

Mr. MICA. I would like to yield now to the gentleman from Massachusetts, Mr. Tierney, for the purpose of an introduction.

Mr. TIERNEY. Thank you, Mr. Chairman.

It is my pleasure to introduce Carolyn Federoff, who is known to me for her fine work up in our area. Carolyn Federoff works in the Boston office of the Department of Housing and Urban Development. As the development attorney with the Department, she has helped in the development of many projects, particularly in my district, including the Whittier School Apartments, which is an eight-unit development for persons with mental disabilities in Amesbury, as well as the HEPA 39 apartments, which in reality is a 54-unit development for the elderly. She has an outstanding reputation amongst HUD's clients.

Carolyn has been elected union representative for more than 10 years, and during that time she and her coworkers have kept the Massachusetts congressional delegation informed of proposed changes to HUD and the impact on our constituents. I will just add that she has done an excellent and incredible job. We appreciate her services, and I am pleased to introduce you today, Carolyn.

Mr. MICA. Thank you, Mr. Tierney.

Welcome, you are recognized.

Ms. FEDEROFF. Thank you, Congressman Tierney, for that kind introduction, and thank you, Mr. Chairman and Members, for inviting me to testify on behalf of our members. We represent members throughout New England, and our members are very happy that you are taking an interest in the programs and issues at HUD. I hope that you will place my written testimony into the record, but I am going to provide only some details.

Mr. MICA. Without objection, your entire statement will be included in the record.

Ms. FEDEROFF. A little bit of background. In 1991, the Boston office had 322 staff. In 1999, we have 183 staff, which represents a 43 percent reduction in staff over 8 years. Currently, more than 10 percent of our staff are Community Builders.

HUD is very resource-poor, but what particularly disturbs employees is that we believe it uses its resources poorly, and the M&M contract is a case in point, which the previous panel did discuss, and that is covered in my written testimony.

There is another contract that was considered in that same audit by the IG that looked at the M&M contract, and that is the Section 8 contract administration contract. That is also a \$1 billion contract over 5 years for which the agency has not conducted any credible cost-benefit analysis and certainly no cost-benefit analysis under A-76. Based upon our review of agency documents, we believe that contract is \$159 million more than hiring HUD staff annually. That works out to more than 27,000 housing vouchers that could be provided for homeless families if this work were to be kept in-house as opposed to contracted out. The IG also mentions that there are significant threats to the integrity of the program if this were to be contracted out.

I realize that this panel is concerned primarily with Community Builders. Now, first allow me to say that our testimony is not directed toward individual Community Builders, because, in fact, all of the Community Builders that I know personally are, in fact,

committed to the mission of the agency and came here with that express purpose. Our concern is that given the expenditure of funds and the expenditure of resources that is necessary to maintain the Community Builder Program, that, in fact, it is not significant enough to warrant that distribution of resources.

In New England, we presently have 43 Community Builders. Only the Office of Housing has more staff resources than the Community Builder Program has in New England. So, for example, our Community Planning and Development Office has 28 staff in new England. This staff oversees congressionally mandated programs, such as 55 community development block grant recipients, 28 home recipients, 22 emergency shelter grant recipients and 550 McKinney homeless grant recipients.

In Massachusetts alone, the staff is responsible for overseeing more than \$170 million in funds, and they are also responsible for Maine, New Hampshire, Vermont and Rhode Island. So statutorily mandated, taxpayer-funded program responsibilities receive only two-thirds of the staff that is currently dedicated to front office responsibilities, responsibilities which have no statutory mandate or rule or regulation.

Now, the grade parity issue has been an issue that has been identified, the Community Builders GS 13, 14 and 15. And frequently as a union rep, I am asked what is the impact on rank and file, and clearly there is an impact on rank and file, but this really has to be taken as a full management issue.

Let's compare one Community Builder position, which is the Officer Next Door Program. The Officer Next Door Program staff person is a job that had previously been one part of a GS-11 single-family property disposition specialist job, and I understand that this Community Builder fellow has far more territory to cover than any GS-11 PD specialist had previously. However, this person has—oversees no staff, has no fiscal responsibilities, and cannot obligate agency funds, and is a GS-15. Compare this to our Director of our—of the New England multifamily Hub. That GS-15 Director is responsible for overseeing 88 staff in five offices, more than \$150 million in development dollars in 1999 alone, the largest portfolio in the country of 2,266 active properties, and more than 200 properties in the development pipeline.

Now, why would you become a manager in the Federal Government if you have that much responsibility and are paid the same amount as the GS-15 down the hallway?

This is an issue that attacks the morale of the agency throughout the entire agency. I realize that the agency is saying that this is no longer an issue, that we are no longer going to have a temporary Community Builder Program. Well, in fact, it appears that we are going to have a permanent Community Builder Program, and this is going to be a severe blow to the morale of employees throughout the agency.

We hope that this committee and our representatives in Congress will look seriously at the distribution of resources in our agency, particularly with regard to the Community Builders and the Section 8 administrative contract, which is a serious issue for our members and for our constituents. Thank you for giving us this opportunity.

Mr. MICA. Thank you for your testimony.

[The prepared statement of Ms. Federoff follows:]

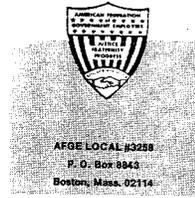
American Federation of Government Employees

NEW ENGLAND REGION

MAINE
MASSACHUSETTS

NEW HAMPSHIRE
CONNECTICUT

VERMONT
RHODE ISLAND



STATEMENT BY

CAROLYN FEDEROFF

AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES, AFL-CIO
LOCAL 3258

BEFORE

THE HOUSE COMMITTEE ON GOVERNMENT REFORM
SUBCOMMITTEE ON CRIMINAL JUSTICE, DRUG POLICY AND HUMAN
RESOURCES

NOVEMBER 3, 1999

TO DO FOR ALL THAT WHICH NONE CAN DO FOR ONESELF



My name is Carolyn Federoff. I am a representative of the American Federation of Government Employees Local 3258, representing employees at the U.S. Department of Housing and Urban Development throughout New England. I have worked at HUD for thirteen years in the Office of Counsel, and am presently a development attorney. I have received Outstanding Performance ratings for the last four years.

We would like to thank Chairman Mica and the members of the Subcommittee for the opportunity to testify.

**HUD: A POOR USE OF RESOURCES
IN A RESOURCE POOR AGENCY**

In 1980, HUD had about 17,000 FTEs (full time equivalent staff) and 54 programs. In 1994, HUD had 13,300 staff and approximately 200 programs. [National Academy of Public Administration report "Renewing HUD: A Long-Term Agenda for Effective Performance" at pp. 29 and 141.] HUD began FY 2000 with a little over 9000 FTEs and the same 200 programs. Nobody can doubt that the agency and its employees are being asked to do much more with far fewer resources.

What truly upsets agency staff, however, is the incredibly poor use of agency resources. A wiser use of resources would benefit HUD programs, clients, and staff.

We would like to present three examples of HUD's poor use of resources: the Single Family Management and Marketing contract; the Section 8 Contract Administration contract; and the Community Builder program.

**HUD CONTRACTORS NEITHER MANAGE
NOR MARKET SINGLE FAMILY HOMES**

The two years prior to the implementation of the Single Family Management and Marketing contract (the M&M contract), our Hartford, Connecticut office had the highest percentage of first time homebuyers of any office in the country. This despite chronic shortages of staff.

On June 18, 1999, the Government Technical Representative responsible for overseeing CitiWest, the M&M contractor in New England, provided a performance assessment (copy attached). Of the 356 properties inspected, only 84 were ready for sale. 218 properties were not presentable, including debris in and around the property, broken doors and windows, and hazardous conditions.

In Connecticut specifically, the City of Danbury Department of Health issued a citation against HUD as the property owner threatening legal action. Hartford and East Hartford Departments of Health have issued similar citations.

Please remember that CitiWest continues to enjoy its contract with HUD. HUD has terminated the InTown M&M contract only. The cost of this termination is enormous, both in dollars and staff time. Some states previously covered by InTown are now covered by other contractor/s. It is our understanding that HUD was not required to put these contracts out to bid, and that there is no dollar cap on their costs. Maryland was not put with another contractor. Rather, HUD staff are cleaning up the mess directly. One employee left her home on Sunday, September 26, and was not allowed to return home until October 29. During those five weeks, she put in more than 60 hours overtime, working nights and Saturdays. Under federal law, she earned less per hour in overtime than she earned during her regular work week. And she did it hundreds of miles from home.

**HUD'S INSPECTOR GENERAL FOR AUDIT STATES
THERE IS NO EVIDENCE FOR M&M COST EFFECTIVENESS**

In an audit dated September 30, 1999 [99-PH-163-0002], HUD's Inspector General for Audit states:

The management and marketing contracts provide for the privatization of functions previously performed in-house, but there is no evidence that HUD management considered the costs of performing these functions with HUD staff versus the anticipated private sector costs, according to OMB Circular A-76. . . . While this study [the OMB Circular A-76 cost analysis] may not legally be required, good management and fiscal responsibility would dictate that some cost benefit analysis would be desirable and useful when HUD is considering a billion dollar procurement which changes the way it does business in a significant way. [Section 2, pp. 10-11.]

**ANOTHER BILLION DOLLARS CONTRACTED WITHOUT COST ANALYSIS:
THE SECTION 8 CONTRACT ADMINISTRATION CONTRACT**

On May 3, 1999, HUD issued a Request for Proposals (RFP) that has a one year anticipated cost of more than \$216 million dollars, or more than one billion dollars over the five year life of the contract. This RFP seeks to contract out work currently done by HUD staff—the administration of approximately 15,500 Section 8 project based contracts.

In its September 30, 1999, audit, the Inspector General for Audit (IGA), stated that:

the decision to contract did not adequately consider cost-benefit issues and may adversely affect the integrity of HUD's Section 8 program. . . . [W]e believe the apparent desire to contract out regardless of cost is indicative of the environment within HUD. . . . It was readily evident the decision was based primarily on policy decisions to reduce the size of HUD's workforce. . . . [Section 2, p 15.]

AFGE Local 3258 provided both the U.S. House and Senate authorizing and appropriations subcommittees with information about this contract, including our estimation that the contract would cost more than \$159 million more than the cost of maintaining the work in-house.

SECTION 8 PROGRAM INTEGRITY AT RISK

The IGA specifically cites concern for the integrity of the Section 8 program:

The RFP essentially puts out for bid a core HUD business function that, for the most part, is done in-house. . . . Outsourcing a major function of HUD's multifamily business could adversely affect the integrity of the Section 8 program because:

- contracted services are typically used to enhance in-house capability, not replace an entire business function. [Testifier's note: this was done with the M&M contract, with poor results.]
- contracting subjects the entire program to uncertainty.
- the contract cost will be absorbed by the Section 8 program, reducing the amount of funds that could be provided to intended beneficiaries. [Testifier's note: we estimate wasted dollars as equaling 27,500 Section 8 certificates for homeless individuals and families annually.]
- HUD's ability to monitor contractor performance is questionable. [Section 2, pp. 16, 17.]

HUD's response to the IGA is telling; they stated that the Section 8 administration contract was not appropriate for inclusion in the Audit. HUD did not address a single substantive issue raised by the IGA.

Our Local has been fighting this contract since it was proposed in the FY 2000 budget in February. The IGA confirms what we have been advising our Senators and Representatives for months: "Decisions are based on what is expedient and can be characterized as legal rather than what is shown to be the most prudent and cost effective business decision." [Section 2, p. 17.]

**IT IS NOT TOO LATE TO STOP THE SECTION 8 CONTRACT
ADMINISTRATION CONTRACT**

HUD has not yet signed any of the Section 8 Contract Administration contracts. But they are preparing the contracts now. We urge this Committee to please intervene and stop this blatant waste of scarce housing funds. The agency should be prohibited from entering into these contracts until cost benefits can be demonstrated. Because the IGA cites an "environment" within HUD that will "contract out regardless of cost," we believe that the agency cannot be trusted to conduct a fair cost benefit analysis. We suggest that the IGA be directed to conduct the analysis.

**STEALING ENGINE PARTS TO PUT BELLS AND WHISTLES ON THE
VEHICLE: THE COMMUNITY BUILDER PROGRAM**

First, allow me to say that our testimony is not directed to the individual Community Builders (CBs). The CBs that I know are committed to the mission of HUD. In fact, I know at least two CBs who have left the position because they believe in the mission of HUD and they further believe that the CB Program does not further that mission.

Like these CBs, we do not believe that the CB Program furthers the mission of HUD sufficiently to warrant the incredible expenditure of agency resources. In New England, we presently have 43 CBs – one Secretary's Representative, five Senior CBs, 26 CBs and CB Fellows (GS-13/14/15), and 11 Associate CBs (GS-11/12).

Only the Office of Housing has more staff resources than the Community Builder program in New England. Community Planning and Development (CPD) has 28 staff in New England. This staff oversees Congressionally mandated programs, such as 55 Community Development Block Grant recipients, 28 HOME recipients, 22 Emergency Shelter Grant recipients, and 550 McKinney Homeless grant recipients. In Massachusetts alone, this staff is responsible for overseeing more than \$170 million in funds. Statutorily mandated, taxpayer funded program responsibilities warrant only two-thirds of the staff currently dedicated to front office responsibilities—responsibilities that do not appear in any statute, rule or regulation.

HUD's Inspector General for Audit issued an audit on September 30, 1999 [99-FW-177-0002] about the CB Program. The audit raises an issue that is familiar to agency staff—grade parity. It appears from the audit that CPD staff had been doing CB work for years before their arrival, at much lower grades. As a Union representative, I believe that the grade parity issue has severely hurt agency morale.

The grade parity issue, however, hurts not only staff morale, but management morale as well. As an example, the agency has hired CB Fellow Specialists at GS-15 to handle the Officer Next Door Program for Single Family Housing. Prior to 1994, the

Officer Next Door Program was one of many property disposition responsibilities handed by career staff at a GS-11 journey level.

These GS-15 CB Fellow Specialists who focus on the Officer Next Door Program oversee no staff, have no fiscal responsibilities, and cannot obligate agency funds. Meanwhile, the GS-15 Director of the New England Multifamily Hub is responsible for overseeing 88 staff in five offices, more than \$150 million in development dollars in FY'99 alone, the largest portfolio in the country with 2266 active properties, and more than 200 properties in the development pipeline.

The impact on morale runs throughout the agency, top to bottom. Even if the CB Program was flawless (which the IGA indicates it is not), it is an unacceptable use of agency resources. There are presently more than 400 CB Fellows and Fellow Specialists, 67 Senior Career CBs (formerly known as State Office Directors), 158 Career CBs, and 145 Associate CBs. More than 8% of our staff are in the CB Program. It is redundant to say this, but the CB Program has no statutory or regulatory mandate, responsibility or authority.

It is our understanding that the agency may argue that a hearing on the CB Program is no longer necessary as the CB Program will be terminated September 1, 2000. According to an electronic mail message sent to all employees from Secretary Cuomo on October 18, 1999, "we will now be able to make the program and function permanent."

I am extremely pleased that Community Builders will become a permanent part of the Department's organization - which is more important and a big net gain.
(copy attached)

HUD NEEDS STAFF—PROGRAM STAFF

We agree with this Administration that the agency needs more permanent staff. But given the limited program staff resources and the documented resort to expensive contractors because of insufficient program staff, any additional permanent staff resources should be directed to program areas.

CONGRESS CAN MAKE A DIFFERENCE

I recently spoke about these issues with a District Director for a Congressman that shall remain nameless. His response was "that's the way government works." I looked at him and told him that it is my government and that is an unacceptable answer. We don't tolerate that response from agency staff to clients or members of Congress. Why should we then tolerate this response from our elected representatives?

We all have to work to make government work better. Please stop the agency from wasteful contracting out without cost benefit, and stop the wasteful distribution of staff resources.

We are proud of the work we do. We live in the communities we help build. Please do not hesitate to call on us. For further information, please call Christine Agnitti, President, AFGE Local 3258, or me, Carolyn Federoff, at 617/565-5411.

Mr. MICA. We will now hear from Mr. Ramirez, who is the Deputy Secretary for the Department of Housing and Urban Development.

You are recognized, sir. Welcome.

Mr. RAMIREZ. Thank you very much, Mr. Chairman and members of the subcommittee. It is certainly a pleasure to be here, and as I mentioned, I am the Deputy Secretary, my name is Saul Ramirez, and it is a pleasure to be here to discuss our Community Builder Program. I would like to request that both my written and oral testimony be included for the record, Mr. Chairman.

Mr. MICA. Without objection, so ordered.

Mr. RAMIREZ. Let me say that this is an innovation that we are extremely proud of, and it is a critical part of our successful management reform efforts and is making the Department work better for the people we serve. Please allow me a brief moment to explain how the Community Builder Program came about.

For years, HUD was considered the poster child of inept government. It was criticized as a bureaucracy riddled with waste, fraud and abuse, and was known more for red tape than results. The media reported HUD scandals and landlord rip-offs. HUD customers shared horror stories of making 10 phone calls to 10 different people, just to find a simple answer, if they could get one at all.

In 1994, with the recommendation of Congress, HUD worked with the National Academy of Public Administration to look at its management. NAPA told HUD that it needed to make working with communities just as important as enforcing regulations. They said HUD should be providing comprehensive services to the communities it serves.

By January 1997, when Secretary Cuomo arrived, many in Congress were fed up with the situation at HUD, citing sloppy or non-existent accounting, shoddy program monitoring and blatant disregard for the needs of the customers. They called, in fact, for HUD's elimination. HUD needed to get its own house in order first and fast, and a goal for a comprehensive management reform plan was designed to transform HUD into a streamlined, effective community partner.

First we began to restore the public trust and improve our competency. We focused agency staff on ridding waste, fraud and abuse. We cracked down on bad landlords, debarring those who were cheating taxpayers or who refused to provide safe, decent housing. We hired an FBI agent to head up our new Enforcement Center, and we went after lenders who discriminated and cheated. We built a system for the first time that enabled us, in fact, to assess the condition of our entire housing portfolio, and, for the first time in our Department's history, we balanced our books and had a clean opinion, as concurred by the Inspector General.

But we also needed to better serve our current clients and customers as well as those underserved communities still in desperate need of assistance and who found us unapproachable. I am certain that no one in this room would disagree with me when I say that cutting red tape and streamlining operations is the right goal, and that is exactly what Community Builders helped do, and here is how.

At the heart of better customer service and better overall management, it is the recognition that the employee role confusion undermines performance. Now, let me repeat that. The recognition that employee role confusion undermines performance. NAPA understood this, as well as David Osborne, who warned HUD of pitfalls when one employee must assume two contradictory roles. We know HUD staff can no longer wear two hats, serving as both facilitators to help communities access resources, and monitor those same communities and make sure that they use their funds properly. These contradictory roles weaken both customer service and monitoring and compliance.

Using private sector reorganization as a model, HUD took a customer service function that was performed by all HUD employees and concentrated them in a small number of employees, our Community Builders. Now, Community Builders, some 9 percent of the agency work force, focus on customer service, leaving more than 90 percent of the agency to put 100 percent of its time into restoring the public trust in meeting our mission to meet compliance and monitoring efforts within the Department. This change makes sense to all of us intuitively. What insurance company would have the same group of employees act as both a sales force and an underwriting force?

We are pleased to say that many people agree with these changes that we have made and, in particular, in our Community Builder Program. You have alluded to the Ernst & Young report that concludes, in fact, that the Community Builder Program may serve as an innovative government model for improved customer service for government institutions at all levels.

I would also like to state that Andersen Consulting conducted a survey in which they found, "In striking contrast to the image of the Federal bureaucracy, HUD staff is perceived by customers as providing exemplary service and accurate information. Many of these customers are public entities and officials, Members of Congress, and others that have worked directly with Community Builders," and I have submitted a list of some of the hundreds of people and organizations that we have heard from as it relates to this effort.

I would like to just conclude by saying that the OIG is the only organization that has criticized HUD Community Builders, and that the Department firmly disagrees with the OIG criticism. In fact, it would take me hours to just walk through the many mistakes and misassumptions that the OIG report has stated.

So I urge you to thoroughly review the detailed response that we have provided you in response to their audit.

Let me just briefly state three items that we disagree on. First, the OIG argues that there were problems with the process for hiring Community Builders. HUD followed all proper procedures and consulted with the Office of Personnel Management to institute a very stringent hiring process, a process, I might add, that was carried out entirely by civil servants. Congress decided at this point, though, in its most recent budget that we make all Community Builders now Civil Service positions, and we are moving in that direction.

The second point that the IG highlights is that the Community Builders take up too many of the Department's resources. Well, that is just simply wrong. I would refer you to that chart of our salaries and expenses, as well as our travel dollars that we allocate in the Department, and would be happy to allude to in greater detail as it relates to that.

Third, I would like to say that the Community Builders do add value in contrast to what the Inspector General has cited in their report, and Members of Congress, mayors, HUD customers and clients and respected organizations that are credible, like Ernst & Young, Andersen Consulting, Booz-Allen, public strategy groups, have stated specifically that Community Builders are a tremendous asset to the Department. Even GAO and NAPA acknowledge that the Department is moving in the right direction to deal with its weaknesses.

We at the Department are still not satisfied with that and are working to improve our systems, and will outline any additional detail in improving those systems, but I am prepared to answer any questions that you may have at this time as it relates to this subject or any other, Mr. Chairman.

Mr. MICA. Thank you.

[The prepared statement of Mr. Ramirez follows:]

**STATEMENT BEFORE THE HOUSE
COMMITTEE ON GOVERNMENT REFORM
SUBCOMMITTEE ON CRIMINAL JUSTICE,
DRUG POLICY AND HUMAN RESOURCES**



**NOVEMBER 3, 1999
WASHINGTON, DC**

BY

**SAUL N. RAMIREZ, JR.
DEPUTY SECRETARY**

Written Testimony for Hearing Before the House Subcommittee on
Criminal Justice, Drug Policy and Human Resources
November 3, 1999

Good morning Mr. Chairman and members of the Committee. I am Saul Ramirez, Deputy Secretary of the Department of Housing and Urban Development. I appreciate this opportunity to share with you the management reforms and operations of the Department, and more specifically, to discuss the Community Builder program.

I request the inclusion of my oral and written testimony in their entirety in the record.

Mr. Chairman, I want to share with you four major points that I believe are important for everyone on this Committee to fully understand.

(1) The Community Builder Program has been a remarkable success. This is not only our opinion but also the opinion of every independent group that has reviewed the program, including the Public Strategies Group, Booz-Allen and Andersen Consulting. Today I am pleased to announce that the respected independent accounting firm, Ernst and Young, LLP has issued a report demonstrating the clear success of Community Builders around the nation. E & Y concludes that "the Community Builder program can prove to be a model of government management innovation and reinvention success."

(2) The Office of the Inspector General (OIG) is the first – and only – entity to give the program a negative review, and the criticisms in the OIG's report are baseless and factually incorrect. I intend to set the record straight.

(3) The Department has grave concerns about the audit process which the OIG conducted in a manner that was fundamentally unfair to the agency and to many members of Congress who have an interest in the Community Builder program.

(4) I am announcing continued steps to improve the Community Builder program and build on its many successes. We are not going to remain complacent in the face of positive independent reviews that underscore the program's success. We're going to build on it. We plan to perform a series of management and operations workshops for our senior field managers. We are instituting a new on-line Community Builders project management system. And we are enhancing the role of Community Builders in HUD's Business and Operating Plan.

Before I go into these four points in detail, I would like to tell you a bit about my background. During my tenure as the Mayor of Laredo, Texas – from May 1990 to June 1997 – I had extensive dealings with the Department in several program areas, including community development, public housing, and of course, the Federal Housing Administration (or FHA). I was often surprised by the multitude of people with whom I had to make contact in order to access and put together HUD programs to address the needs of Laredo citizens. There appeared to me to be a lack of coordination between individuals who handled the different programs that address the continuum of housing and community needs, such as poverty, homelessness, affordable housing, neighborhood revitalization, economic development and job creation.

When I joined the Department in July 1997 as the Assistant Secretary for Community Planning and Development (CPD), Secretary Cuomo had already begun to change HUD's internal management structure and program operations in order to improve the functioning of the Department. In fact, two of his major reforms - the Consolidated Plan and the Continuum of Care -- have been honored with the prestigious Harvard University's Innovations in Government Award.

The Department's 2020 Management Reform Plan made even more bold, sweeping and innovative changes. HUD 2020 was designed and developed to address the Department's long-standing material weaknesses identified by many in Congress as well as the GAO and OIG. These improvements covered financial management and program operations, as well as program delivery and customer service. Since the

announcement of these management reforms in June 1997, I am proud to say that the Department has made credible and substantial progress in correcting management deficiencies, as well as improving program operations.

The Community Builder program is but one part of the comprehensive plan that is making HUD more responsive to community needs and more protective of the public trust.

Mr. Chairman, I would like to take a moment to go over each of the four points I mentioned in greater detail.

First, the Community Builder program is working.

Many independent experts have recommended that HUD make a change like the Community Builder program. At the direction of Congress, the National Academy of Public Administration (NAPA) in 1994 studied HUD and issued a report called Renewing HUD: A Long-Term Agenda for Effective Performance that recognized the need for clarifying job roles and for emphasizing HUD's role as a catalyst and viable community partner – not just regulator and enforcer.

The NAPA report recommended that HUD revise its employee incentive system to emphasize that working with communities and other agencies is as important as enforcing regulations. It said HUD program areas should change the way they do business to provide holistic services to communities rather than solely program-focused assistance.

Another independent group of management experts, the Public Strategies Group, examined HUD's reform efforts and warned about the pitfalls of some federal agency structures, noting that "a common source of dysfunction in government agencies stems from the commingling of both service and compliance functions within programmatic cylinders, requiring agency employees to assume dual roles – at times seeking to offer

assistance, facilitate and problem solve, and at other times to perform oversight and enforce compliance.”

HUD took these recommendations and other past criticisms seriously when creating the Community Builder program as part of our overall Management Reform strategy. Since our Management Reform plan was unveiled, the Department has hired, trained, and deployed 800 Community Builders in HUD offices nationwide. The introduction of the Community Builder role into the HUD workforce was a major, and critically important reform initiative. We expeditiously, and with great precision, addressed the issue that I referred to at the opening of my statement – we streamlined our customer service function – by designating certain staff to function as a single point of contact for all HUD programs. That’s what Community Builders do.

At the same time, we also addressed another major issue that has plagued this Department for many years – role ambiguity – which was caused by HUD employees being forced to wear two hats. As Public Strategies Group noted, our staff were previously charged with serving both as HUD’s *customer service representatives* – helping communities access resources – and *program monitors* – ensuring that the same communities used HUD’s funds properly. The introduction of Community Builders to HUD has clarified and separated these two, very distinct, functions. Now we have Community Builders (9% of agency) who function as our community resource representatives, and Public Trust Officers (91% of agency) who ensure that HUD meets its obligations and responsibilities to the American people.

Clearly defined roles and responsibilities also means we are better meeting our program goals and commitments for furthering the Department’s strategic objectives. For the first time, HUD has freed up some 90% of the agency’s staff to monitor and run its programs. We are setting national performance goals that are quantifiable and measurable. For example, this year, we have exceeded our goals in three critical areas: fair housing enforcement; increasing homeownership among underserved populations; and providing comprehensive solutions to fighting homelessness.

These achievements demonstrate that HUD is on the right track. And our customers are looking at us differently. Andersen Consulting surveyed our customers this year and found: "In striking contrast to the image of a federal bureaucracy, HUD's staff is perceived by its customers as providing exemplary service and accurate information, and HUD staff also received high marks for timeliness of the information provided. The fact that HUD customers indicated high positive levels of customer service is even more impressive because of the high disposition of government customers to negative bias (since, unlike private companies, HUD must regulate its customers.)"

Similarly, Ernst & Young's review of the Community Builders program applauded HUD's efforts in leading the way for real change. E & Y asserts "that the Community Builder program may serve as an innovative government model of improved customer service for government institutions at all levels." As an aside, we know that others are indeed using this strategy – the Peace Corps' new customer service storefront office is modeled after ours; The Justice Department is considering implementing our Fellowship model with Assistant U.S. Attorneys nationwide; and Mayor Kirk Watson of Austin not only praised the program, but recently used it to reorganize his own housing office.

Ernst and Young also found that:

- Community Builders are providing increased customer service and responsiveness to community needs and requests
- Community Builders are expanding outreach to new and in some cases previously under served partners
- Community Builders are facilitating working partnerships furthering the Department's mission
- Community Builders are utilizing valuable private sector experience and skills to benefit the public sector
- Community Builders are furthering the Department's strategic objectives

Now, if you look at these findings – and when you consider what the Community Builders program was designed to do – I believe that you cannot avoid the conclusion that the program has been a phenomenal success. To hear the findings from an outside, independent, and reputable accounting firm only confirms what we at HUD have known all along.

If you're still skeptical, don't take my word for it, and don't take the word of the many management experts that I have already quoted. Members of Congress and Mayors from across the country have applauded the work of our Community Builders. Let me highlight a few samples.

Here's what Mayor John Norquist of Milwaukee said –

"HUD had been virtually invisible in the community. However, that has changed since the appointment of the four fellows in the local HUD office. They have worked hard to create a HUD presence in the community and have been wildly successful. Their efforts to 'go where no HUD has gone before' have resulted in HUD representation at venues specifically targeted toward under-served areas... The Community Builder program is the model for empowering communities to achieve self-sufficiency."

And, in my home State of Texas, Mayor Bo Quiroga of Galveston said this about Community Builders in his area –

"They have helped guide me and the committee I have formed to begin to transform a neighborhood that has been neglected for many, many years – the Old Central/Central Park Neighborhood. We are about to launch a neighborhood effort that we hope will transform the neighborhood aesthetics, encourage self esteem, provide home ownership and encourage entrepreneurship opportunities.... I hope other cities are the recipients of the

same personal attention we are receiving from the HUD Community Builder Program, and I encourage you to consider expansion of this program in the future because it works.”

I can assure the committee and Mayor Quiroga that many cities across the nation are enjoying similar assistance from our Community Builders.

And finally, Mayor Dominic Pileggi of the City of Chester, Pennsylvania writes:

I am a believer in a limited federal government. Nevertheless, the Community Builder program has been the single most effective innovation in a federal government program in my 6 years in City Government.

Clearly, the Mayors are pleased with the work of our Community Builders. We at HUD are proud of this program. We are proud of our record of achievement and the outside evaluations over the past two years which have consistently shown that we're moving in the right direction.

Now, you may ask, why then did HUD's Inspector General so severely criticize this program?

The second point that I would like to make to you today is that the OIG audit ignored all of the positive information on the program and based its findings on factually inaccurate and unsubstantiated claims.

Their report is so full of inaccuracies that it's hard to believe that it is about the same program which we call the Community Builders – and therefore, it's important for me to set the record straight.

Please allow me to provide you with a brief sample of the erroneous information in the Audit for I am confident that it will provide you with a much clearer understanding of the program:

- The Draft Report mistakenly claims that Community Builders do not fit the criteria for hiring under Schedule A. Schedule A hiring authority is designed, in part, for Fellowship programs like the CB fellowship. I would like to emphasize that HUD's Office of General Counsel fully analyzed the applicability of Schedule A hiring authority to the Community Builders and concluded that "the Department may hire individuals from outside the Department to fill positions in the Community Builders program under the Schedule A authority of 5 CFR 213.3102 (r)." I would like to submit a copy of that memo for inclusion in the record. Oddly enough, one of the HUD attorneys who drafted the memorandum currently serves as the IG's associate counsel. I cannot understand why the OIG would contradict the legal opinion of its own lawyer.
- The IG report stated that there were irregularities in the hiring process for Community Builders and that the process was not well planned or implemented – This claim is absolutely false. The hiring process complied with all relevant rules, laws, and regulations provided by the Office of Personnel Management (OPM). In fact, we consulted with OPM regarding the process and they did not object to any part of our plan. Our response to the IG report addresses this issue in detail. I am also providing you with a memorandum from our general counsel and DAS for Administration demonstrating that HUD acted appropriately in hiring Community Builder Fellows.
- The IG report alleged that Community Builders merely do – and I quote – “public relations” and that their work is of “minimal value.” Again, the IG is wrong and plainly distorts the record. As confirmed by E&Y, Community Builders are helping the Department meet each of its strategic objectives. Some of the clear examples of valuable work performed by Community Builders that E & Y found includes:

helping local communities in Nevada assess their economic development needs;

forming a partnership between a Community Development Corporation, HUD and a local high school to assist with a crime mapping initiative;

providing information so that a local government entity could access a new source of HUD funding for the first time;

facilitating the participation of a local chapter of the United Way in the Department of Justice's weed and seed program;

bringing together a group of tenants and their landlord to help resolve maintenance and safety issues;

identifying alternative financing options for the Cherokee Nation Housing Authority;

leading a collaborative effort that included the Federal Emergency Management Agency to respond to freezing weather that destroyed crops that were an important part of the local economy;

helping a non-profit organization in Galveston, TX find funding for a training program for young inner city entrepreneurs;

locating a disabled-accessible apartment for a woman with multiple sclerosis and providing her information regarding fair housing complaint procedures;

providing technical assistance to a local non-profit housing development organization to help it become a designated Community Housing Development Organization;

providing information and technical assistance to help preserve Washington State's Section 8 contracts;

organizing first-time home buyer training for local lenders who were interested in targeting the community's under served minority first-time home buyer population;

presenting information on HUD's housing programs, including eligibility requirements and rent calculations to an AIDS Task Force to help them educate their clients;

and working with the Philadelphia Housing Authority to inform public and assisted housing residents about new "Welfare-to-work" reform rules and regulations.

Now, if you believe that's public relations, that's fine. I think its the relations the public expects us to have – to be responsive and reliable. This work is exactly what the public should expect from HUD – comprehensive services that are responsive to local needs.

- The IG report alleges that Community Builders disseminate primarily political information. Once again, the IG is wrong. Community Builders provide information to customers on HUD and its programs. The OIG report provides absolutely no valid, reliable evidence for this unfounded charge.
- The IG report inaccurately alleges that Community Builders are paid more than they should be and implies that salaries were determined in a more favorable fashion than for other HUD employees. The OIG fails to get the facts straight. HUD career human resources officials followed OPM guidelines in assigning salary levels. This is the same process used to assign salary levels for all government employees. Nearly all Community Builder Fellows are mid-career professionals with 10 or more years of experience in their chosen profession and their average age is 45. Many also have advanced degrees in fields such as law, public administration, and public policy. The implication that Community Builders are paid too much is false. Their

pay is commensurate with their experience and ability. Salaries for Community Builder range from GS 7 through GS 15, approximately \$27,000 to \$105,000, including locality pay.

These are but a sampling of the errors and inaccuracies contained in the IG report. That is why I urge this Committee to examine the facts carefully and draw your own conclusions. I know that if you look at the facts objectively, you will conclude that the program has been unfairly attacked and that the basis for these attacks is unsubstantiated, anecdotal stories that clearly demonstrate a misunderstanding of this program.

This brings me to my third point. I have grave concerns about the way in which this audit was handled. The OIG deprived Congress of the opportunity to weigh the facts in an even-handed manner.

There are standards and guidelines that dictate the way audits are to be performed. There is also an issue of plain fairness. The IG's audit fails on both accounts. It is the blatant disregard for the unspoken rules of fairness about which I am most deeply disturbed. We were not informed that the draft report was being released to Senators Bond and Allard, the Chairmen of the two Senate Subcommittees which we work with – without informing the ranking minority members of those committees as well. OIG staff were directed not to inform others of this early release of the report, yet they would not tell us who gave that order. The OIG's covert actions disadvantaged many in Congress because they did not have equal access to the draft report during the debate on HUD's budget. I would hope that the OIG would not engage in partisan politics to undermine this innovative program.

The final point I would like to make today is that HUD will not let positive reviews lull us into complacency nor negative attacks weaken our resolve to continue to improve this program. Today, I would like to share with you our comprehensive, five-part strategy to continue to improve the Community Builder program. We intend to build on what has

worked, and carry forth the recommendations set out by Ernst and Young. Here are the five prongs of the plan:

Deploy HUD's first-ever on-line, real time project and management tracking system

- We are deploying a new on-line system to track and manage Community Builders' projects. Although HUD has systems currently in place to track all of the department's field activities, we have developed a new tool to help Community Builders with the management of their projects. This system enhances the Department's ability to monitor individual Community Builder activities and continually assess their performance and the program as a whole.

Enhance the role of Community Builders in making HUD run more efficiently and effectively

- We are enhancing the role of Community Builders in HUD's Business and Operating Plan. HUD has improved the Department's operations plan for fiscal year 2000 by further integrating Community Builder activities in the local, retail level business and operating plans and improving the accounting process at the national level. Using a new system enhancement, HUD is tying its field operations to goals and results achieved in measurable ways. Community Builders' contribution to the Department's goals will be clearly measured and more easily identified.

Give Community Builders more effective management tools

- We are continuing to enhance management training for our Senior Community Builders as part of our overall employee training. The Department will execute an aggressive plan to provide all Senior Community Builders with the necessary, comprehensive management training needed to successfully lead their offices to full attainment of their goals and objectives. HUD's Senior Community Builders are a critical component of our organization, and we intend to provide them the tools and support they need to be effective.

Hold Community Builders to the highest standard

- Community Builders will be thoroughly evaluated on their performance. The Department currently has a performance appraisal system in place. In addition to utilizing this existing system, the Department has developed additional standards and requirements for Community Builders Fellows, specifically designed to assess their performance in key areas. For example, Fellows will be rated on their performance as relationship managers for the Department – they are expected to enhance HUD’s relationships with customers in America’s many communities. We will ensure that Fellows will be held to high performance standards.

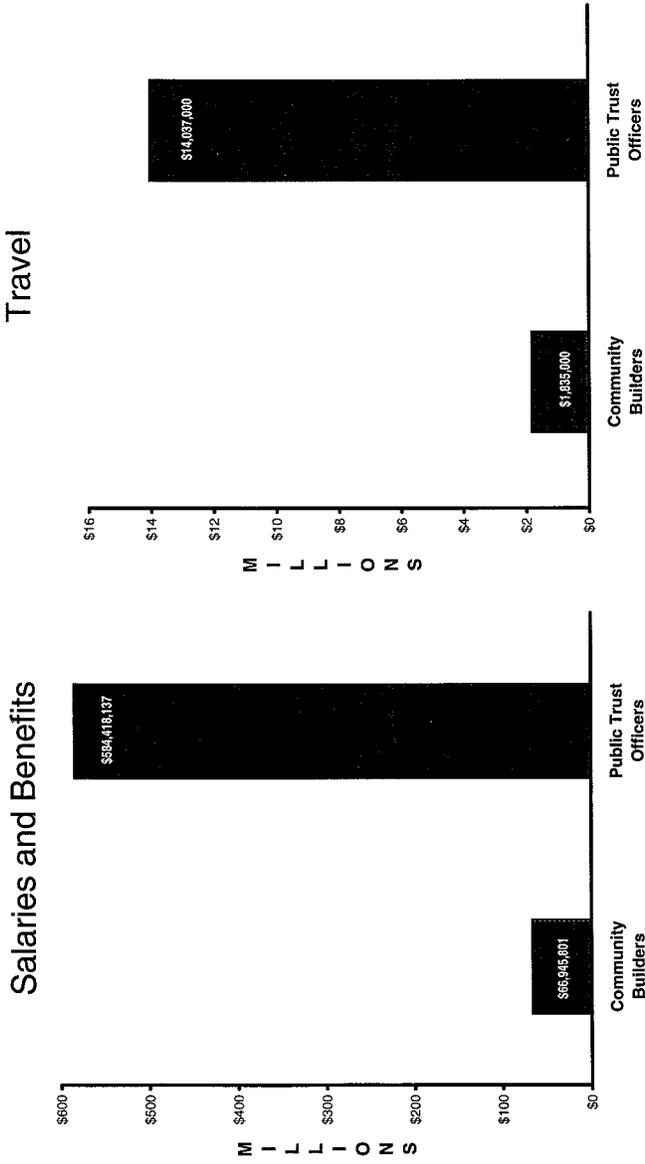
Fully utilize the full range of technology tools

- We will fully leverage HUD’s information technology systems. The Department has made extensive use of information and communications technology systems for training staff. We will be executing a plan to more fully exploit the Department’s past investment in these systems for providing high quality training for Community Builders so that they may best carry out their duties in the field. We will also continue to enhance the technology available to CBs in performing their jobs. CBs already are equipped with laptops that serve as virtual offices and offer real-time information. That means we must continue to enhance our state of the art web-site, expand our Community 2020 software, offer on-line assistance, web-casting and other new avenues to reach underserved communities and support their local efforts.

Mr. Chairman, as you can see, we have a plan. It is a sound and positive plan with one goal in mind – to better serve American communities by working with them and responding to their needs. Community Builders help us to do that, and we are proud to have them as part of our workforce.

I thank you for the opportunity you have given me to share with you the successes of the Community Builders program. I look forward to answering any questions you may have for me.

**Department of Housing and Urban Development
Salaries and Benefits; Travel
FY 1999**



Customers Say CBs Are Working

MEMBERS OF CONGRESS

Senator Mark Baucus, Montana
 Senator Pete V. Domenici, New Mexico
 Senator Daniel K. Inouye, Hawaii
 Senator John D. Rockefeller, IV, WV
 Senator Rick Santorum, Pennsylvania
 Senator Paul S. Sarbanes, Maryland
 Senator John Kerry, Massachusetts
 Senator Mary Landrieu, Louisiana
 Senator Joseph Biden, Jr., Delaware
 Senator Charles E. Schumer, New York
 Senator Richard Bryan, Nevada
 Senator Evan Bayh, Indiana
 Senator Jack Reed, Rhode Island
 Senator Tim Johnson, South Dakota
 Senator Barbara Boxer, California
 Senator Patrick Leahy, Vermont
 Senator Christopher Dodd, Connecticut
 Senator Richard Durbin, Illinois
 Senator Edward M. Kennedy, MA
 Senator Robert G. Torricelli, New Jersey
 Senator John Edwards, North Carolina
 Senator Byron L. Dorgan, North Dakota
 Representative Bob Barr, Georgia
 Representative William L. Clay, Missouri
 Representative Elijah Cummings, MD
 Representative Calvin M. Dooley, CA
 Representative Chaka Fattah, PA
 Representative Jan Schakowsky, Illinois
 Representative Barney Frank, MA
 Representative Bob Goodlatte, Virginia
 Representative Baron P. Hill, Indiana
 Representative Dennis J. Kucinich, Ohio
 Representative Jerry Lewis, California
 Representative Nita M. Lowey, New York
 Representative Gregory W. Meeks, NY
 Representative George Miller, California
 Representative Solomon Ortiz, Texas
 Representative Jan Schakowsky, Illinois
 Representative Ronnie Shows, MI
 Representative Bennie G. Thompson, MI
 Representative Edolphus Towns, NY
 Representative Maxine Waters, California
 Representative Henry Waxman, CA

MAYORS

Jesse M. Norwood, Prichard, AL
 QUILTMAN Mitchell, Bessemer, AL
 Julian Price, Decatur, AL
 Forrest DeWitt, Saxman, AK
 Jim Dailey, Little Rock, AR
 Hubert Brodell, Jonesboro, AR
 Tommy Swaim, Jacksonville, AR
 Richard Marcus, Culver City, CA
 Victor P. Lopez, Orange Cover, CA
 Lori Holt Pfeiler, Escondido, CA
 Richard J. Riordan, Los Angeles, CA
 Ronald O. Loveridge, Riverside, CA
 Sam Arca, Guadalupe, CA
 Rosemary M. Corbin, Richmond, CA
 Jesse Ortiz, Arvin, CA
 Gary A. Podesto, Stockton, CA
 Ron Gonzales, San Jose, CA
 Jim Patterson, Fresno, CA
 Jerry Brown, Oakland, CA
 Willie Lewis Brown, Jr., San Francisco
 Dick Lyon, Oceanside, CA
 Susan Golding, San Diego, CA
 LaVern C. Nelson, Greeley, CO
 Joe Keck, Cortez, CO
 Wellington E. Webb, Denver, CO
 Corinne Koehler, Pueblo, CO
 Don L. Parsons, Northglenn, CO
 Nancy Heil, Westminster, CO
 Salina Silar Marriott, Maryland House of Delegate, MD

Janet Gehlhausen, Lamai, CO
 MaryLou Makepeace, Colorado Springs
 John DeStefano, Jr., New Haven, CT
 James H. Sills, Jr., Wilmington, DE
 David J. Fischer, St. Petersburg, FL
 Frank Scalf, Cave Spring, GA
 Bob Young, Augusta, GA
 Jim Marshall, Macon, GA
 Donald S. Walker, Warner Robins, GA
 Tommy Coleman, Albany, GA
 Bill Campbell, Atlanta, GA
 Stephen Yamashiro, County of Hawaii, HI
 James "Kimo" Apana, County of Maui, HI
 Maryanne Kusako, County of Kauai, HI
 Maxine Horn, Nampa, ID
 Charles K. Bebout, Muncie, IN
 Scott L. King, Gary, IN
 David J. Aubrey, Homer, LA
 Hayward D. McCormick, Vivian, LA
 Connie Youngblood, Colfax, LA
 John Landry, Village of Dry Pong, LA
 David J. Wooten, Cambridge, MD
 Dean L. Johnson, Annapolis, MD
 Thomas M. Menino, Boston, MA
 Thomas T. Lumis, Jr., Brockton, MA
 Eileen M. Donoghue, Lowell, MA
 Gerald S. Doyle, Pittsfield, MA
 Richard C. Howard, Malden, MA
 Francis H. Duethay, Cambridge, MA
 William F. Stanley, Waltham, MA
 Stanley J. Usovitz, Salem, MA
 Guy A. Santagata, Chelsea, MA
 Dorothy A. Kelly Gay, Somerville, MA
 Mary M. Carrier, Newburyport, MA
 Bruce H. Tobey, Gloucester, MA
 Mary L. Ford, Northampton, MA
 Mary H. Whitney, Fitchburg, MA
 Edward M. Lambert, Jr., Fall River, MA
 Robert G. Nunes, Taunton, MA
 Michael J. McGlynn, Medford, MA
 Michael J. Albano, Springfield, MA
 James A. Sheets, Quincy, MA
 Patricia A. Dowling, Lawrence, MA
 Joseph P. Ganim, Bridgeport, MA
 John H. Logie, Grand Rapids, MI
 Dennis W. Archer, Detroit, MI
 Gary L. Loster, Saginaw, MI
 Woodrow Stanley, Flint, MI
 Fred J. Neilsen, Muskegon, MI
 Harvey Johnson, Jr., Jackson, MS
 Clarence Harmon, St. Louis, MO
 Rondell Steward, Independence, MO
 Larry Stobbs, St. Joseph, MO
 Jeff Griffin, Reno, NV
 Kevin J. Phillips, Caliente, NV
 Walter G. Sanders, West Wendover, NV
 Michael A. Piroli, Bridgeton, NJ
 Larry A. Delgado, Santa Fe, NM
 John D. Spencer, Yonkers, NY
 Richard Scalera, Hudson, NY
 Kenneth D. Swan, Lockport, NY
 Ernest D. Davis, Mount Vernon, NY
 Clyde M. Rabideau, Jr., Plattsburgh, NY
 Gerald D. Jennings, Albany, NY
 Michael K. Stafford, Fulton, NY
 Albert P. Jarczyński, Schenectady, NY
 Mark P. Pattison, Troy, NY
 Roy A. Bernardi, Syracuse, NY
 William A. Johnson, Jr., Rochester, NY
 Anthony M. Masiello, Buffalo, NY
 Thomas R. Suozzi, Glen Cove, NY
 Terrence M. Hammill, Oswego, NY
 Carolyn S. Allen, Greensboro, NC
 Rebecca R. Smothers, High Point, NC
 Fred Wessels, Chairman, HUDZ

Bill Sorensen, Bismarck, ND
 Carol W. Erickson, Minot, NC
 Patricia A. Owens, Grand Forks, NC
 Roxanne Qualls, Cincinnati, OH
 Michael R. Turner, Dayton, OH
 Arthur M. Wallace, Lancaster, OH
 George M. McKelvey, Youngstown, OH
 M. Susan Savage, Tulsa, OK
 Vera Katz, Portland, OR
 Joseph J. Bendell, McKeesport, PA
 Tom Murphy, Pittsburgh, PA
 Thomas D. McGroarty, Wilkes-Barre, PA
 Dominic F. Pileggi, Chester, PA
 Charles H. Robertson, York, PA
 Joyce A. Savocchio, Erie, PA
 Charles W. Smithgall, Lancaster, PA
 Robert T. Price, Sharon, PA
 Kirk Watson, Austin, TX
 Jose A. Aranda, Jr., Eagle Pass, TX
 Windy Sitton, Lubbock, TX
 Dot Stafford, Pecos City, TX
 Roger "Bo" Quiroga, Galveston, TX
 Deedee Corradini, Salt Lake City, UT
 Geard Wright, West Valley City, UT
 Peter Clavelle, Burlington, VT
 Rosalyn R. Dance, Petersburg, VA
 Paul Schell, Seattle, WA
 Evelyn A. Robertson, Clendenin, WV
 John O. Norquist, Milwaukee, WI
 James W. "Tim" Monroe, Casper, WY
STATE GOVERNMENT OFFICIALS
 Geri Tebo, Bureau of Community and Health Services, AZ
 Sandra R. Kane, Assistant Attorney General, AZ
 Daniel R. Drake, Executive Assistant U.S. Attorney, AZ
 John L. Burton, Senate President pro Tempore, CA
 Martha Escutia, State Senator, CA
 Dorothy Rupert, State Senator, CO
 Rudolph "Rudy" Bradley, State House of Representatives, FL
 Susan Schaefer, Chief Judge, Circuit Court, FL
 Janice N. Takahashi, Department of Business, Economic Development & Tourism, HI
 Ronald S. Lim, Special Assistant to the Governor, HI
 Donald K. W. Lau, Department of Business, Economic Development & Tourism, HI
 Emil Jones Senate Minority Leader, IL
 Darlene Jeris, Executive Director, Finance Authority, IA
 James M. Moore, Assistant U.S. Attorney, District of Maine
 Gladys Oyola, Legislative Aide, State House of Representatives, MA
 Joyce Hankins, Legislative Assistant, State House of Representatives, MI
 Jeannine Robinson, Governor's Office for Children, Youth, and Families, MD
 Ron Roberts, San Diego County, CA
 Nan Morehead, City & County of Denver
 Allegra Haynes, City & County of Denver
 Susan Casey, City and County of Denver
 Debra Ortega, City & County of Denver
 Joyce Foster, City and County of Denver
 K. Mackenzie, City & County of Denver
 Thomas Gordon, New Castle County, DE
 Janet Owens, Anne Arundel County, MD
 Richard Sullivan, Colorado Spring, CO
 Jim Liles, Boulder County, CO

Customers Say CBs Are Working

Alice K. Wolf, State House of Representatives, MA
 Patrick C. Herlihy, Community Development Director, Office of State Planning, NH
 Velmanette Montgomery, New York State Senate, NY
 William A. McNeil, Department of Commerce, NC
 Dennis Wenner, Director, Mental Health Services, TN
 Ralph Becker, State House of Representatives, UT
 Richard E. Walker, Dept of Community and Economic Development, UT
 Rick Weiland, Regional Director, State/Federal Disaster Field Office, FEMA, UT
 Steve Emory, Deputy Federal Coordinating Officer, State/Federal Disaster Field Office, FEMA, UT
 Gwendolyn Moore, State Senator, WI

CITY GOVERNMENT OFFICIALS
 William A. Bell, Sr. Council President/Interim Mayor, Birmingham, AL
 Phil Gordon, Councilman, Phoenix, AZ
 Marie Lopez Rogers, Council Member, Avondale, AZ
 Margarita Reese, City Manager, El Mirage, AZ
 Mary E. Hoy, Assistant Town Manager, Guadalupe, AZ
 Robert R. Brown, Assistant City Administrator, Madera, CA
 Mike Hernandez, Council Member, Los Angeles, CA
 Randy Anstine, City Mgr, Greenfield, CA
 Nancy J. Nadel, Council Member, Oakland, CA
 Christine Kehoe, Council Member, San Diego, CA
 Nate Holden, Councilman, Los Angeles
 Byron Wear, Deputy Mayor, San Diego
 Jayne E. Crask, Management Assistant, Chino, CA
 Richard J. Ramirez, City Manager, Hemet, CA
 Christina M. Cuervo, Assistant City Manager, Miami Beach, FL
 John C. Yoshimura, Council Chair, Honolulu, HI
 Barry Fukunaga, Deputy Director, City and County of Honolulu, HI
 Leslie A. Hairston, Alderman, Chicago, IL
 Michael E. Harris, Budget Dir, Chicago IL
 Lorraine L. Dixon, Alderman, Chicago, IL
 Larry Ferdinand, Director, Department of Community Development, Shreveport, LA
 Jay Ash, Executive Director, Chelsea, MA
 Robert J. Duffy, Director, Brookline, MA
 Edward A. Handy, Director, Block Grants Office, Cambridge, MA
 Reed Phillips, City Manager, Saginaw, MI
 Gertrude A. Young, Mayor Pro Tem, Vicksburg, MS

Committee, St. Louis, MO
 Troy Nash, Councilman, Kansas City MO
 Mary Williams-Neal, Councilwoman, Kansas City, MO
 Paul J. Feiner, Town Supervisor, Greenburgh, NY
 C. Virginia Fields, Manhattan Borough President, NY
 Angel Rodriguez, Councilman, 38th Council District, NY
 Ronnie Eldridge, Council Member, City of New York, NY
 Terry R. Seeley, Supervisor, Fort Edward, NY
 Janette Pfeiff, Supervisor, Seneca Falls, NY
 Robert Hill, Jr., City Commissioner, Middletown, OH
 Charleta B. Tavares, City Council, Columbus, OH
 Matthew J. Kridler, City Manager, Springfield, OH
 Diana Rivera-O'Bryant, Executive Director, Reading, PA
 Homer G. Pendleton, President, Ford City Borough, PA
 Michael A. Nutter, City Council, Philadelphia, PA
 Eva Gladstein, Mayor's Office of Community Service, Philadelphia, PA
 Kevin A. Feeley, Deputy Mayor for Communications, Philadelphia, PA
 John Ward, City Manager, Amarillo, TX
 Mary Collier, City Secretary, Jayton, TX
 Kenneth Neal, City Manager, Pecos, TX
 James D. Ritchie, Acting City Manager, Roanoke, VA
 Rowland Taylor, City Mgr, Franklin, VA
 Donald Hines, Asst Director, Economic Development Department, Tacoma, WA
 Frederick G. Gordon, Alderman, Milwaukee, WI

COUNTY GOVERNMENT OFFICIALS
 Annette Rose, Marin County, CA
 Diane M. Lovell, North County, CA
 Susan Reynolds, North County, CA
 Edward Baker Jr, San Diego County, CA
 Mary Lobo-Dorsey, Hartford County, MD
 Buzz Westfall, St. Louis County, MO
 Robert A. Anaya, Santa Fe County, NM
 Thomas Makowski, Luzerne County, PA
 Joe Corcoran, Lackawanna County, PA
 Ray A. Alberigi, Lackawanna County, PA
 John Senio, Lackawanna County, PA
 Robert Eckels, Judge, Harris County, TX
 Glen H. Burton, Weber County, UT
 Margary Hite, Snohomish County, WA

HOUSING AUTHORITIES
 George J. Moylan, San Louis Obispo, CA
 Tia M. Ingram, Richmond, CA
 Robert G. Pearson, Santa Barbara, CA
 Andrea Roark, Imperial Valley, CA
 Christine Richard, Madera, CA
 Mike Flo, Northern California-Nevada Executive Directors Association, CA

Jack Quinn, Pueblo, CO
 Norleen Norden, State of Colorado, CO
 Salvatore Carpio, Jr., Denver, CO
 David Carler, Eagle County, CO
 Elaina Beeman, Rome, GA
 Steve Bennett, Rome, GA
 Lonnie Napier, Sylvester, GA
 Charles Alexander, Warner Robins and County of Houston, GA
 A. Thomas-Coooley, Cartersville, GA
 Jill Dickerson, Central Iowa, IA
 John R. Daly, Jr., Malden, MA
 Thomas K. Lynch, Barnstable, MA
 Raymond P. Murphy, Jr. Holyoke, MA
 Richard J. Sergi, Brockton, MA
 Raymond B. Asselin, Springfield, MA
 Brian M. Cloonan, Brookline, MA
 Robert H. Murray, Falmouth, MA
 Joseph S. Finnerty, New Bedford, MA
 Richard J. Viveiros, Fall River, MA
 James L. Milinazzo, Lowell, MA
 Roland C. Moussally, Weymouth, MA
 James P. Lynch, Chicopee, MA
 David Green, Michigan State, MI
 Gary Heidel, Michigan State, MI
 Victoria M. Shipley, Minneapolis, MN
 Dallas J. Parks, Kansas City, MO
 Bobby K. Henry, Sikeston, MO
 Thomas P. Costello, St. Louis, MO
 Neil Molloy, St. Louis County, MO
 Dean J. Christon, Manchester, NH
 Timothy J. Connors, Portsmouth, NH
 Robert Pacheco, Tucumcari, NM
 Karl Van Asselt, Rochester, NY
 Paul A. Dellinger, Allen Metropolitan, Lima, OH
 Roy E. Hancock, Tulsa, OK
 Ronald S. Jackson, Montgomery County, PA
 Clark E. Raberold, Allentown, PA
 Daniel J. Kanuch, Johnston, PA
 Perry O'Malley, County of Butler, PA
 Stephen J. O'Rourke, Providence, RI
 Timothy J. White, West Memphis, TN
 Melvin L. Brazziel, San Antonio, TX
 Alejandro G. Coronado, Cameron County, TX
 Betty Taft, Levelland, TX
 Blas Cantu, Jr., Harlingen, TX
 Barbara Holston, Fort Worth, TX
 Roberto Alvarado, El Paso, TX
 Gary T. Moore, Waco, TX
 Sharon Strain, Galveston, TX
 Quincy White, Lubbock, TX
 Clarissa E. McAdoo, Suffolk, VA
 John E. Black, Norton, VA
 Norman S. McLoughlin, Assn. of Washington Housing Authorities, Silverdale, WA
 Christina M. Pegg, Longview, WA
 Tony G. Bazzie, Raleigh County, WV
 Ricardo Diaz, Milwaukee, WI
 John Galeotos, Cheyenne, WY
 Maurice Dawson, San Mateo County, CA

What Independent Experts Say

Public Strategies Group and Booz-Allen & Hamilton, 1998:

“At its core, the thrust of this plan is not a downsizing of employees but a serious fundamental rethinking and reorganizing of the way HUD does business – a serious and sweeping reinvention plan that could not only radically and permanently alter and improve HUD operations and culture, but could hold lessons for other large-scale reinvention efforts in both the public and private sector.”

“The greatest strength of HUD 2020 is that it achieves a mission clarity that many public organizations fail to achieve.”

“Taken as a whole, the HUD 2020 Management Reform Plan, as it is being implemented today represents one of the most ambitious, fundamental, and exciting reinvention plans in the recent history of the federal government.”

“Community Builders represent the first significant infusion of new talent at HUD in a decade and could be the prototype for a new type of public servant in the 21st century.”

“In our opinion, if HUD continues going down the road it is going today...the agency that was a symbol for government scandal in the 1980’s could very well be a model for reinvention in the 1990’s. In the process, it could write one of the great reinvention stories of recent history.”

Ernst & Young LLP, 1999:

“We believe the Community Builder Program can prove to be a model of government management innovation and reinvention success.”

“The Community Builder program may serve as an innovative government model of improved customer service for government institutions at all levels.”

“The Community Builders have been very effective in bringing their private sector expertise to the public sector . . . proactive in identifying opportunities and areas of need within their communities. . . are very knowledgeable about HUD programs and non-HUD programs alike . . . and are professionally competent and well-respected figures in their communities.”

Senior Associate Dean for Executive Program Development, Harvard University Kennedy School of Government, 1999:

“Overall, the program holds considerable promise (not fully realized as it is still early) to make a distinctive contribution to community development in the US, helping local communities advance their development goals and contributing to more effective partnership between the federal government and those at the local level.”

Andersen Consulting, 1999:

“In striking contrast to the image of a federal bureaucracy, HUD’s staff is perceived by its customers as providing exemplary service, accurate information, and HUD staff also received high marks for timeliness of the information provided. The fact that HUD customers indicated high positive level of customer service is even more impressive because of the high disposition of government customers to negative bias (since, unlike private companies, HUD must regulate its customers.)

“To increase the benefits of the improvement of service delivery, HUD would be well served to continue its efforts to promote and support the Community Builder initiative, provide more resources to develop more thorough customer coverage, and provide structured CB goals to achieve positive business results.”

What people are saying about Community Builders

By developing the Community Builder and Public Trust Officer positions, which focus on community outreach and on compliance monitoring respectively, HUD has created a more efficient organizational structure. With staff collaborating in a more focused and defined manner, it makes for a more effective and responsive HUD. We have used this model in Austin to reorganize our own housing office. Mayor Kirk Watson, Austin Texas

San Francisco Community Builders have provided invaluable assistance to my office with my proposed legislation to eradicate race restrictive covenants in the State of California. John Burton, President Pro Tempore, California State Senate

I am very pleased to see the degree to which Community Builders in the Boston HUD office have been involved with the City. Thomas M. Menino, Mayor of Boston

The Community Builder concept is truly an innovation in government. I applaud HUD for the development and implementation of this program and I urge the Congress to continue to fully implement this unique initiative. Michael Nutter, Philadelphia City Councilman

I hope you will...do everything in your power to see that the Community Builders initiative continues. Their absence would be a significant and senseless loss to citizens like myself who would otherwise flounder alone and risk failure in our attempt to grow and benefit ourselves and our communities. Yasmina Cadiz, President/CEO Punctillo Interiors, a small business owner in Chicago's Empowerment Zone

I wanted to take the opportunity to commend to you the expertise and assistance that Blair Lund, as a Community Builder has provided to the Greater Las Vegas Association of REALTORS for helping to develop a much stronger and, in my opinion unprecedented relationship between HUD and our industry group. William Thorne, Greater Las Vegas Association of Realtors

Over the past year, I have seen an increased level of partnership between HUD and the City and County. [The Community Builder program] exemplifies the federal-San Francisco partnership at its best and most successful. Willie Brown, Mayor, San Francisco

...the Storefront staff of HUD Community Builders, experienced with housing programs, combined with dedicated efforts to this community, complements the philosophy of serving those most in need of housing assistance with with programs that work, will be HUD's new legacy in New Mexico. Pete V. Domenici, U.S. Senator, New Mexico

In my opinion, previous local HUD personnel would not have been as successful in developing this type of interdisciplinary program (a mortgage "group" put together to develop standards and certification for the homebuyer, educator, mortgage broker, and mortgage banker). Clearly this program reflects the benefits of the community builder program...R.

Schmidt, PhD, UNLV Greenspun College of Urban Affairs

I write to you today to express my deepest appreciation and strong support for the Community Builders program under HUD...we do not have the personnel capacity that other cities do...The Community Builders program has helped close the gap. John T. Yunits, Jr., Mayor, Brockton MA

2020's Community Builder program is a masterstroke and an empowerment tool for cities in its purest form. John Norquist, Mayor, City of Milwaukee

It has been my experience that the Community Builders Program has been an effective initiative by HUD because it invests in a single HUD employee, the authority and expertise to advise district congressional offices and their constituent communities on a department-wide variety of programs and topics. Members of my district staff inform me that community builders have provided my office with effective assistance on a number of different occasions within the past year. I consider the CB program to be an effective, value adding initiative, and I fully support it. Congressman Barney Frank, Massachusetts

I want to take this opportunity to make you aware of the outstanding service provided for my constituent...I commend CB Jones for the work performed for my constituent and for providing such wonderful service...thank you for your agency's exemplary assistance. Congressman Bob Goodlatte (5th District), Virginia, Assistant Majority Whip

The Community Builder program initiated by the Federal Department of HUD has added a new and valuable dimension to the relationship between local and federal governments. Lancaster and other local governments across the land face complex economic and social challenges. A growing corps of Community Builders across the country will be a powerful force for change, growth and self-empowerment for local governments and their constituents. Charles Smithgall, Mayor, City of Lancaster PA

...Your prompt and knowledgeable inquiries into the matter produced the desired information and restored Mr. Halbig's (my constituent) confidence in your agency...You have shown what an asset the Community Builders program is to Hoosier residents. Congressman Baron Hill (9th District), Indiana

Although I am very familiar with HUD's block grant and HOME program...there was virtually no other HUD presence in Milwaukee's neighborhoods until the Community Builder Fellows joined the Milwaukee HUD office last year. Frederick Gordon, Alderman, 7th District

Your Community Builder team has made a decided contribution to the well-being and general welfare of the city I love - - Baltimore. Salima Siler Marriott, Delegate, Maryland House of Delegates

Carol is a visionary whose continued leadership in our efforts to reduce the racial disparity in infant mortality is greatly needed. Jeannine Robinson, MPS, Director, Maryland Commission on Infant Mortality Prevention

I urge you to continue the Community Builders Program since it is a direct line approach to connecting resources with local needs. Christine Kehoe, Councilmember, San Diego

The Community Builders program is a new concept to those of us at the local government level. We have found the program and servicing community builders' staff to be a superb clearinghouse for a multitude of issues and information. Mayor Tommy Swaim, Jacksonville, Arkansas

She (the CB) is always so willing to be of assistance and go the extra mile...it is a pleasure to have someone who so promptly helps to get the problem solved. Senator Thad Cochran, Mississippi

The Community Builders initiative is exactly the kind of innovative thinking we need at HUD and exactly the way the federal government should be working as we move into the next century. Congressman John Conyers, Jr. (14th District), Michigan

The Community Builders Program has proven to be a great asset to the community. Congresswomen Corrine Brown (3rd District), Florida

Lori is doing an outstanding job and is pro-active in...keeping not only my staff, but the entire community informed of the many services you (HUD) have to offer. Congressman Bob Barr (7th District), Georgia

I was pleased to read your recent article in the Bangor Daily News about the efforts of HUD to crack down on housing discrimination...such efforts are helpful in educating both persons who have disabilities as well as those who construct, operate or lease housing in Maine. James Moore, Assistant U.S. Attorney, District of Maine in a letter to the Senior Community Builder for the state of Maine

The Storefront staff of HUD Community Builders, experienced with housing programs, combined with dedicated efforts to this community, compliments the philosophy of serving those most in need of housing

assistance with programs that work, will be HUD's new legacy in New Mexico. Senator Pete Domenici, New Mexico

We are glad to have found a community friend and partner as well as a Community Builder. Barb Feige, AIDS Program Coordinator, Jewish Healthcare Foundation

I am pleased to say that the Department of Housing and Urban Development has shown an increasing interest in working in collaboration with community and faith-based organizations. The Community Builders represent community change agents, and they focus on community and economic challenges facing our neighborhoods. [They] have helped the faith-based community to establish additional additional linkages with HUD and other federal agencies... [and] have greatly aided...in attaining a better understanding of HUD and its programs. I am optimistic about the notion that Community Builders could become the prototype for future public servants at HUD. Wallace Hartsfield, Minister, Metropolitan Missionary Baptist Church

...As we continue through the process, the (Comprehensive) Plan will incorporate many perspectives in the community. Your work has helped to give form to those perspectives. Mayor Rick Mystrom, Anchorage, Alaska

They (CBs) have helped me, as well as others in my office - - redevelopment, economic development, etc. - - grant applications, getting to the right person at HUD and other federal agencies, providing timely information from HUD, setting up meetings, introducing us to relevant contact people, both locally and nationally, developing new initiatives and researching development or program issues such as regulatory issues. Bonnie Contreras, administrator, Enterprise Community Program, San Diego, California

For those of us who have struggled over the years to encourage investment and revitalization in the central city, HUD has been a partner whose goods and services appear to be getting better. It would be unfortunate for the Community Builder program to be shut down in its infancy. Michael Morgan, President, Spirit of Milwaukee

Ms. Williams has brought a level of enthusiasm, commitment and an excellent skill in networking to this task. Through the efforts of Ms. Williams, the Department of Mental Health and Mental Retardation has developed a positive working relationship with HUD that is having a positive impact on the development of housing opportunities for the mentally ill. Elizabeth Rukeyser, Commissioner, Department of Mental Health and Mental Retardation; Nashville, Tennessee

Marie is helping crystallize the energies of several disparate agencies who have never before worked together to help achieve a goal that each agency shares - - safe, sound and affordable housing for persons with mental illness. W. Jeff Reynolds, Tennessee Housing Development Agency

I am a firm believer in HUD's Community Builder Program...It is critical that rural areas share in the resources available to more populated cities and communities. The Community Builder program takes an active role to incorporate HUD's programs into community building and economic development, but more importantly it also integrates other economic development agencies such as USDA-rural Development, the Economic Development Administration...CDFI and more. Max Baucus, U.S. Senator, Montana

My District Director, Field Staff and Legislative Staff all have come to rely on Community Builders as they respond to constituent concerns about housing and community development projects. The Community Builders in San Diego are making the federal government relevant to people in their everyday lives. They have my full support. Bob Filner, U.S. Congressman, CA

I found the (CB) to be passionate about her work and persistent in her building of relationships within the community. Dr. Sharon Shields, Vanderbilt University Faculty

...He (the CB) played precisely the sort of Ombudsman role that we all hoped HUD's Community Builders would play when the program was originally created. He carried information and concerns back and forth between HUD headquarters and the grassroots. He listened and advocated for us without ever losing sight of his responsibilities and his limits as a HUD employee. He stood in our corner - - and in HUD's corner - - at one and the same time. John Davis, Partner, Burlington Associates in Community Development

Our Community Builders are familiar with the area, understand local initiatives, and are available to provide assistance, support, and quick answers to difficult questions. The City staff is very supportive of the Community Builders program because of the convenience of a single contact. David J. Fischer, Mayor, St. Petersburg

...we also applaud the vision and wisdom in the creation of the Community Builders Program and how it has made the Department more visible and assessable to the citizens of Atlanta. The Community Builders have enabled more people to take part in the decision making process at the local level. Bill Campbell, Mayor, Atlanta

These Community Builders' presence at Waco community projects have helped to promote partnerships between the Waco Housing Authority and the City of Waco. They have recommended that the Housing Authority be included in any meeting involving city housing issues and as a result, the City of Waco recognizes the Housing Authority as an important partner in the revitalization of our city. Gary Moore, President, Texas Chapter of NAHRO

The Buffalo Community Builders have been there to transmit information, offer suggestions, and make vital assistance available to steer our initiatives. Literally every dealing we've had with HUD since the inception of the Community Builder program has improved because of the "one-stop shopping we can now use in seeking information and assistance. Mayor Anthony Masiello, Buffalo, New York

This program has brought to our community much-needed technical field representatives with knowledge and experience in community planning and development. I have found their work to be invaluable, particularly in light of the fact that we are a small city with large plans and a limited budget. Mayor Thomas Suozi, Glen Cove, New York

Whether it be providing technical assistance with RFPs, connecting people and organizations to community resources, providing training and education on HUD programs to owners and managers, supporting preservation efforts, developing partnering relationships, supporting industry projects such as Fair Housing Best Practices or Neighborhood Networks - - the Community Builders have proven themselves as both highly capable and committed individuals. Joseph Diehl, Executive Director, Affordable Housing Management Association

Many people expressed skepticism about the idea of creating the Community Builder position, and I include myself among them. Martha truly exemplifies the intent and value of this position. Christina M. Pegg, Executive Director, Longview Housing Authority

The Community Builders...have been instrumental in assuring that all potential applicants for Super NOFA funding are informed and afforded guidance on how to apply. I have been informed by my staff that a key component of HUD, the Community Builder, is under attack...I certainly hope that you can add my voice to many others from Seattle about the worthiness of the program. Paul Schell, Mayor, City of Seattle

I urge you to continue the Community Builders Program since it is a direct line approach to connecting resources with local needs. Christine Kehoe, Councilmember, San Diego



U. S. Department of Housing and Urban Development
Washington, D.C. 20410-0500

CE OF GENERAL COUNSEL

MEMORANDUM FOR: Andrew M. Cuomo, Secretary, S

FROM: Gail W. Laster, General Counsel, C

SUBJECT: Use of Schedule A Authority for External Hiring of
Community Builders

You have asked for a legal opinion as to whether the Department may externally hire individuals to fill positions in the Community Builders program under the Schedule A authority set forth in the recently published OPM regulation entitled "Fellowship and Similar Appointments in the Excepted Service," to be found at 5 C.F.R. Part 213. In my opinion, the Department may hire individuals from outside the Department to fill positions in the Community Builders program under the Schedule A authority of 5 C.F.R. §213.102(r).

The cited OPM regulation sets forth a class of positions within Schedule A of the Excepted Service. Schedule A of the Excepted Service is one of a number of schedules which authorizes agencies to hire persons who ordinarily will not become competitive service employees. Schedule A covers those positions for which it is impracticable to examine and which are not confidential or of a policy determining character, 5 C.F.R. §213.3101, such as interpreters and lawyers. The §213.102(r) class of positions covers non-permanent employment, such as fellowships, internships and similar programs. The class covers positions in programs that provide developmental work opportunities and learning experiences for individuals who have completed their education, or who are bringing specialized private sector experience to the agency. Based upon the many meetings that my staff have attended, it is clear that the Community Builders program is envisioned to provide the equivalent of an internship or fellowship in community building for those individuals graduating from universities with various levels of degrees and those in community positions who would subsequently teach, advise or return to the community at the end of the term at HUD. The Community Builder program, as it applies to external hires, would, therefore, fall squarely within the parameters of 5 C.F.R. §213.102(r).

My staff has also compared the potential staffing of external hires by temporary or term appointments as well as through Schedule A appointments under §213.102(r). The attached chart demonstrates the various differences. A salient difference among the three types of service is that temporary or term appointments require the Agency to give "preference" to current Federal employees (including any HUD employees) who have been notified that they are to be separated, and former Federal employees who have been separated, because of downsizing and reorganization activities, anywhere in the Executive Branch. This preference would militate against the purpose of the program, which is to provide internships or fellowships in community building for those individuals graduating from universities and those in community positions who would subsequently teach, advise or return to the community at the end of the term at HUD. Other differences are that temporary or term service would require the agency to consider candidates in "rank" order. Fellowships and internships are non-traditional employment situations which suggest less stringent selection criteria because the applicants come from targeted academic or professional disciplines or because of a candidate's interest in an agency's programs. See 62 Fed. Reg. 42943 (August 11, 1997).

Fellowship Appointments under Proposed Rule of 5 C.F.R. Part 213	1-Year Temporary Appointment	Term Appointments
<p>Hiring process: Positions are in the excepted service, thus competitive service administrative requirements would not be applicable.</p>	<p>Vacancies must be announced; Agencies must establish register and chose from the best qualified. If OPM register not used Agency must send public notice to OPM of openings.</p>	<p>Vacancies must be announced; Agencies must establish register and chose from the best qualified. If OPM register not used Agency must send public notice to OPM of openings.</p>
<p>Appointments: Appointments under this authority may be made for up to four years.</p>	<p><u>One year appointment</u>, which may be extended for <u>one additional year</u> only. Agency may not fill position by temporary appointment for more than 24 months within preceding three years.</p>	<p>Appointment for period of more than one year, but <u>not more than four</u> years.</p>
<p>Management retains the right to terminate the appointment during first 12 months.</p>	<p>Management retains the right to terminate the appointment at any time.</p>	<p>Management retains the right to terminate the appointment at any time during the first 12 months.</p>
<p>Veterans preference: Veterans preference applies but <u>OPM may exempt</u> agency from strict compliance.</p>		

<p>Non veterans: Termination of the appointment after the initial 24-month period and prior to the expiration date of the term must be for cause. Due process applies. Veterans: termination of appointment after the initial 12-month period must be for cause. Due process applies.</p>		<p>Non veterans: Termination of the appointment after the initial 24-month period and prior to the expiration date of the term must be for cause. Due process applies. Veterans: termination of appointment after the initial 12-month period must be for cause. Due process applies.</p>
<p>Competitive status: Candidates do not acquire competitive status on basis of appointment.</p>	<p>Candidates do not acquire competitive status on basis of temporary appointment.</p>	<p>Candidates do not acquire competitive status on basis of term appointment. Term ends automatically unless earlier terminated.</p>
<p>Current Government employees: Not Applicable.</p>	<p>Current Government employees with status would have to voluntarily relinquish their competitive status.</p>	<p>Current Government employees with status would have to voluntarily relinquish their competitive status.</p>
<p>Benefits: Candidates hired under this authority are eligible to participate in benefits programs.</p>	<p>Outside: Candidates from outside the Government not eligible to participate in health benefits, life insurance or retirement programs.</p>	<p>Candidates eligible to participate in health benefits, life insurance and retirement programs.</p>

	Inside Candidates from inside the Government are eligible if already have one year of current continuous service.	
--	---	--

	Inside Candidates from inside the Government are eligible if already have one year of current continuous service.	
--	---	--

A.J. De Marco
A.J. De Marco
12/18/97

WK 12/19
WCKing, CHP

SEHutchinson 12/19
SEHutchinson, CH

CHP:DeMarco:x5060 12/18/97

G. Weidenfeller



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D.C. 20410-3000

OFFICE OF THE ASSISTANT SECRETARY
FOR ADMINISTRATION

September 28, 1999

MEMORANDUM FOR: Saul N. Ramirez, Jr., Deputy Secretary, SD

FROM: Joseph Smith, General Deputy Assistant Secretary for
Administration, A

Gail W. Laster
Gail Laster, General Counsel, C

SUBJECT: Draft Report Regarding Community Builders

This memorandum addresses several administrative and legal issues regarding the hiring process as outlined in the Office of Inspector General's (OIG) Draft Report on Community Builders.

With respect to the Community Builder hiring process, the OIG was provided with the Staffing Guidance that outlined the process used for hiring Community Builders. The Staffing Guidance directed that "no political or non career employee of the Department serve as a selecting official; all selections will be made by senior-level career employee." This process was followed. Rating and ranking panels were set up to evaluate candidates. The Staffing Guidance further states that "All panel members shall be career employees of HUD." Community Builder Fellowship Program: Staffing Guidance (June 19, 1998). This process was followed. The OIG was informed of these directives and given a copy of the Staffing Guidance. Yet the Draft Report concludes that there was political control of the hiring process. We believe this conclusion is unsubstantiated and should be deleted from the Draft Report.

In addition, contrary to the allegations in the Draft Report, Schedule A authority under the Excepted Service was absolutely appropriate and permissible with respect to the hiring of Community Builders. The use of Schedule A hiring authority is also consistent with OPM regulations. OPM regulations set forth a class of positions within Schedule A of the Excepted Service. Schedule A of the Excepted Service is one of a number of schedules which authorizes agencies to hire persons who ordinarily will not become competitive service employees. Schedule A covers those positions for which it is impracticable to examine and which are not confidential or of a policy

determining character, 5 C.F.R. § 213.3101, such as interpreters and lawyers. The § 213.3102(r) class of positions covers non-permanent employment, such as fellowships, internships and similar programs. In addition, the class covers positions in programs that provide developmental work opportunities and learning experiences for individuals who have completed their education, or who are bringing specialized private sector experience to the agency. It is clear that the Community Builders program is envisioned to provide the equivalent of an internship or fellowship in community building for those individuals graduating from universities with various levels of degrees and those in community positions who would subsequently teach, advise or return to the community at the end of their employment with HUD. The Community Builder program, as it applies to external hires, therefore, falls squarely within the parameters of OPM regulations at 5 C.F.R. § 213.3102(r).

Additional points which should be noted include:

A. HUD's use of Schedule A hiring authority was appropriate and legal.

1. The Draft Report indicates that Schedule A was inappropriate for Community Builders because it did not create a "cross-fertilization" between the agency and the private sector. Draft Report at 17. However, the Draft Report fails to take into account that "cross-fertilization" is not required under OPM regulations. A "cross-fertilization" is merely 1 of 5 optional components of a fellowship program that is subject to Schedule A hiring authority. See 5 C.F.R. § 213.3102(r). Moreover, the Community Builder program does and will create the very "cross-fertilization" that is optional under the regulations. Community Builder Fellows will return to their communities across the nation following their tenure with HUD. Their experiences with the Department under the Community Builder program will undoubtedly enhance their future work and development when they leave HUD. The Draft Report seems to mistakenly equate these fellowships to an exchange program in which participants would return to their former employers. Fellowships, however, are fundamentally different. It was never contemplated that these individuals would return to the same employer. In fact, steps were taken to ensure that Community Builders had limited or no contact with their former employers to reduce the appearance of the loss of impartiality or preferential treatment consistent with HUD's Standards of Conduct requirements. (See 5 C.F.R. § 2635.502.) Instead, it was expected that they would go into many different areas and would carry their knowledge of

housing and community development issues into many walks of life. In addition, the agency faced a limited pool of applicants because it sought people with college degrees, strong qualifications and professional experience.

2. **Community Builders are not "policy-determining" positions.** The Merit Systems Protection Board has ruled that the term "policy-determining" in this context is "a shorthand way of describing positions to be filled by political appointees." Special Counsel v. Peace Corps, 31 M.S.P.R. 231, MSPB, July 11, 1986. Community Builders are not political appointees. Community Builder were hired by career - not political - employees. Moreover, the position descriptions developed for Community Builders indicate that they "**explain** Departmental policies, program requirements and funding criteria." None of these are "policy-determinant" functions. These functions, similarly, are performed by Public Trust Officers in various HUD program offices. These individuals are not considered political appointees nor are they in policy determinant positions. The Draft Report refers to only a single use of the word "policy" in the Community Builder position description. Even this single mention makes clear that the Community Builder merely coordinates with Public Trust Officers to help resolve policy and regulatory issues. This does not indicate that Community Builders determine the policy of the agency any more than it indicates that Public Trust Officers determine policy. Therefore, the Draft Report is erroneous with respect to this requirement.
3. **Use of Schedule A was appropriate because the use of "the qualification standards and requirements established for the competitive service" was not practicable.** 5 C.F.R. §213.3101. OPM guidance clearly supports the impracticality of competitive staffing for programs like Community Builders. "OPM finds that it is impracticable to examine for fellowship and similar programs because they represent non-traditional employment situations." 62 Fed. Reg. 42943 (1997). HUD needed to construct a hiring process with sufficient rigor to meet the purposes of the Community Builder program and utilized Schedule A authority for precisely that reason. The Community Builder program was a new initiative. Therefore, in order to identify and select qualified Community Builder applicants that would bring specialized private sector and learning experiences, HUD used a Schedule A hiring authority in a manner that incorporated merit staffing principles. The process was not governed by competitive staffing regulations. The process included reviewing applicants for minimum qualifications, a Human Resources screening score, a score from a panel of civil servants

and an interview score prior to placing applicants on a best qualified list. Merit staffing only includes a review for minimum qualifications and a final score - interviews are only granted to those on the resulting best qualified list.

B. There were no irregularities in the hiring process.

The Draft Report concludes that the Department did not properly apply veterans preference and the rule of three. We want to emphasize that in hiring Community Builders, veterans preference was applied. In addition, neither example cited in OIG's Draft Report constitutes a violation of the rule of three. The report itself notes that a veteran was on the best qualified list and that individual was selected for a Community Builder position. This is consistent with the rule of three. It should be noted further that:

1. HUD applied veterans preference consistent with relevant regulations and OPM guidance. The regulations for Schedule A authority found in 5 C.F.R. § 302.3101(c) state "... each agency shall follow the principle of veteran preference as far as administratively feasible." Therefore, even if veterans preference could have been applied in a different way, there was no irregularity in the hiring process as concluded by the OIG's Draft Report. In light of applicable regulations, HUD applied veterans preference as follows:
 - Human Resources evaluated all applications to determine minimally qualified applicants. Minimally qualified applicants were further evaluated against an established criteria and assigned a score to determine highly qualified candidates.
 - Veteran applicants who were determined to be minimally qualified were evaluated against this same established criteria and assigned a score. However, additional points were added to their scores based on their veteran preference status (i.e., 10 points for disabled veterans; 10 points for recipients of Purple Heart; 10 points for widow/widower or mother of a deceased veteran; 10 points for spouse or mother of a disabled veteran. 5 points were awarded to all other veterans eligible for preference.) This is consistent with relevant authorities regarding the application of veterans preference. See 5 U.S.C. § 2108 (1999).

The Draft Report identified only two complaints relating to veteran status. In light of the fact that HUD received over 8,000 applications for its first announcement for external hires of Community Builders and

eventually hired over 400 individuals for these positions, the Department should be commended on its application of the veterans preference. The extremely low ratio of complaints provides strong evidence that the process was implemented in a fair and professional manner.

The Report also indicates that the selection process "spawned several equal employment opportunity complaints." Draft Report at 16. The significance of this remark is unclear - every office within the Department including the OIG receives equal employment opportunity complaints. The receipt of the single complaint included in OIG's Draft Report should in no way be construed to mean that the hiring process was flawed or replete with irregularities. We recommend that the OIG reconsider including this information in its final report.

2. The Draft Report does not make a proper application of the rule of three with respect to the Community Builder hiring process. HUD followed appropriate procedures in rating and selecting Community Builders. OIG's Report does not cite any specific regulatory or statutory violations of the rule of three. The examples used in the Draft Report are not indicative of violations of the rule of three. It is equally important to note that the written instructions to panel members required that each application be carefully reviewed for any indication that the candidate is a veteran and that veterans preference points be conveyed on the Candidacy Evaluation Sheet to each candidate who is a veteran.

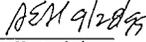
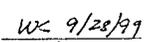
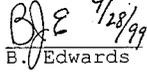
The Department's hiring process for Community Builders followed relevant requirements. It was implemented after several meetings with OPM and was consistent with applicable regulations and authorities. We recommend that the Draft Report be revised to accurately reflect the hiring processes used to implement the Community Builder program. We stand behind the Community Builder hiring process and hope that our concerns will be communicated to the OIG.

Concurrences:

MEMORANDUM FOR: Saul N. Ramirez, Jr., Deputy Secretary, SD

FROM: Joseph Smith, General Deputy Assistant Secretary for
Administration, A
Gail Laster, General Counsel, C

SUBJECT: Draft Report Regarding Community Builders

 9/28/99  9/28/99  9/28/99  9/28/99
K. Simpson S. Hutchinson W. King E. Edwards

Mr. MICA. Your testimony stated that the only organization that has criticized the Community Builders is the OIG. I would imagine that Ms. Federoff represents—who is representative our civil servants, maybe AFGC has a different opinion. I think she stated some of that here.

There was concern about the selection process. There is concern when you have someone with no supervisory responsibility, limited duties as far as oversight of financial obligations and things of that sort, major consequences being at a substantially different pay grade. That sounds inequitable. So, I think other than the OIG, and I did cite the U.S. Senate, I guess that could be referred to as an organization, although sometimes it is a bit disorganized, has been very critical.

Ms. Federoff, we are now sort of institutionalizing the Community Builders. If we were to properly do that in your estimation, how would we proceed?

Ms. FEDEROFF. Well, I believe that, in fact, there is a role to play by Community Builders. However, I think it would be a smaller cadre of staff that would be more appropriately graded to reflect the duties that they are doing and put them on par with other employees within the Department.

I believe that one of the largest problems with this program is the large numbers of temporary employees at very high-grade levels that causes a significant morale problem.

Mr. MICA. Well, that is one of the inequities I pointed out that you had mentioned. We have this in place—Congress wants it changed, and I am sure that there has been some good to come out of the program. The problem we have now is we have a lot of these folks in high-paying positions selected on a different basis.

Mr. RAMIREZ. May I address that?

Mr. MICA. In fact, I was going to ask you a question about it.

Mr. RAMIREZ. Yes.

Mr. MICA. As we make this transition, how are the employees or employees' groups going to have a say in how this is organized? It was my understanding that OPM uses civil servants to help in the selection process. Is that correct?

Mr. RAMIREZ. No. All of the hiring was done by HUD civil servants for the external Community Builders. If I may, the total number is almost even between career Community Builders and fellows at this time. There are a few more fellows than there are career.

Mr. MICA. So you are going to fire all the fellows?

Mr. RAMIREZ. No. What we are going to do, sir, is we are—as term employees are subject to, and we have had other types of term employees employed by the Department that are subject to limited tenure—let me just state a couple of points.

First off, we went into this reform with the national representatives as well as locals into 2020 reform, which included Community Builders, at the onset of this. We have kept that dialog current with our national representative and also met with the local presidents. I was sorry to miss Ms. Federoff.

Mr. MICA. How would you propose to bring the pay schedule in to some—

Mr. RAMIREZ. I was going to get to that point. I would like to state this for the record, that if you take the Grades 13s, 14s and

15s on the career side of Community Builders and the fellow side, that, in fact, the career Community Builders average more than \$5,000 in their salary than the fellows, if you take out—if you take the average of salaries between those grades. What we are proposing to do is, again, based on the formula for need and other activities within a jurisdiction, allocate those fellows accordingly.

I would like to also add that we did follow the veterans' preference in contrast to what has been stated by the OIG, and would say that, in fact, the Neighborhood Next Door, a fellow that was alluded to by Ms. Federoff as well as the other two are veterans that were hired by the Department. So there have been a lot of items that have been stated that have not been thoroughly reviewed or investigated or have not had the kind of objectivity that we would like to place forth as we move forward in meeting Congress's wishes to make sure that we address the deficiencies that we have as a department, Mr. Chairman.

Mr. MICA. Ms. Federoff, again, back to the question of how do we achieve some new equity as far as pay, what would be your recommendation? We talked a little bit about positions, about getting the pay schedule in order. How do we solve something like that now that we have gotten ourselves into this?

Ms. FEDEROFF. This is a very uncomfortable position for a union representative to be in.

Mr. MICA. Well, you know, the Federal employees have a lot at stake. There are 90 percent of your folks that are living by a different set of rules and regulations. Congress—

Mr. RAMIREZ. That is not so, sir. They were all hired under the same standards that are applied to higher public trust officers and by civil servants. They were the same rules and same regulations, and the compensation that they received was based on the analysis that the Federal Government provides to hire new outside hires into the Federal Government as well as position descriptions and responsibilities that they assume.

Mr. MICA. Well, Ms. Federoff doesn't seem to agree entirely with that. Maybe you would like to comment.

Ms. FEDEROFF. Well, it is interesting that in the Inspector General's report the Inspector General does quote, I believe, yourself as saying that much of the work being done by Community Builders now is work that had been done for at least 6 years previously by our CPD staff. The journey level for our CPD staff is a Grade 125.

Now, what is particularly infuriating for our staff is that the very best work, quite frankly the "funnest" work that we do, which is customer relations, was taken away from us, and we were told, no, now all you are going to do is be enforcers. I didn't come to work for the United States in order to be an enforcer. I came to work with customers, to find a way to get them the product that they deserve. And now to be told that the very best work I do will be given to another employee at a Grade 13, 14, 15, and I will be relegated to doing nothing but enforcement actions is—quite frankly, insulting.

Mr. MICA. She is not a happy camper.

I do want to give the gentleman a chance.

Mr. RAMIREZ. Real quickly. She sells herself short to say she would be just a regulator. She brings a technical expertise and the program experience that is necessary to deliver that product.

And I would like to say two more things real quickly. First off, all HUD employees had an opportunity to apply for Community Builder positions. No one was excluded. So if they chose to want to do that, they could have applied for those positions.

Second, I will note that even after the first year of implementation, that as a result of having our public trust officers concentrate 100 percent of their efforts to, yes, compliance and monitoring, which is a statutory requirement, as well as facilitating program expertise, that in particular those activities that community development workers or staffers were doing, we have actually increased our numbers. We have been able to show that in our Home Household Program, for example, we went from, in 1998 where we serviced 75,323 homes to, in 1999, 90,958. We also went out there and increased, in this particular line of work, new community partnerships. We went from a goal of 300 to 609 that were created as a result of that. We believe that in addition to that, community consultations were almost doubled as a result of now having a true bifurcation of responsibilities that allows for the technical expertise, the compliance and monitoring effort be focused 100 percent, and the Community Builders be the contact for the general information-gathering and dissemination of what the Department does.

I would like to finish by saying that as a mayor for over 8 years, one of the most difficult things I had to contend with, as mayor in dealing with HUD, was that I had a community development representative come in 1 week, an FHA representative coming the following week, and intermittently nobody knew that each other was down there, and I needed both of those to make projects work in a comprehensive way. That is what we are trying to get to with this particular program of Community Builders.

Mr. MICA. Thank you.

I will yield to Mr. Tierney, the gentleman from Massachusetts.

Mr. TIERNEY. Thank you, Mr. Chairman.

Mr. Beard, you have been getting off scot-free here, so I want to talk to you for a second.

I understand what the Under Secretary is saying, and I understand what Ms. Federoff is saying, but I guess the question I would have is coming from Boston, where we have gone from an office of about 322 employees down to about 237, that is about a 26 percent whack there, at a time when Congress is mandating certain programs to be operated and adding some, such as the McKinney program, what does your office say about the appropriateness of instituting a new public relations type of effort, one, I think, that we are going to have trouble servicing the mandates that Congress has put on for programs?

Mr. BEARD. This is the point that we are making. HUD's resources are shrinking. The Inspector General has consistently taken the position that HUD does not have sufficient people to do the work outlined for it to do now, and as this number is shrinking, what has happened is HUD has taken a large chunk of people away from what its primary functions are to do this customer service, public relations function.

This is one of the points that we are making. It can't afford to do this, because it is being asked to do so much more. It has so many more programs. Its monitoring and enforcement functions are extremely important, and they don't have the resources to do that.

Mr. TIERNEY. Now, if we give the Under Secretary credit at least for the fact that there is some obvious legitimacy to having some outreach to communities and coordinating HUD's efforts so that mayors and other local officials don't go around, what is the recommended way of dealing with all of the enforcement and monitoring provisions and using resources to also take care of those issues; and is the Under Secretary's argument that you can't do both from the same position because it is a conflict which is going to compromise your position relevant in your view?

Mr. BEARD. It is not relevant, in my view. As a matter of fact, the one individual that that has really settled on is the Secretary's representative. They still play both an enforcement and outreach function.

HUD has always had an outreach function. It has always been there with the Secretary's representatives. It has always been there with the office managers and State coordinators. They have different titles, but there have always been contacts from mayors, towns, executive directors to come to one person to ask their questions and get the answers that they need.

So I don't think it is a function that we dismiss, it is an important function. But our point is the scale that this particular Community Builder position has been built to has taken away too much from the other things that HUD is supposed to be doing.

Mr. TIERNEY. Ms. Federoff, the employees, the ones that are left with the idea of monitoring in that position, they must now feel overwhelmed with what is left to them in terms of the fact that they have fewer flows, particularly in the Boston office, have all of those responsibilities, and they have another group of about 16, I think it is, in the Boston office come in, and their job doesn't expend any funds, they are just out there, as you say, having the fun end of the job. I am sure they serve a purpose, but what effect does this have on employees?

Ms. FEDEROFF. I know that when I was provided an opportunity to testify before this subcommittee, I sent a message out to our local executive board, our stewards and our alternate stewards and asked them should I, in fact, testify, and I got back a resounding yes, and I was told emphatically that I was to stress the morale issue on Community Builders, that that was our membership's top priority, although, quite frankly, I am more exercised over contracting out. But yes, our employees are very concerned about this program.

Mr. TIERNEY. Well, the contracting out issue, I guess, is one that we are not going to get into today, although I would love to both on the other issue and this issue. It seems to me that is one direction where some in the majority have been going, and I think this is just one more example of how that is a failed policy and a bad idea. Maybe we could talk about the IG report or the agency's plan to contract out Section 8 and talk about how there is about \$38

million missing in that operation that we could have probably saved by keeping it in-house and work on that basis.

So I guess I just want to go on record as saying that I think that we should probably do a lot better in terms of morale, we should probably do a lot better in terms of getting this function served within our existing staff, but not at the sacrifice to those programs that Congress has mandated.

Mr. RAMIREZ. May I address that? In our reorganization efforts, there have been a little less of an equal amount of public trust positions that were created and have been available to other employees, or all employees of HUD to actually apply for and still dedicate themselves to doing public trust work. It is not like we went out and only hired Community Builders. In this process we staffed up an enforcement center and a real estate assessment center that, by the way, for the first time has inspected our entire portfolio for physical and financial conditions.

And let me just state for the record that the downsizing of the Boston office was primarily due to the fact that we consolidated our underwriting activities into four centers around the country in our single-family operation, and as a result of that, we have now been able to show with unequivocal results that we went from 1,000,080 endorsements last year to over 1,291,000 endorsements.

All we have tried to do here in this reorganization and in the reform that was as a result of Congress coming out there and pointing out real weaknesses that we have had for over 10 years, since Ms. Federoff has been there, is that we are trying to address them in a real, bold, innovative and responsible way. We think we have been able to balance it. We think we have strengthened our public trust role. The numbers reflect it through the results of our business and operating plan, and the Community Builders are out there facilitating programs to underserved areas and touching communities that have not been touched in the past. We look forward, though, to working to further refine, strengthen, and move into the direction that Congress has so instructed us.

Mr. TIERNEY. I appreciate your comments, but I just as strongly want to urge you back that I think you can do better.

Mr. RAMIREZ. Absolutely.

Mr. TIERNEY. I am not nearly as sold on the success of this program as you are, and I think that in Boston alone, although you consolidated everything down to Hartford or whatever, you took those 90 positions away from Boston and filled them with 16 PR people, in my view that are not implementing programs, and I don't think that is such a hot break for the Boston and greater Boston area. So if you could take that message back to Mr. Cuomo, maybe we can do better.

Mr. RAMIREZ. I would be glad to, sir.

Mr. BEARD. Mr. Chairman, could I be allowed to just mention the irregularities in hiring?

Mr. MICA. Go right ahead, on Mr. Tierney's time.

Mr. BEARD. Page 143 of the report, I would like to draw your attention to a letter written by the Deputy Director of the Office of Human Resources in which she informs a 10-point disabled veteran that the selecting official at HUD was free to select any 3 of the 41 candidates listed for the Fort Worth job, and that is precisely

how HUD approached hiring people. They selected anybody they wanted to off of any list they were dealing with.

In our letter to Janice Lachance, the Director of OPM, this is what we listed that she should be looking into in terms of Schedule A and both hiring irregularities: HUD did not establish that it was facing a limited pool of applicants; it did not set up a plan for cross-fertilization to occur; intended the individuals hired with occupied policy-determined positions; conducted full examinations of the applicants when Schedule A anticipates examinations would be impractical; failed to establish the need for 460 temporary employees; advertised using a GS-13, 14, 15 career ladder; failed to determine needed skills; failed to determine needed grade levels; failed to mention veterans' preference in the advertisement; prepared one best qualified list for all applicants rather than three separate lists for each level advertised; failed to document or show how they determined a successful applicant's grade level; hired at grade levels higher than the Department's norm; hired Schedule A employees to perform functions previously performed by career staff without the required approval from OPM; ignored veterans' preference in the selection process; and ignored the prescribed selection process set forth in 5(c)FR302, which is essentially rule of 3.

Mr. RAMIREZ. Let me just comment on that. Before we moved on with our Schedule A authority as allowed by law, we had our human resource department craft it out. We had OPM's input in implementing the Schedule A, and I would like to note for the record that a current Assistant Counsel for the Office of the Inspector General, Mr. Anthony De Marco, was the one who crafted and signed off on the legal analysis on the Schedule A hiring authority and its appropriateness as it relates specifically to the external Community Builders.

Mr. MICA. Well, we seem to have some serious internal problems in the agency, making certain that the intent of Congress and also the law on regulations as we would like to see them fulfilled are, in fact, executed. I am very concerned about the veterans' preference matter. I worked for 4 years to try to make certain that our veterans have preference and are considered as having served in Federal employment, and we want them to have that recognition and consideration in the Federal jobs opportunities. So I am not a happy camper about that at all.

Mr. Tierney has expressed some of his concern. We want this to work. Certainly the agency has to resolve these things.

Mr. RAMIREZ. Let me just say that, again, we are of the opinion and do have the legal analysis and the record shows if someone would look at the process of how it was employed, and it is being looked at, veterans were hired, Mr. Chairman.

Mr. MICA. Again, there is something wrong, whether it was the previous panel or the IG's office, one arm of the IG's office doesn't know what the other end of the Department is doing; whether it is somebody checks off in your agency, it is still not as we intended it.

We also have contracted out, and it has been part of the new majority's intent, even the administration, the Vice President, what is it, reinventing government, wants to contract some of these things out. It wasn't our intent to contract out work to convicted felons

with bankruptcy histories. Something has gone askew in the process. So whether it is with the previous panel or this panel, we want this thing to work right.

I have some serious questions about home builders—I am sorry, Community Builders and HUD. Mr. Apgar works for you?

Mr. RAMIREZ. Yes.

Mr. MICA. He sent out a memo, and it is my understanding Community Builders are supposed to work with tenants and with individuals, whoever needs information. He sent out a memo on September 10th. We have a copy that says it has come to our attention that in their effort to provide responsive customer service, Community Builders in certain areas have misrepresented or overstepped their role in dealing with HUD's identified troubled family projects. He goes on to say, at no time is it proper for the Community Builder to schedule meetings, respond to or initiate contacts directly with an owner, owner's representative, owner's agent, the media, tenants, Members of Congress, or their staffs regarding a troubled multifamily project without the explicit prior agreement of the Director of the Multifamily Hub/Program Center and, where DEC is involved—I can read the rest of this memo, and we will make it a part of the record.

[The information referred to follows:]



ATTACHMENT 1
Page 1 of 2

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

SEP 10 1999

MEMORANDUM FOR: Secretary's Representatives
Senior Community Builders
Departmental Enforcement Center,
Headquarters Division Directors
Departmental Enforcement Center,
Satellite Office Directors
Multifamily Hub/ Program Center Directors
Property Disposition Center Directors
Headquarters Multifamily Office Directors

SUBJECT: Clarifying Community Builder Roles in Troubled FHA
Multifamily Housing Projects

In order for HUD to promptly and properly address troubled multifamily projects, it is essential that we act and speak with one voice, as "One HUD". As HUD is currently structured, the Office of Housing remains responsible for the asset management functions for these projects at all times. The Departmental Enforcement Center (DEC), working closely with Housing staff, is currently involved with several hundred of these projects.

It has come to our attention that in their effort to provide responsive customer service, Community Builders (CBs) in certain areas have misinterpreted or overstepped their role in dealing with HUD's identified troubled multifamily projects.

Handling these troubled multifamily projects must be a team effort at all times. To this end, it cannot be stressed too strongly that, prior to responding to any inquiries, issues, etc. regarding any multifamily project, the Community Builder MUST first consult with the Multifamily Hub/Program Center Director to determine whether it is a troubled MF project and how to respond. If Housing advises the CB that the DEC is involved in the troubled project, then Housing and the Community Builder must communicate with the appropriate DEC Satellite Office. These three organizations will jointly determine the response and the role of the Community Builder, if any, in addressing the issue. In highly sensitive cases (e.g. involving OGC or OIG), the CB may be advised to refrain from any communication, or will be limited to discussion of only very specific aspects of the case.

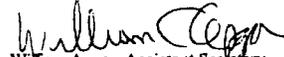
At no time is it proper for the Community Builder to schedule meetings, respond to or initiate contacts directly with an owner, owner's representative, owner's agent, the media, tenants, Members of Congress or their staffs, etc. regarding a troubled multifamily project without the explicit prior agreement of the Director of the Multifamily Hub/Program Center and, where the DEC is involved, the DEC Satellite Office Director. Keep in mind that any separate communications between the Community Builders and any of these parties could compromise proposed or ongoing negotiations between the Departmental Enforcement Center and the owner. At all times, HUD must present itself to the public as speaking with one voice on troubled multifamily projects.

ATTACHMENT 1
Page 2 of 2

When a multifamily project has been referred to one of the Office of Housing's two Property Disposition (PD) Centers for foreclosure or taking over a project as mortgagee-in-possession or owner, responsibility for the property moves to the PD Center. In such cases, Community Builders remain an essential part of the HUD team, but will need to work closely and coordinate with the Director of the appropriate PD Center.

The policy outlined above must be adhered to immediately. More detailed guidance is being developed by a working group to be established by the Office of Housing, Departmental Enforcement Center, and the Office of Field Policy and Management.

If you have any questions, please contact Marc Harris, Office of Housing (202) 708-0614, ext. 2680; Jane Hildt, DEC Operations Division (202) 708-9395, ext. 3567 or Barry Riebman, Office of Field Policy and Management (202) 708-1123. Note that the Departmental Enforcement Center Satellite Offices are located in New York, Atlanta, Chicago, Fort Worth, and Los Angeles; the Property Disposition Centers are located in Atlanta and Fort Worth.


William Apgar, Assistant Secretary
for Housing/Federal Housing Commissioner


Edward J. Kraus, Director
Departmental Enforcement Center


Mary E. Madden, Assistant Deputy Secretary
for Field Policy and Management

Mr. MICA. But, you know, they have certain responsibilities to work with everyone. Here we have memos being sent out—

Mr. RAMIREZ. And I know you don't—and I am glad you are including the entire memo for the record, sir. But it also states that this is in regards to multifamily projects that are currently—

Mr. MICA. Right, current troubled multifamily projects.

Mr. RAMIREZ. That are currently being investigated by the Enforcement Center. Once it is in the Enforcement Center's hands, we are coordinating the troubled projects directly with the program manager for the site, as well as—and that is—that was the spirit of that memo as it was sent out, and I regret that Assistant Secretary Apgar is not here, but it was in direct response to projects that were being referred to the Enforcement Center, of which we have 500 nationwide right now.

Mr. MICA. Well, I have additional questions regarding this memo, other specific problems that have been brought to the attention of the subcommittee. Without objection, we will leave the record open for at least 3 weeks.

We will not have any further questions at this time. Unfortunately, we do have a vote pending, and it will be some time before we get back. So we will dismiss this panel and thank you for your cooperation.

There being no further business to come before the subcommittee at this time, this meeting is adjourned.

[Whereupon, at 12:30 p.m., the subcommittee was adjourned.]

[Additional information submitted for the hearing record follows:]



Issue Date September 30, 1999
Audit Case Number 99-PH-163-0002

TO: V. Stephen Carberry, Chief Procurement Officer, N

FROM: *David J. Niemiec*
David J. Niemiec, Acting District Inspector General for Audit, Mid-Atlantic,
3AGA

SUBJECT: Internal Audit
Follow-up Review of HUD Contracting

We have completed an internal audit of HUD's contracting activity. Our report contains four sections with recommendations requiring action by your office. The sections deal with the Contract Management Review Board, the cost analysis and evaluation of significant contracting actions, indefinite quantity contracts, along with contract monitoring and oversight.

Within 60 days please give us, for each recommendation in this report, a status report on: (1) the corrective action taken; (2) the proposed corrective action and the date to be completed; or (3) why action is considered unnecessary. Also, please furnish us copies of any correspondence or directives issued because of the audit.

We appreciate the cooperation of you and your staff during this audit. Should you or your staff have any questions, please contact Allen Leftwich, Assistant District Inspector General for Audit at (215) 656-3401.

Executive Summary

We performed an audit of the Department's contracting initiatives. Our objectives were to assess the affect of recent reform initiatives on the procurement process and to determine if the reform initiatives were providing adequate controls and safeguards against fraud, waste and abuse. The audit was undertaken to follow up on the corrective actions being taken in connection with the recommendations in our prior audit of HUD's contracting (97-PH-163-0001), dated September 1997. *File it*

The Department's reform initiatives have laid the groundwork for an effective acquisition process. It has hired a Chief Procurement Officer (CPO) and elevated the Office of Procurement and Contracts (OPC) to a level equivalent with program offices. Additionally, the CPO and his principal staff have implemented or are in the process of implementing reform initiatives that provide for: full time Government Technical Representatives (GTRs); GTR certification programs; a Contract Management Review Board (CMRB); financial and procurement system integration; and cyclical monitoring of program office GTRs.

Our review of the recently deployed HUD Procurement System (HPS) showed that substantial strides have been made in automating the Department's procurement data and establishing the necessary financial linkages to fully integrate HPS with HUD's core accounting system. Our analysis of HPS showed that the system was capable of providing detailed information for both headquarters and field office procurement actions and could track contract status from the advanced procurement planning stage through the request for contract services, solicitation, award, and post-award contract administration. Queries made through the system's standard reports module and its ad-hoc report generation tool showed that information was readily available and easily obtainable to assist day-to-day users and senior officials in managing procurement activity.

While the CPO's commitment to making the Department a model procurement agency is encouraging, we are not yet convinced that the Department's overall contracting attitudes and practices have changed significantly.

Our review disclosed HUD needs to improve its acquisition process by utilizing fully the new policies, procedures, and procurement structure it is implementing.

An important procurement reform initiative was the establishment of the CMRB to improve the planning, implementation, and monitoring of HUD procurement actions. However, the CMRB is not substantively involved in certain facets of the procurement process and, therefore, is unable to carry out its mission of ensuring HUD procurements represent the best values.

Executive Summary

We reviewed two significant contract actions which are expected to cost the Department about \$400 million annually. The contracts involve the privatization of functions previously performed in-house, i.e., the management and marketing of HUD owned single family properties and the administration of Section 8 contracts with owners of FHA insured multifamily properties. Contrary to what is recommended in OMB Circular A-76, the Department did not compare the costs or effectiveness of having HUD staff perform these functions with the associated costs of having contractors perform them. During its awarding of the management and marketing contract, the Department did not evaluate whether contractors had the capacity to carry out their responsibilities under the contract and now must deal with the inadequate performance of its largest contractor.

We reviewed multiple award indefinite quantity contracts (IQCs) and found some of the awards incorporated elements that would provide HUD with procurement flexibility and the benefits of an ongoing competitive environment, while others did not.

We reviewed recent procurement actions to determine if the certification program for GTRs was improving contract oversight and monitoring. While we found that some GTRs were reviewing contractor invoices and maintaining file documentation according to HUD guidelines, others were not maintaining adequate file documentation or even carrying out the most basic GTR responsibilities.

Recommendations

We are recommending that the Department and OPC: have the CMRB become more involved in the overall procurement process; fully evaluate a contractor's ability or capacity to perform prior to awarding any contracts; implement procedures to ensure IQC awards incorporate elements that provide the Department with flexibility, while providing the best value to the Department; and identify those GTRs who have developed comprehensive contract monitoring plans and create and distribute a model plan.

Substantial improvement is needed in HUD's commitment to improving the acquisition process.

The CPO has made progress in addressing the recommendations in our prior audit of HUD contracting. Additionally, OPC has implemented reform initiatives that provide a framework for substantially improving the acquisition process. However, as detailed throughout the four sections of this report, the procurement policies, procedures and framework that are being established need to be routinely followed and fully implemented at all levels in the Department.

We discussed the results of our review with the CPO's staff during the course of the audit and provided the CPO with a draft report for comment. We discussed the draft report with him at an exit conference on September 24, 1999. The CPO's complete written response is in Appendix D. Portions of the response have been incorporated or summarized throughout the body of this report.

Table of Contents

Management Memorandum	1
Executive Summary	iii
Introduction	1
Sections	
1 Contract Management Review Board (CMRB)	3
2 The Department's Cost Analysis and Evaluation of Significant Contracting Actions	9
3 Indefinite Quantity Contracts (IQCs)	19
4 Contract Monitoring and Oversight	23
Management Controls	29
Follow Up On Prior Audits	31
Appendices	
A IQC Reviews	33
B Individual Contract Actions	41

 Table of Contents

C	Office of the Chief Procurement Officer	45
D	Auditee Comments	47
E	Distribution	53

Abbreviations

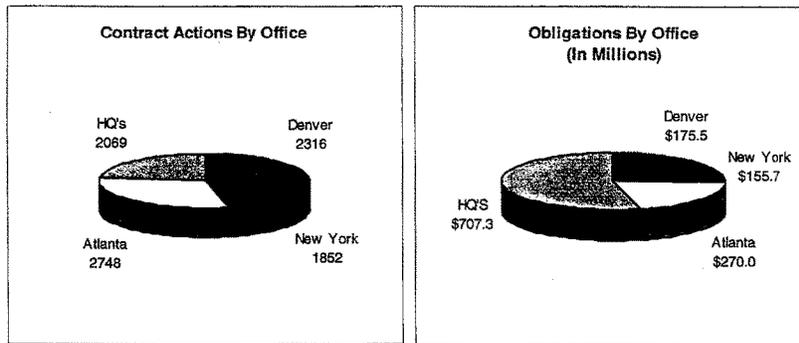
CFO	Chief Financial Officer	IT	Information Technology
CMRB	Contract Management Review Board	M&M	Management & Marketing
CPD	Community Planning and Development	NAPA	National Academy of Public Administration
CPO	Chief Procurement Officer	OIG	Office of Inspector General
EC	Enforcement Center	OMB	Office of Management and Budget
FAR	Federal Acquisition Regulation	OPC	Office of Procurement and Contracts
FTE	Full Time Equivalent	PD&R	Policy Development & Research
GNMA	Government National Mortgage Association	PIH	Public and Indian Housing
GTM	Government Technical Manager	REAC	Real Estate Assessment Center
HOC	Home Ownership Center	REAM	Real Estate Asset Manager
GTR	Government Technical Representative	RFP	Request for Proposals
HUD	Housing and Urban Development	RISC	Research Information Service Clearinghouse
IHA	Indian Housing Authority	TEP	Technical Evaluation Panel
IMG	Intown Management Group		
IQC	Indefinite Quantity Contract		

Introduction

The Office of the CPO was established in March 1998 as part of the HUD 2020 Management Reform Plan to serve as the focal point to reform, streamline, and improve HUD's procurement operations. It is headed by a CPO who reports to the Deputy Secretary. Its organizational structure is shown in Appendix C. The CPO serves as the Department's senior procurement executive and is responsible for the oversight and management of all departmental procurement activities.

OPC is responsible for procurement operations and policy. Headed by a director, it awards and administers all departmental procurement contracts and related agreements through its headquarters and field organizations.

Between October 1, 1997 and May 26, 1999, OPC initiated 8,985 contract actions and obligated \$1.3 billion, as illustrated below:



Audit Scope and Methodology

We performed an audit of the Department's contracting activities to assess the affect of recent reform initiatives on the procurement process and to determine if the reform initiatives were providing adequate controls and safeguards against fraud, waste and abuse in HUD's contracting activities. The audit was undertaken to follow up on the corrective actions being implemented on the recommendations in our prior audit of HUD's contracting (97-PH-163-0001). To achieve the audit objectives, we: (1) reviewed applicable regulations, policies, procedures, and guidelines; (2) interviewed staff from HUD and a contractor who had recently completed a procurement review at HUD; (3) reviewed a variety of contracting

Contract Management Review Board (CMRB)

Under the direction of the Chief Procurement Officer (CPO), the Office of Procurement and Contracts (OPC) has taken a number of steps to address the recommendations in our prior contracting audit (97-PH-163-0001). One significant step involved establishing a Contract Management Review Board (CMRB) to improve the Department's overall procurement efforts encompassing the planning, implementation, and monitoring of HUD procurements.

The CMRB's primary mission is to ensure that procurement needs:

- Are well defined and appropriately justified;
- Meet the critical needs of HUD;
- Have sufficient staff resources devoted to achieve desired cost, schedule and performance outcomes.

While the CMRB has successfully obtained program office cooperation in submitting strategic plans that identify and value anticipated procurement actions, its lack of involvement has limited its success in other aspects of contract administration. Its only significant involvement in procurement actions comes during the planning stage, when procurement plans are described conceptually, but lack the detail and information that is available when task orders are being processed for award. Without being involved in all facets of the procurement process, the CMRB will not be able to effectively carry out its mission.

Background

The CMRB was established in September 1998 to improve the planning, implementation, and monitoring of HUD procurements. Under its procedures, program offices whose total procurement obligations are expected to be more than \$1 million during a fiscal year are to submit strategic plans outlining all procurement actions expected to exceed \$100,000. In addition to its role in procurement planning, the CMRB is to be involved in improving the implementation and monitoring of procurement actions.

CMRB Objectives Are to Ensure That:

proposed contracting represents a critical need of the Department and does not duplicate other proposed, ongoing or completed work

increases in contracting are well-justified and that alternatives to reducing costs have been fully considered

sufficient staff have been identified to monitor the proposed contracting

statements of work will be of the highest quality (and performance based whenever possible) so that the Department will get the highest maximum return for its investment

there has been sufficient analysis performed to support an independent

Section 1

estimate for the proposed contract costs

the proposed outcome for each major procurement is described in terms of cost, schedule and performance

Strategic Procurement Plan Analysis

Our analysis showed that the program offices submitted procurement plans which identified and valued their anticipated procurement actions for fiscal year 1999. Moreover, it was evident that staff from OPC, Information Technology, and the Chief Financial Officer's office reviewed and analyzed the plans to ensure program offices explained the basis for their procurement actions and provided additional information when requested by the CMRB.

Our analysis also showed that the CMRB's only significant involvement in procurement actions occurred at the planning stage when there was insufficient information available to assess whether or not procurement actions were critical to the needs of the Department and represented the best value that could be obtained. While existing procedures provide for the continued involvement of the CMRB in the other stages of the procurement process, its involvement was not evident during the post planning phases of contract administration, which includes the award of contracts, monitoring/oversight, and outcome assessment, for the following reasons:

- most contract actions do not fall within CMRB review thresholds;
- the CMRB does not review contract activity carried over from prior years because the activity is not detailed in the program offices' procurement plans; and
- program offices are not implementing their planned procurement actions timely.

CMRB Review Thresholds

At contract award, the CMRB did not review individual contract actions taken by the field and only reviewed individual contract actions processed by headquarters if they exceeded \$5 million. Strategic procurement plans provide a conceptual picture of anticipated procurement needs, but do not include the amount of information that is available when task orders are awarded and supported with detailed statements of work, Government cost analysis, and proposed outcomes. As illustrated in the following chart, only 1 of the 148 procurement actions undertaken during the fiscal year were subject to CMRB review when they were awarded.

Location	Actions Taken		Reviewed by CMRB At Contract Award	
	No.	Amount (millions)	No.	Amount (millions)
HQ's	88	\$100	1	\$13.25
Field	60	\$224	0	
Total	148	\$324		\$13.25

Carryover Procurement

Fiscal year 1999 procurement plans included \$84 million in prior years procurement items that were not subject the CMRB's review. As of April 29, 1999 these carryover obligations represented most of the procurements made by some program offices:

Office	New Actions Reviewed By CMRB	Carryovers	Obligated New Actions
CPD	\$31.1 Million	\$ 5,263,288	\$ 100,000
Housing	\$73.6 Million	\$37,081,390	\$15,802,054
PIH	\$65.8 Million	\$ 8,640,109	\$ 5,151,920

Timely Implementation of Procurement Plans

The fiscal year 1999 procurement plans that were approved for the Offices of Administration, Community Planning and Development (CPD), Housing, GNMA, Information Technology (IT), Policy Development and Research (PDR), and Public and Indian Housing (PIH), as well as the Enforcement Center (EC) and Real Estate Assessment Centers (REACs) identified \$596 million of planned contracting actions. At April 29, 1999, or seven months into the fiscal year, only \$258 million, or 43 percent, of these planned actions had been obligated. The following program offices obligated considerably less than 20 percent of their planned actions:

Office	Planned Obligations	Actual Obligations
CPD	\$31.1 Million	\$.1 Million
EC	\$15.1 Million	\$1.1 Million
PIH	\$65.8 Million	\$5.2 Million
REACs	\$45.2 Million	\$8.2 Million

OPC agreed that some program offices are not carrying out their procurement actions as timely as they should, but viewed this as an improvement over what had been happening in the past. OPC said that for the first time there are planning documents and tracking mechanisms to hold Assistant Secretaries accountable for their offices' procurements and indicated that Assistant Secretaries will have to provide explanations why planned procurement actions that were

Section 1

considered to be critical to the needs of HUD at the beginning of the fiscal year did not result in contract awards.

OPC management did not feel that the CMRB needed to perform more thorough reviews at the time of contract award. Since the CMRB reviewed the strategic plans, OPC felt the \$5 million contract action threshold was sufficient. In our view, the program office strategic procurement plans provide a conceptual picture of anticipated procurement needs, but do not have the detail that is available when task orders are awarded. The added detail would allow the CMRB to review procurement actions according to its objectives and mission.

The CMRB's representative from the CFO's office generally agreed that the CMRB is not substantively involved in certain facets of the procurement process. Additionally, he described the CMRB's present role in the process as more of a "rubber stamp". He stated the CMRB should require program offices to identify their planned procurements much earlier to enable the CMRB to effectively analyze and challenge planned procurements.

* * * * *

In summary, we believe OPC has improved the procurement planning process and could similarly improve procurement implementation and monitoring if the CMRB was more actively involved in certain facets of the procurement process, as provided for in its rules and procedures. Additionally, as detailed in other sections of this report, HUD program offices have been slow in recognizing and accepting the CMRB's increased role in ensuring procurement needs are critical and represent the best value to the Department.

Auditee's Comments

The CPO agreed that strategic planning should be initiated early enough to evaluate alternatives, the CMRB should be involved throughout the procurement process, and it should review some completed actions to evaluate outcomes. However, he believed the CMRB did not need to be more involved at contract award since the Department's program offices and OPC are responsible for the day-to-day management of acquisitions, including writing effective work statements, analyzing/negotiating costs, as well as awarding and administering contracts. Further, the CPO believed more CMRB oversight at contract award would not be beneficial and would tend to dilute his authority.

OIG Evaluation of Auditee's Comments

Additional CMRB oversight at contract award would be beneficial. While we agree that the Department's program offices and OPC are responsible for the day-to-day management of acquisitions, the CMRB's oversight of

individual contract actions is contemplated in its rules and procedures. Its evaluation of what the CPO has described as the two most important acquisition decisions, what we buy and who we buy it from, could strengthen the procurement process.

Recommendations

We recommend you assure that:

- 1A. The CMRB is actively involved throughout the procurement process to include planning, implementation, and monitoring.
- 1B. Strategic planning is initiated early enough so the CMRB has the ability to review anticipated procurements and viable alternatives;
- 1C. The CMRB oversees the pre-award of significant headquarters and field contracting actions (when contract type, statement of work, independent Government estimate, etc., are available for review and evaluation); and
- 1D. The CMRB reviews a representative sample of completed actions to evaluate procurement outcomes.

The Department's Cost Analysis and Evaluation of Significant Contracting Actions

Even though prudent business practice and sound judgment dictate otherwise, the Department carried out two significant procurement actions without conducting OMB Circular A-76 cost comparisons. The procurement actions involved the management and marketing of HUD owned single family properties and the administration of Section 8 housing assistance payments. These contracts are expected to involve two billion dollars in expenditures. The Department justifies its actions by saying that the A-76 cost comparisons were not legally required.

2KS =
#2 BILL

Even though the reinvented HUD has placed greater reliance on outside contractors to conduct its business, it has not conducted an OMB Circular A-76 cost comparison in the past 11 years (including management and marketing and Section 8 contract administration) to determine whether procurement decisions were cost-effective. In our opinion, these multi-billion dollar spending decisions are exactly the type of decisions that were envisioned in OMB Circular A-76 and prudent management would encourage careful analysis of such matters. In pertinent part, the Supplement to Circular A-76 states that the Circular is not designed to simply contract out. Rather, it is designed to balance the interests of the parties in a make or buy cost comparison; provide a level playing field between public and private offerors to competition; and encourage competition and choice in the management and performance of commercial activities. It is designed to empower Federal managers to make sound and justifiable business decisions (underscoring added).

While the management and marketing contracts and the Section 8 contract administration proposals provide for the privatization of functions previously performed in-house, there was little evidence to show that Department seriously considered the costs or effectiveness of HUD staff performing these functions versus the costs of contracting for these functions with the private sector, in compliance with OMB Circular A-76 procedures. Simply speaking, it would follow that if top management's reorganization policies provide for reductions in staff and the privatization of HUD business, then these decisions have been made without evaluating the costs and benefits of these actions. Ultimately, these are the types of decisions that perpetuate the management problems that exist at HUD and will continue, if management does not recognize the need for up-front cost analysis and sound business decisions based on a disciplined approach, as provided for under A-76 requirements.

LIKE
COAR.
NO SR

Regarding the management and marketing contracts, the Department stated that there is no requirement to conduct an A-76 review if the Department is not affecting more than 10 HUD employees. Additionally, it said that it is the program office's responsibility to evaluate all of the procurement alternatives, and the contracting office's responsibility to ensure that once the procurement decision is made that the award is carried out efficiently. The Department also

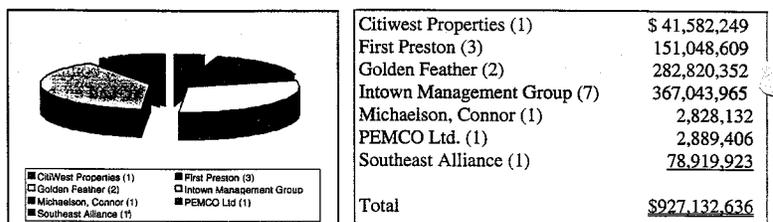
Section 2

stated that the decision to contract out project-based Section 8 is not even an appropriate item for inclusion in this review because it is not a Federal Acquisition Regulation (FAR) compliant contract and therefore not subject to any OPC oversight.

While we agree that these concerns involve program office fiscal responsibility, we do not agree that they are inappropriate for OPC involvement or CMRB oversight, especially in light of the recent reforms initiated by the CPO. Clearly, OPC reform initiatives establish procedures for the improvement of cost estimating and needs assessment through an acquisition process based on the fundamentals of integrated project teams and the application of business principles.

Management and Marketing Contracts

We reviewed the implementation and pre-award files for the recently awarded contracts for the managing and marketing of HUD's multi-billion dollar single family inventory. Prior to the awards, these functions were handled by a combination of HUD staff and real estate management contractors nationwide. Sixteen contracts were awarded to 7 different contractors with 5 year spending estimates of \$927 million.



Even though these procurements have five year spending authority of approximately \$1 billion and the contractors have substantial control of HUD's multi-billion dollar single family inventory, the Office of Housing did not adequately document or evaluate basic business decisions before executing these contracts.

The management and marketing contracts provide for the privatization of functions previously performed in-house, but there is no evidence that HUD management considered the costs of performing these functions with HUD staff versus the anticipated private sector costs, according to OMB Circular A-76. Instead of preparing an A-76 cost study as it had contemplated at one time, Housing requested a determination from the CFO that an A-76 study was not technically required, since HUD was not going to reduce staff. Additionally, the memorandum that was sent to the CFO indicated that Housing envisioned property sale contracts as needed, similar to the pilot contracts that already existed. Nowhere in the memorandum was it explained that Housing was going to contract out the entire single family portfolio which would cost about \$200 million. The CFO agreed with Housing that, since the Department was not reducing staff,

the study was not required and none was conducted. This rationale is particularly questionable given all the downsizing and restructuring that had been and was being considered by the Department.

While this study may not legally be required, good management and fiscal responsibility would dictate that some cost benefit analysis would be desirable and useful when HUD is considering a billion dollar procurement which changes the way it does business in a significant way. Even the National Academy of Public Administration (NAPA), which praised HUD for its recent procurement reforms, stated " HUD must have performance standards and operating principles for the new model procurement system that are based on sound business principles and replicate best practices in government agencies and private sector firms."

OPC management stated the decision not to conduct an A-76 study was made by the program office and was supported by the CFO. Additionally, OPC management stated its involvement was sufficient, as the proposals pre-dated the CMRB, and that it is the program office's responsibility to evaluate all of the procurement alternatives, and the contracting office's responsibility to ensure that once the procurement decision is made that the award is carried out efficiently.

In addition to the absence of a cost analysis for the management and marketing procurement, we noted the following additional concerns during our review of the pre-award file and our analysis of the acquired property inventory reports:

Financial and Operational Capacity

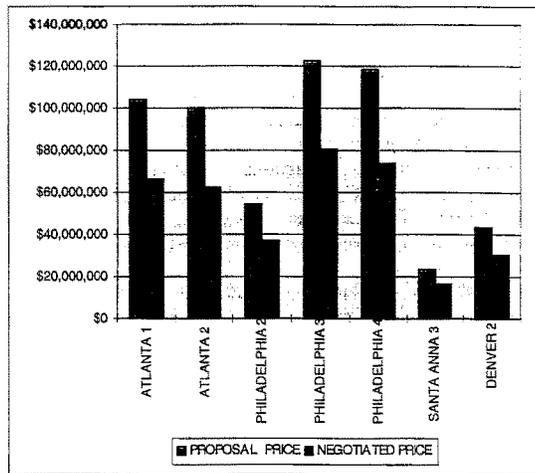
Intown Management Group was awarded contracts for 7 of the 16 procurements and this encompassed a significant portion of HUD's acquired single family portfolio. Contracting staff were asked if they considered Intown's financial capacity to manage such a large portion of the HUD portfolio, as these issues were not evident in the summary of negotiations or the technical evaluation reports. The staff indicated these considerations were discussed and it was determined that Intown had sufficient financing to manage these contracts.

USING
WHAT
CRITERIA

Intown reduced its bids from \$565.5 million to \$367 million, or over 30 percent from its original proposals, during the negotiation process. Revised best pricing schedules provided by Intown during the negotiation process may have been overly ambitious, as they did not account for any cost increases over the five year life of the contract, which included employee costs. In fact, Intown's estimated costs would actually decrease due to improved efficiency and reduced overhead and profit. OPC staff stated that Intown had the highest technically rated proposal, and believed the negotiation process evidenced HUD's interest in procuring the best value. A comparison of Intown's proposed costs with its negotiated costs follows:

OPC OFFICE OF PROCUREMENT
AND CONTRACTS

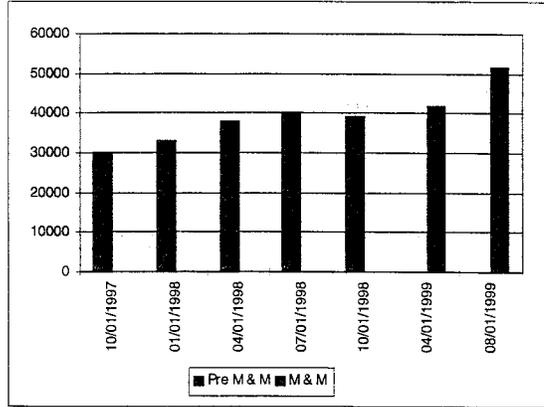
Section 2



Performance Issues

Our analysis of acquired property inventory reports from the Single Family Acquired Management System showed that there was a large increase in property inventories during the first four months of the management and marketing contracts:

Number of Properties in HUD's Inventory

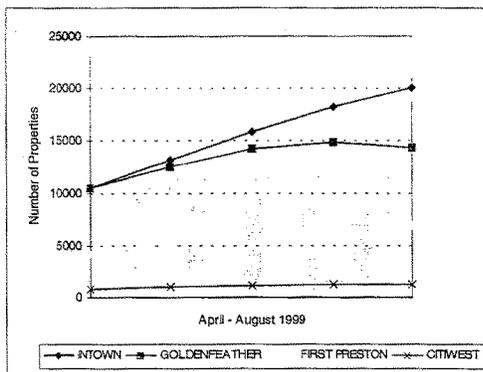


While all of the management and marketing contractors seemed to be having performance difficulties, Intown's level of performance was not approaching that of other larger contractors at the time of our review. Additionally, Intown's contract for the Denver Home Ownership Center was canceled because of performance matters and the CPO indicated that there was a possibility that Intown would lose additional contracts as they had not sufficiently addressed how they would correct their performance. As shown in the following table and graph, Intown's property inventory increased even more significantly than other management and marketing contractors:

*Intown
PERF
IMAC*

	April Inventory	August Inventory	Inventory Increase (%)
Intown	10,540	20,150	91%
Goldenfeather	10,542	14,370	36%
First Preston	4,082	6,911	69%
Citiwest	871	1,324	52%
Totals	26,035	42,755	64%

Section 2



Property Sales

*HAVE TO
SELL MORE
TO MAINTAIN
THE 20,000
PROP.*

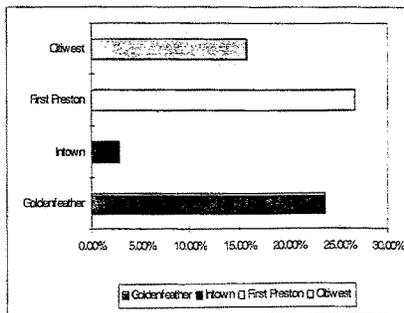
As illustrated below, Intown sold only 2.8 percent of its assigned inventory. Management and marketing contractors receive 30 percent of their fees when properties are listed and the remaining 70 percent when they are sold. Consequently, there was a concern that Intown would not be able to adequately maintain the 20,000 HUD properties assigned to them without the revenues generated from property sales. From April 1999 through July 1999:

Citwest sold 210 properties or 15.9% of beginning inventory and acquisitions

First Preston sold 1845 properties or 26.7% of beginning inventory and acquisitions

Intown property sold 569 properties or 2.8% of beginning inventory and acquisitions

Goldenfeather sold 3391 properties or 23.6% or 23.6% of beginning inventory and acquisitions



On September 23, 1999, HUD announced it had terminated Management and Marketing contracts with Intown Management Group because the company did a poor job managing and marketing HUD foreclosures.



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Pennsylvania State Office
The Wanamaker Building
100 Penn Square East
Philadelphia, PA 19107-3380

June 18, 1999

Mr. Remi Geahel
Citiwest Properties, Inc.
330 Main Street
Hartford, CT 06106

Subject: May 1999 Performance Assessment - Contract #C-OPC 21324

Dear Mr. Geahel:

The purpose of this report is to inform you of the results of the contract performance monitoring conducted by HUD for the month of May, 1999. This analysis is based upon property inspections, an office visit, file reviews, SAMS data and other observances. This report will discuss our observations in ten key contractual areas: Claim Review, Property Maintenance, Appraisals, Listings, Sales Procedures, Sales Closings, SAMS Updates, Rentals, Occupied Conveyance and Defective Paint.

Claim Review

To date, there is no evidence that the claim review process has been undertaken.

Property Maintenance

We have conducted inspections on a total of 356 properties. Attachment 1 lists each case and provides a brief description of the findings. In most cases, there were unacceptable conditions present. Using the definitions stated below, there were 84 properties in good condition, 42 in fair condition, 218 in poor condition, and 12 occupied. The categories are defined as follows:
Poor: not showable/presentable, debris in or around property, no access, broken or unsecured doors/windows, hazardous conditions, not secured, signs not posted, excessive yard growth. Fair: signs not posted, lawn maintenance required. Good: signs posted, no existing problems noted, acceptable locks (HUD-approved lockbox or new master lock).

Obviously, the above results reflect a poor maintenance performance. In your response to my previous assessment, you made assurances that this would be improved, however, no improvement is evident. This has become a very serious matter and must immediately be rectified. Action must be taken to swiftly conduct routine clean outs, grass cuts, etc. on your inventory.

Appraisals

The appraisal subcontracts appear to be adequate and a good tracking system is in place. Improvement has been made in eliminating the appraisal backlog, however, over 50% of the inventory remains unlisted.

Listings

Listings continue to be posted on a regular basis. Currently over 20% of the inventory is listed for sale and an additional 20% have received acceptable offers. There is still a problem with accessing the MLS in some areas and a solution is currently being sought.

A review of the listing prices showed that all values are consistent with the conclusions of the appraisals. All appraisals and listing analysis are properly filed. The findings of the file reviews are listed in Attachment 2.

Sales Procedures

The transition of the sales process has been conducted in an orderly manner. The Citiwest web site has provided clear information on the changes and an explanation of the new procedures. Brokers seminars have been conducted in many areas and are continuing. In general, customer service has been good and there have been few complaints regarding the bid process.

Internal processing appears to generally be well organized. Listing information, bid sheets, sales contracts and acceptances are filed within the case files reviewed.

Sales Closings

The sales closing activity to date to date has been limited.

SAMS Updates

SAMS data entry is being handled in an acceptable manner. Our review found that activities are being entered into SAMS in a timely manner, including acquisition information, appraisals, disposition programs, etc.

Rentals

There is not a significant number of rental units in the current inventory. Rents have been collected and properly sent to the lockbox.

Occupied Conveyance

All occupied conveyance applications have been processed to date.

Defective Paint

Some properties were found to contain defective paint that requires treatment. (see Attachment 1) There is a plan in place to regularly assess the status of each case and perform appropriate treatment, however, there has been no action taken on any properties to date. These activities must be undertaken.

Summary

The major area of concern remains that of property maintenance. We are past the point of the transition period and we can not tolerate the conditions that we have observed and the complaints that we have received from the public. Immediate action must be taken to complete the necessary work. You must demonstrate that you have the capacity to perform the contract requirements for your inventory.

Please respond to this assessment by June 28, 1999. I expect the response to include case specific accomplishments and documented progress, rather than a plan for anticipated improvement.

Sincerely,

Peter Spina
GTR, Real Estate Owned Division

Attachments

ATTACHMENT 1

FILED INSPECTIONS

FHA Case Number	Address	City	State/Zip	Date Inspected	All Notes
061-058608	286-288 Park Street	Hartford	CT	5/12/99	Property is occupied. Personal property exists. Property is not clean inside and out. property occupied, tenants don't give names.
061-074357	460 Howard Ave.	New Haven	CT	5/20/99	Lawn has not been cut. Grass 12" high Property has broken windows. Property is not maintained in a presentable condition. WHOLE HOUSE FLAKING, PEELING, BOARD WINDOW; MOW; UNABLE TO GET IN
061-077085	55 Porter Ave	Naugatuck	CT	5/12/99	Damage due to winter weather exists. Property is not clean inside and out. Debris on back porch and in kitchen drawers Property is not maintained in a presentable condition. banister missing on stairway. Replace banister. Appliances: stove oven not cleaned, carpets not vacuumed, old lock left on floor.
061-079375	671-73 Shelton St	Bridgeport	CT	5/12/99	Damage due to winter weather exists. windows broken out Property not secured. windows not boarded have been broken, or boards have been removed. Lawn has not been cut. Property is not clean inside and out. yard and house full of debris. nothing to mow but weeds in the back. Property has been vandalized. holes in walls, heaters torn out Property has broken windows. Property is not maintained in a presentable condition. defective paint property heavily vandalized, boards have been stolen from windows- generally in a bad area.
061-082560	4 Bellevue Street	East Hampton	CT	5/12/99	Damage due to winter weather exists. floor tiles cracked and loose Lawn has not been cut. Property is not clean inside and out. bathroom not cleaned, floors not swept, debris on floors. The roof has evidence of leaks. Damaged due to roof leaks exists. skylight leaking and damaging ceiling. Property has broken windows. Property is not maintained in a presentable condition.

061-083430	6 Fairview	Danbury	CT	5/12/99	exposed wiring, defective paint, seal or tarp skylight Appliances; stove realtors sign in yard, trees rubbing against roof, broken glass on window ledge. Property is occupied. Personal property exists.
061-086287	273 Portsea St.	New Haven	CT	5/20/99	Personal property exists. Under kitchen counter Property not secured. WINDOW IN LIVING ROOM IS BROKEN Property is not clean inside and out. Trash; rat nest under kitchen counter. The roof has evidence of leaks. Damaged due to roof leaks exists. Upstairs ceiling Property has broken windows. Appliances: Range; oven; vent CLEAN; FRONT WINDOW LIVING ROOM BROKEN
061-086709	60 Beacon Street	Hartford	CT	5/12/99	Damage due to winter weather exists. Lawn has not been cut. Property is not clean inside and out, debris in backyard. Kitchen not clean. Paint chips on floor. The roof has evidence of leaks. Damaged due to roof leaks exists. ceiling falling at inside entry and wall damage. Property has broken windows. Property is not maintained in a presentable condition. defective paint throughout 2nd floor Appliances: stove back porch steps rotting and caving in. Shed in rear needs to be removed.
061-088815	69 Clubhouse Dr	Cromwell	CT	5/12/99	Property is occupied. Personal property exists. Property is not clean inside and out, property occupied. Has occupied unit for over one year.
061-089819	6 River Run Condo	New Hartford	CT	5/21/99	Personal property exists. Bissel clean machine Property is not clean inside and out. Appliances: Dishwasher; range; oven; vent; refrigerator; disposal CEILING DAMAGE BATHROOM DOWNSTAIRS; LOOKS TO BE FROM LEAK IN UPSTAIRS PLUMBING
061-089912	289 South Orchard	Wallingford	CT	5/21/99	Property is occupied. Don't know
061-090131	49 Fall Mtn. Lk.	Terryville	CT	5/21/99	Personal property exists. Lawn has not been cut. Property is not clean inside and out. Back of house under porch is full of debris Property is not maintained in a presentable condition. Appliances: Range; oven; refrigerator, microwave Occupied illegally by vagrants Personal property exists. Clothes, dishes, TV, couches, etc. Property not secured. Wide open; all doors busted in; windows broken Lawn has not been cut. Property is not clean inside and out. The roof has evidence of leaks. Damaged due to roof leaks exists. Ceilings falling in all over house especially bottom Property has structural damage. Property has
061-092870	23 Ripley Place	Norwich	CT	5/22/99	

061-092876	39 Levell Ave.	Windsor	CT	5/25/99	been vandalized. Holes Property has broken windows. Property does not have GTR approved locking system. Property is not maintained in a presentable condition. Defective paint needs to be treated (scrape and paint). Appliances: None downstairs; range, oven, refrigerator upstairs RECOMMEND TEAR HOUSE DOWN Personal property exists. Clothes, TV, mattress; trash Lawn has not been cut. Property is not clean inside and out. Grass is three feet high Property is not maintained in a presentable condition. Defective paint needs to be treated (scrape and paint). EXT. WOOD TRIM; INT. WINDOW SILLS; MOW YARD; TAKE TRASH OUT; CLEAN
061-094707	64 Woodbridge Avenue	Ansonia	CT	5/12/99	Lawn has not been cut. Property is not clean inside and out. Initial cleaning and mowing not performed. The roof has evidence of leaks. Damaged due to roof leaks exists. Roof leaking in bathroom-tarp There is snow which needs to be removed.
061-094760	61 Inverness Lane	Middletown	CT	5/12/99	Damage due to winter weather exists. Property is not clean inside and out. Debris at entry door and back porch. Yard not trimmed or edged. Property is not maintained in a presentable condition. Debris in kitchen drawer. Yard is being mowed by neighbor but he will not trim and edge.
061-095004	74 Dorset Way	Bristol	CT	5/12/99	No Dorset Way in Bristol or any adjacent community.
061-095588n	114 Bannister St	Hartford	CT	5/12/99	Lawn has not been cut. Property is not clean inside and out. broken glass on floor Property has broken windows. Property is not maintained in a presentable condition. defective paint Appliances: dishwasher Glass not cleaned up where window boarded.
061-095731	46 Fairbanks Street	Bridgeport	CT	5/12/99	partially, boards are being removed. Property is not clean inside and out. debris in shed. Leaves and tree limbs need to be removed. The roof has evidence of leaks. Damaged due to roof leaks exists. in front room where the two roofs connect. The pool/spa has not been secured. Appliances: Stove and dishwasher
061-099740	1165 Stratford Road	Stratford	CT	5/21/99	CONDO; NO LOCK BOX; NO ENTRY
061-101255	111 Sierra Street	Waterbury	CT	5/20/99	Personal property exists. Lawn has not been cut. Property is not clean inside and out. Property does not have GTR approved locking system. Property is

061-101387	440 Willow Street	Bridgeport	CT	5/12/99	not maintained in a presentable condition. EXT. WINDOWS AND TRIM NEED PAINT; HOME NOT REKEYED; NO SIGNS; NEEDS MOWING Lawn has not been cut. Property is not clean inside and out. need sweeping. floor of one room covered in flaking paint chips. The roof has evidence of leaks. skylight leaking. needs caulking. Property is not maintained in a presentable condition. defective paint. Appliances: stove, 2 refrigerators. one fridge needs to be taken to the dump. oven not cleaned. board partially torn off one window.
061-101391	217 Shaw Street	New London	CT	5/22/99	Personal property exists. Two batteries Lawn has not been cut. Property is not clean inside and out. Grass 10" to 12" high The roof has evidence of leaks. Damaged due to roof leaks exists. Kitchen in right side unit ceiling is stained Property has been vandalized. Property is not maintained in a presentable condition. Defective paint needs to be treated (scrape and paint). Appliances: Range, oven; refrigerator BOTTOM UNIT IS ONLY UNIT SECURELY LOCKED; EXT. WOOD TRIM; FLASHING; INT. WINDOW SILLS; TRIM; DOORS
061-101637	495 Forest Street	East Hartford	CT	5/12/99	Lawn has not been cut. Property is not clean inside and out. exposed ceiling wires. Defective paint bathroom window. Appliances: dishwasher and stove Oven not cleaned, electrical outlets need covers. Newspapers on back porch.
061-101845	33 Ashwood Ct.	Wethersfield	CT	5/22/99	Property is not clean inside and out. old carpet pad. commode/tub dirty The roof has evidence of leaks. Damaged due to roof leaks exists. ceiling stains, living room, bedroom; Kitchen Ceiling. Property is not maintained in a presentable condition. INSPECTOR HAS ADDRESS FOR PROPERTY ON INSPECTION SHEET AS 33 MOUNTAIN LAUREL IN WETHERSFIELD, CT.
061-102617	98 Fairmount St U-15	Hartford	CT	5/12/99	Lawn has not been cut. Property does not have GTR approved locking system. Unable to enter house. HUD inspector advised that this property had closed.
061-103400	59 Old Plains Rd.	Windham	CT	5/22/99	Defective paint needs to be treated (scrape and paint). EXT. PAINT IS PEELING; INT. WINDOW SILLS
061-106431	90 Linsley Avenue	Meriden	CT	5/12/99	Lawn has not been cut. Property is not clean inside and out. Property has broken windows. defective paint Appliances: stove front yard mowed, back yard not mowed. Sign cannot be seen from road, posted on back entry door.
061-106948	79 Amity Street	Hartford	CT	5/12/99	Lawn has not been cut. Property is not clean inside and out. house and yard

061-107716	11 Spruce Street	Vernon	CT	5/25/99	full of debris. Property is not maintained in a presentable condition. defective paint. initial cleanup has not been performed. Lawn has not been cut. Grass 6" to 8" high Property has structural damage. Mod floor in entry is buckling Appliances: Dishwasher, range oven vent, refrigerator, disposal
061-107814	57 Orchard Street	New Haven	CT	5/20/99	Property has been vandalized. Holes in bottom unit walls Appliances: Vent in lower unit LIMBS IN YARD; EXT. PAINT GARAGE; TRIM WEEDS ON FENCE LINE; MOW; TRASH FRONT YARD; REPAIR FRONT PORCH CORNER; BARE WIRE IN LOWER UNIT
061-108959n	166 Old Brookfield	Danbury	CT	5/12/99	Property is occupied. Personal property exists. Property is not clean inside and out.
061-111604	337 Hicks Avenue	Meriden	CT	5/12/99	Lawn has not been cut. Property has broken windows. Appliances: stove missing window pane above kitchen sink.
061-112321	273 Fieldwood Road	Waterbury	CT	5/21/99	Personal property exists. Trash, clothes, couches, etc. Lawn has not been cut. Property is not clean inside and out. Grass 12" tall--due to be mowed on 5/21 Property is not maintained in a presentable condition. Appliances: Dishwasher HANDRAIL DOWNSTAIRS; OUTSIDE DECK; CLEAN ; MOVE; REPLACE MISSING BATH VANITY AND SINK
061-115244	243 Lawlor Street	New Britain	CT	5/21/99	Personal property exists. Trash upstairs bedroom; garage; mop in breakfast room Property is not clean inside and out. Trash upstairs bedroom; poster on walls, etc. Property has been vandalized. trash Appliances: Dishwasher, disposal; refrigerator; oven; range; vent CLEAN
061-117513	13 Wood Drive	Enfield	CT	5/12/99	Lawn has not been cut. Property is not clean inside and out. debris in yard and house. Initial clean not performed. Property has broken windows. Property is not maintained in a presentable condition. Appliances: dishwasher Switch plates and electrical outlet covers missing. Storage shed full of debris and hazardous waste.
061-117922	65-67 View Street	Torrington	CT	5/21/99	Lawn has not been cut. Grass 10" to 12" high Appliances: downstairs--oven; range upstairs (67)--oven; range; dishwasher; refrigerator EXT. PAINT CHIPPING PORCH CEILING; MOW GRASS
061-118197	303 Dodge Ave	East Haven	CT	5/12/99	yard not trimmed, house needs sweeping defective paint. banister missing off

061-118284	52 Stowe Ave	Milford	CT	5/12/99	staircase. exposed wiring second floor Appliances: stove shrubs need trimming away from house and entryway. vines growing up under storm window.
061-121181	105 Beechwood Rd.	West Hartford	CT	5/21/99	Property not secured. window in door broken out Lawn has not been cut. Property is not clean inside and out. debris in house and yard, old auto engine in yard. Property has broken windows. Property is not maintained in a presentable condition. Appliances: stove stove not cleaned.
061-122303	27 Fenwick Street	West Haven	CT	5/20/99	Grass three foot or taller Property does not have GTR approved locking system. Property is not maintained in a presentable condition. NO HUD SIGNS; LOCK BROKEN; PAINT EXT. WINDOWS AND GARAGE TRIM; UNABLE TO ENTER Lawn has not been cut. Property is not clean inside and out. Weeds 10" high; trash in front yard Property is not maintained in a presentable condition. Appliances: Oven ; range; vent MOW; PAINT EXT. REPLACE DOOR; REMOVE CAGE IN FRONT YARD Appliances: dishwasher; range; oven; vent; disposal; refrigerator
061-123196	41-43 Butler Street	Torrington	CT	5/21/99	Lawn has not been cut. Grass is 12" high Property is not maintained in a presentable condition. Appliances: Range; refrigerator; oven, upstairs--range; vent; oven; refrigerator EXT. PORCH, POST, RAILINGS NEED PAINTING; MOW LAWN
061-123860	90 Rosemont Ave	Bristol	CT	5/12/99	Lawn has not been cut. Property is not clean inside and out. debris inside and out. Lawn not mowed. Property is not maintained in a presentable condition. defective paint on radiators Appliances: stove initial service has not been performed
061-125148	65 Laurel Hill Road	Woodstock	CT	5/25/99	Lawn has not been cut. Grass is 24" high The roof has evidence of leaks. Damaged due to roof leaks exists. ceiling stairs over enclosed porch; above windows Appliances: Range & oven
061-127295	8 Liberty St.	Plymouth	CT	5/21/99	Personal property exists. Clothes; dishes; sewing machine, etc. Property not secured. Lawn has not been cut. Property is not clean inside and out. Grass is 12" to 18" high Property does not have GTR approved locking system. Property is not maintained in a presentable condition. Appliances: Range; oven POOL NOT COVERED; BASEMENT HEAVILY MILDEWED; INSULATION FALLING DOWN; HOUSE HAS NEVER BEEN LEASED OUT.

		PEOPLE GONE 1 1/2 YEARS; VACANT			
061-127610	26 Comstock Place East Hartford	CT	5/12/99	Lawn has not been cut. Property is not clean inside and out. debris in house and yard. Initial cleanup has not been performed.	Property is not maintained in a presentable condition. defective paint walls and woodwork. Appliances: dishwasher garage, house, and yard full of debris. Animal feces in house. Initial cleaning not performed.
061-128892	26-28 Flower Street Manchester	CT	5/12/99	Lawn has not been cut. Property is not clean inside and out. initial cleanup not performed	Property does not have GTR approved locking system. Property is not maintained in a presentable condition. Unable to enter units as they were not HUD locks. Debris in yard both units.
061-129439	87-91 Randall Ave Bridgeport	CT	5/12/99	Damage due to winter weather exists. vandalized Lawn has not been cut.	Property is not clean inside and out. debris inside and out Property has been vandalized. Property has broken windows. Property is not maintained in a presentable condition. extensive defective paint Appliances: old stove and washing machine roof hatch needs to be replaced to prevent water damage.
061-129815	277 Dodge Ave East Haven	CT	5/12/99	Lawn has not been cut. Property is not clean inside and out. initial cleaning and mowing not performed.	Property is not maintained in a presentable condition. Appliances: stove house, yard and backyard shed full of debris.
061-131020	306 Pine Rock Avenue Hamden	CT	5/12/99	bath tub hot water running--couldn't turn off Appliances: stove and dishwasher sign is posted but unforeseeable form road- sign on window faces trees.	
061-131109	242 Goddard Avenue Bridgeport	CT	5/12/99	some windows Lawn has not been cut. Property is not clean inside and out.	birds nesting on 2nd floor, feces on 2nd floor, debris in yard Property has broken windows. Property is not maintained in a presentable condition. defective paint Appliances: stove ceiling fans not cleaned. 3 broken windows on 2nd floor covered with plastic which is ripped off.
061-132887	80 Hartford Ave. Newington	CT	5/21/99	Lawn has not been cut. The roof has evidence of leaks. Damaged due to roof leaks exists. Ceiling in kitchen --stains Property is not maintained in a presentable condition.	Appliances: Dishwasher, garbage disposal EXT. WINDOW TRIM, DOORS AND GARAGE NEEDS PAINTING; MOW; WATER IN APT (POOLS ON FLOOR);UPSTAIRS WINDOW NOT SECURE--LOCK NOT SCREWED DOWN--WILL NOT LOCK
061-133059	10 Kellycrest Rd Branford	CT	5/12/99	Lawn has not been cut. Property is not clean inside and out. initial debris removal and cleaning not performed.	The roof has evidence of leaks. upstairs bathroom Property is not maintained in a presentable condition. defective paint. exposed ceiling wires. Appliances: dishwasher and stove debris and

061-134857	100 Shuttle Meadow	New Britain	CT	5/21/99	hazardous waste in shed. debris in basement and garage. Personal property exists. Washing machine Lawn has not been cut. Property is not clean inside and out. Ceilings and floors bad Property has been vandalized. Debris on all floors and basement Property has broken windows. Property is not maintained in a presentable condition. Defective paint needs to be treated (scrape and paint). Appliances: Washing machine--downstairs; oven range on second floor. CELINGS AND FLOORING BAD; ROOF LEAKING ON 1ST & 3RD FLOOR; GLASS ON 1ST FLOOR BACK DOOR; 3RD FLOOR LEAKING; DEBRIS ON ALL FLOORS AND BASEMENT
061-136939	50 Pierce St. U-13	Plainville	CT	5/21/99	Defective paint needs to be treated (scrape and paint). Appliances: Dishwasher, vent; refrigerator WINDOW SILLS AND FLOORING
061-142378	64 Macarthur Drive	Waterbury	CT	5/20/99	Property is occupied. Ms. Young bought and moved in in April HOUSE IS OCCUPIED BY MS. YOUNG
061-142468	21 Broad ST Extensi	Groton	CT	5/12/99	Damage due to winter weather exists. gutter falling down. holes in walls inside Lawn has not been cut. Property is not clean inside and out. some debris inside. needs sweeping Property is not maintained in a presentable condition. defective paint Appliances: refrigerator
061-145236	16 Julie Lane	Bloomfield	CT	5/12/99	Lawn has not been cut. Property is not clean inside and out. fireplace not clean. Carpets not vacuumed. Property is not maintained in a presentable condition. Appliances: dishwasher and stove oven not cleaned, cobwebs on kitchen walls where fridge removed.
061-146621	58-60 Alling Street	West Haven	CT	5/20/99	Property has broken windows. Property does not have GTR approved locking system. UPPER WINDOW BROKEN; PADLOCKED; EXT. PEELING OVER GARAGE; COULD NOT ENTER
061-148024	55 Euclid St E	Hartford	CT	5/12/99	Property is not clean inside and out. debris in house, yard and backyard shed Property is not maintained in a presentable condition. defective paint initial clean not performed
061-148026	7 Virginia Rd.	North Branford	CT	5/20/99	Personal property exists. Lawn has not been cut. Property is not clean inside and out. Grass is 12" to 18" high Property is not maintained in a presentable condition. Appliances: Refrigerator CLEAN AND MOW
061-148279	24 Sherwood Dr.	New Milford	CT	5/20/99	Property not secured. Garage window out Lawn has not been cut. Back & side

061-152473	1512 Twin Circle Dr.	South Windsor	CT	5/25/99	yards grass 12" or higher Property has broken windows. Appliances: Oven; range; compactor; refrigerator; dishwasher POOL NOT COVERED--SECURE POOL; REPAIR LOCK ON SLIDING DOOR; EXT. TRIM ROTTEN ON PROTICO Personal property exists. Cleaning supplies on counter Property is not clean inside and out. Appliances: Dishwasher; disposal; oven; range; vent; refrigerator Lawn has not been cut. broken glass on floor Appliances: stove and dishwasher padlock to one of the sheds would not open
061-153269	45 Brown St	Hartford	CT	5/12/99	Vagrant could be living here Personal property exists. Clothes; trash Property not secured. Downstairs window off kitchen is broken, Upstairs bedroom door open off Lawn has not been cut. Property is not clean inside and out. Personal property inside garage The roof has evidence of leaks. Damaged due to roof leaks exists. Ceiling falling in on bottom floor--bath and dining room Property has structural damage. Ceiling falling in Property has been vandalized. Vagrant could be living here Property has broken windows. Property is not maintained in a presentable condition. Defective paint needs to be treated (scrape and paint). Appliances: Range; oven; vent BACK GARAGE OPOEN FULL OF A/C UNIT; CLOTHES; ETC. NOT SECURED OR CLEAN Damage due to winter weather exists: large holes in sheet rock throughout house Lawn has not been cut.
061-154185	155 High St.	New Britain	CT	5/21/99	Property totally boarded up Property is not maintained in a presentable condition. NO ADDRESS NUMBERS; PROPERTY TOTALLY BOARDED UP; KEY WOULD NOT WORK Small line of dog feces Appliances: Range; oven; dishwasher; refrigerator CARPET ODOR IS GROSSLY OFFENSIVE
061-156438	16 Weymouth Road	Enfield	CT	5/12/99	Personal property exists. TV; couches; tables; dishes; clothes; computer Lawn has not been cut. Property is not clean inside and out. Grass in back and side yards two feet high; front yard being mowed by neighbor Property is not
061-156788	6 High Street	Willimantic	CT	5/22/99	
061-157210	368 Colonial Ave.	Waterbury	CT	5/21/99	
061-160493	20 Chicory Ct.	Plainfield	CT	5/22/99	

061-165152	65 Porter Ave #2B	Naugatuck	CT	5/12/99	maintained in a presentable condition. Appliances: Dishwasher TAKE TRASH OUT OF HOUSE; CLEAN; MOW YARD
061-165449	61 Market St.	New Haven	CT	5/20/99	Damage due to winter weather exists. Property is not clean inside and out. debris on back porch and debris in kitchen drawers. Property is not maintained in a presentable condition. Appliances: Stove
231-041482	12 Cedar St	Augusta	ME	5/12/99	Property is not clean inside and out. News paper in entry Property has been vandalized. Holes throughout; Appliances: Range; oven; vent CLEAN
231-045525	95 High Street	Auburn	ME	5/12/99	Lawn has not been cut. Property is not clean inside and out. debris in yard. boards with nails protruding piled behind house. Property has structural damage. front porch caving in Property is not maintained in a presentable condition. notice on front entry door from City of Augusta that house has been condemned as unsafe.
231-046781	2 Crawford Drive	Bath	ME	5/12/99	Lawn has not been cut. Property has broken windows. defective paint broken window panes covered with paper on inside. window in attic not closed.
231-047547	29 Water Street	Oakland	ME	5/24/99	Lawn has not been cut. Property is not clean inside and out. debris in house Property is not maintained in a presentable condition. Appliances: stove, refrigerator and dishwasher debris in garage, old locks left by entry door, toilet issue left in bathrooms, beer left in refrigerator.
231-048023	2 Indian Lane	Waterboro	ME	5/24/99	Property is occupied. McDaniels --lived there a couple of months according to son HOUSE IS OCCUPIED BY THE MCDANIELS FAMILY
231-049265	53 Gina Street	Lewiston	ME	5/23/99	Property is occupied. Cole
231-049590	108 Front Street	Portland	ME	5/23/99	Personal property exists. Chairs in attic; lamps; trash boxes; bike & trash in backyard Lawn has not been cut. Property is not clean inside and out. Grass 12" to 14" high; wasp all over; floor is dirty Property is not maintained in a presentable condition. MOW YARD; CLEAN HOUSE; MISSING COVER ON FLOOR HEATER
					Wreath on wall Lawn has not been cut. Property is not clean inside and out. Grass two feet tall; floors need cleaning Property has been vandalized Property has broken windows. Property is not maintained in a presentable condition. Defective paint needs to be treated (scrape and paint). Appliances:

231-053516	37 Sixth St	Auburn	ME	5/12/99	Range; oven FRONT LIVING ROOM INSIDE PANE; BACK PORCH BROKEN GLASS; MISSING KEY; EXT. TRIM, INT. WINDOW SILLS; MOW GRASS Lawn has not been cut. Property is not clean inside and out. ceiling fans not cleaned. floors need mopping.
251-001905	71-73 Carlisle St.	Springfield	MA	5/24/99	Lawn has not been cut. Grass 12" to 18" high The roof has evidence of leaks. Damaged due to roof leaks exists. Kitchen and bedroom ceiling in unit #73 The pool/spa has not been secured. Defective paint needs to be treated (scrape and paint). Appliances: Unit #71--none; Unit #73 R/O DEF. PAINT CEILING AND WALLS: MOW LAWN
251-094423	8 Wilcutt Road	Dorchester	MA	5/12/99	Property is occupied. Personal property exists. Property is not clean inside and out. property occupied
251-144835	83 Highland Ave	Fitchburg	MA	5/12/99	Damage due to winter weather exists. Lawn has not been cut. Property is not clean inside and out. debris stacked by side of garage. Broken glass throughout house. Property has been vandalized. windows broken Property has broken windows. Property is not maintained in a presentable condition. defective paint on window panes Appliances: stove and refrigerator broken glass throughout house; exposed ceiling wires; refrigerator not cleaned; oven not cleaned.
251-153629	162 Alley St	Lynn	MA	5/12/99	Lawn has not been cut. Property is not clean inside and out. debris in yard floors not broom clean Property is not maintained in a presentable condition. Appliances: 2 stoves, 2 dishwashers, refrigerator and washing machine. Property needs deodorizing. Inspected by Citiwest on 4/30/99.
251-157288	257 Redlands Street	Springfield	MA	5/24/99	Property is occupied. No name given by inspector Lawn has not been cut. Grass 6" to 8" high Property has been vandalized. Unspecified by inspector Appliances: Dishwasher MOW GRASS
251-158667	979 Centre St	Brockton	MA	5/12/99	Lawn has not been cut. Property is not clean inside and out. debris in house and yard. Lawn not mowed. The roof has evidence of leaks. roof has been tarped Property is not maintained in a presentable condition. defective paint Appliances: refrigerator and stove floors not swept. animal dish and batteries on floor.
251-178667	190 Chestnut St	Holyoke	MA	5/12/99	3 windows Lawn has not been cut. Property is not clean inside and out. debris

251-181293	3 Brown St.	Spencer	MA	5/24/99	in yard and house. Initial not performed. Property has broken windows. Property is not maintained in a presentable condition. defective paint broken glass on floors. Debris in basement. Lawn has not been cut. Grass is 12" to 18" high The roof has evidence of leaks. Upstairs bathroom ceiling stains There is snow which needs to be removed. Property is not maintained in a presentable condition. Defective paint needs to be treated (scrape and paint). LOCK BOX ON COUNTER; WINDWO SILLS UPSTAIRS INT. ; MOW GRASS
251-187012	64 Hall Street	New Bedford	MA	5/12/99	Lawn has not been cut. Property is not clean inside and out. no yard in front, backyard not mowed. Debris in house, yard, under porch. Property is not maintained in a presentable condition. initial cleanup has not been performed. Personal property exists. TV; trash; chairs Lawn has not been cut. Property is not clean inside and out. Grass 18" tall Property is not maintained in a presentable condition. HOUSE IS FILTHY WITH EITHER MUD OR DOG FECES; BASEMENT FULL OF JUNK
251-188077	8-10 Spring St.	Ware	MA	5/24/99	Lawn has not been cut. Grass is three feet tall Property is not maintained in a presentable condition. Appliances: Range, oven refrigerator, upstairs--range;oven GRASS NEEDS MOWED
251-188295	157-159 Massasoit St.	Springfield	MA	5/24/99	Personal property exists. Fireplace set; screen Damage due to winter weather exists. Commodes full of feces; stinks Lawn has not been cut. Property is not clean inside and out. Grass 8" to 10 " high; floors and bathrooms dirty Property is not maintained in a presentable condition. Appliances: Dishwasher; range; oven; disposal; refrigerator CLEAN BATHROOMS, FLOORS; MOW
251-195198	19 Catalpa Circle	Worcester	MA	5/24/99	Personal property exists. Clothes; dishes; trash, washer Lawn has not been cut. Property is not clean inside and out. Grass 18" high The pool/spa has not been secured. Property is not maintained in a presentable condition. Appliances: Dishwasher; range; oven; vent HOUSE STINKS; CLEAN; MOW YARD
251-196761	1604 State Road	Plymouth	MA	5/25/99	Personal property exists. TV table; beds; couches; clothes; trash Lawn has not been cut. Property is not clean inside and out. Lawn 12" to 18" high The roof has evidence of leaks. Damaged due to roof leaks exists. Dining room; living room; two bedrooms; ceiling stains Property is not maintained in a presentable condition. Defective paint needs to be treated (scrape and paint). Appliances: R/O Ref. EXT. TRIM; INT. WINDOW SILLS; FILTHY; DOG POO
253-000964	6 Birch Street	Three Rivers	MA	5/24/99	

341-043300	330 Gold St	Manchester	NH	5/12/99	IN UPSTAIRS BEDROOM--STINKS CLEAN; GET TRASH OUT; MOW window on back entry door Lawn has not been cut. Property is not clean inside and out. kitchen and bathroom not cleaned. floors not swept or mopped Property has broken windows. Property is not maintained in a presentable condition. defective paint upstairs bedroom Appliances: stove and dishwasher electrical cover plates and switch plates missing. Last inspected 4/20/99 by firm "HUD"
341-052570	74 Lafayette Street	Claremont	NH	5/12/99	Property not secured. window on back entry door broken out Lawn has not been cut. Property is not clean inside and out. debris in yard behind garage Property has structural damage. steps fallen away from front porch Property has broken windows. Property is not maintained in a presentable condition. defective paint around upstairs window frame and rear entry door frame Appliances: refrigerator and stove Doesn't appear that initial cleaning has been performed. Stove and oven not clean.
341-053007	4315 Heritage Villa	Nashua	NH	5/12/99	Property is not clean inside and out. kitchen and bathroom not cleaned dishwasher oven not cleaned, bathrooms not cleaned, kitchen floor not swept or mopped, carpets not vacuumed.
451-027559	135 Wayne St.	Warwick	RI	5/22/99	Personal property exists. Jacket Lawn has not been cut. Property is not clean inside and out. Grass is 12" to 18" high; inside is dirty Property has structural damage. Hardwood popping up in living and bedrooms; ceiling over back door rusted Property is not maintained in a presentable condition. Defective paint needs to be treated (scrape and paint). Appliances: Dishwasher FACIA; SOFFET; WINDOW WOOD TRIM NEEDS PAINT; INT. WINDOWS
451-028256	16 Clay St	Central Falls	RI	5/12/99	Lawn has not been cut. defective paint Appliances: three stoves tire in yard, defective paint chips on kitchen floor.
451-031779	276 Adams Street	Warwick	RI	5/22/99	Property is not clean inside and out. Floors dirty; missing tiles in kitchen; kitchen smells; basement smells better--thank you Property is not maintained in a presentable condition. Defective paint needs to be treated (scrape and paint) Appliances: Range; oven; vent SOFFET; FACIA; AND WOOD TRIM; BASEMENT NEEDS PAINT; INTERIOR WINDOWS; CLEAN

451-032706	110 Dewey Ave.	Tiverton	RI	5/22/99	Personal property exists. Shovel, trash, also junk garbage. Property not secured. Broken kitchen window. Lawn has not been cut. Property is not clean inside and out. Grass is two to three feet high; trash. The roof has evidence of leaks. Damaged due to roof leaks exists. Kitchen, living room & bedroom ceiling stains s/r down. Property has broken windows. The pool/spa has not been secured. Property is not maintained in a presentable condition. Defective paint needs to be treated (scrape and paint). Appliances: Dishwasher, vent BROKEN WINDOWS IN KITCHEN; INT. WINDOW SILLS; CLEAN; MOW; REPAIR WINDOWS
451-033016	51 Seventh Street	East Providence	RI	5/12/99	one window. Lawn has not been cut. Property is not clean inside and out. house and yard full of debris. Property is not maintained in a presentable condition. defective paint, tires, chemicals, old paint cans. Appliances: dishwasher initial inspection not performed. exposed wires. bad odor inside house.
451-035017	120 Toledo Ave.	Wanwick Pilgrim	RI	5/22/99	Personal property exists. Couch; desk. Lawn has not been cut. Property is not clean inside and out. Grass is 24" high. MOW YARD; REMOVE FURNITURE
451-036116	90-92 Potters Ave.	Providence	RI	5/22/99	Personal property exists. Clothes, trash, chairs. Property not secured. Window upstairs gone. Lawn has not been cut. Property is not clean inside and out. Grass 12" to 18" high. Property has been vandalized. No kitchen cabinets; holes in walls. Property has broken windows. Property is not maintained in a presentable condition. Defective paint needs to be treated (scrape and paint). Appliances: Ref. REPAIR WINDOWS; MOW LAWN; PORCH AND TRIM NEEDS PAINT
451-036441	1275-77 Chalkstone A	Providence	RI	5/12/99	bottom floor is boarded. Lawn has not been cut. defective paint. Appliances: 2 stoves, 2 refrigerators. last inspected 5/11/99 by KRM of Clitwest
451-042949	1205 Hill Farm Rd	Coventry	RI	5/12/99	Lawn has not been cut. Property is not clean inside and out. debris in house and garage, not broom swept. The pool/spa has not been secured. Property is not maintained in a presentable condition. defective paint. Appliances: stove and built in oven, dishwasher pool covered with tarp- tarp full of water. ceiling fans not cleaned. backyard shed full of debris.
451-043171	290 Third Ave.	Woonsocket	RI	5/22/99	Lawn has not been cut. Grass 18" high; Floor needs vacuumed. The roof has evidence of leaks. Damaged due to roof leaks exists. Left unit. Living room. Property has broken windows. Property is not maintained in a presentable condition. Appliances: None downstairs; upstairs R/O Ref. PANES BROKEN REMOVE GLASS; WINDOW SECURE; TRIM IN BACK NEEDS ATTENTION;

ATTACHMENT 2

FILE REVIEWS

CONTRACTOR: CITIWEST
 DATE: MAY 17, 1999
 REVIEWERS: SCHIWARTZ/PAPILJ

CASE NUMBER	ADDRESS	STEP	COMMENTS
451-048554	96-98 Lincoln Avenue Central Falls, RI	8	NO NOTIFICATION TO TAX AUTHORITIES, POLICE OR UTILITY CO'S
451-053010	25 Hill Street Coventry, RI	Z	DEEDED TO HUD 4-12-99. NO FILE - IN PROCESS OF CREATING *
451-048819	112 Pequot Avenue Cumberland, RI	2	NO FILE. NONE RECEIVED FROM FIELD OFFICE*
451-030326	70 Bear Hill Road Cumberland, RI	2	NO FILE. NONE RECEIVED FROM FIELD OFFICE*
451-033016	51 Seventh Street East Providence, RI	7	CITIWEST DID NOT HAVE FILE
531-015660	19 Harlow Road Springfield, VT	6	Appraisal - 12-16-98 73,000, no indication updated appraisal ordered, NO INSPECTION, NO LETTER TO TAXING AUTHORITY, POLICE, UTILITY COMPANIES
531-014901	ES RR2 BOX 3006 Hinesburg, VT	1	CITIWEST DID NOT HAVE FILE
531-012845	74 Oakwood Drive South Burlington, VT	1	EMPTY FILE
251-146576	192 Cherry Street Middleboro, MA	7	Initial inspection 4-19-99 reflects 8" grass, no indication in file grass has been cut, no letter to taxing authority, police, or utility companies. sold 5/12 no contract yet
	1 Edna Circle		CITIWEST DID NOT HAVE FILE/VERBAL - STARTED PROCESS

251-201803	North Brookfield, MA	Z	5-12-99,*	no inspection report, no letter to taxing authority, police or utility companies, CONDO no letter to condo association
251-151949	500 Washington Street # 509 Quincy, MA	7		Appraisal - 9-18-98 no indication new appraisal ordered, , Initial inspection 4-13-99 reflects 6" grass, debris, leaks etc., "property condemned", no indication of any remedies to deficiencies, no letter to taxing authority, police or utility companies, no disposition recommendation
251-144004	48 Main Street West Orange, MA	2		CITWEST DID NOT HAVE FILE
251-203220	107 Mayflower Road Springfield, MA			initial inspection 4-22-99 no appraisal/no indication appraisal ordered, no disposition recommendation
231-058647	240 Gamage Avenue Auburn, ME	1		CITWEST DID NOT HAVE FILE
231-050277	221 Main Street Auburn, ME	Z		CITWEST DID NOT HAVE FILE
231-041482	12 Cedar Street Augusta, ME	2		CITWEST DID NOT HAVE FILE
231-041482	195 Park Avenue Bangor, ME	1		CITWEST DID NOT HAVE FILE (TOLD FAILING VERIFICATION)
231-048976	21 Bullen Road Bradley, ME	7		Appraisal - 12-11-98, no indication updated appraisal ordered, no inspection report, no letter to taxing authority, police or utility companies,
341-041769	603/732 Chester Road Auburn, NH	8		no inspection report, no letter to taxing authority, police or utilities
341-056286	33 Woodbine Avenue Concord, NH	1		CITWEST DID NOT HAVE FILE
341-047813	122 Donald Street Manchester, NH	1		decided to HUD 4-26-99, no inspection report, no letters to taxing authority, police or utilities, no appraisal/no indication one has been ordered
341-039543	12 Bulova Drive Nashua, NH	2		appraisal 12-21-98 - no indication updated appraisal ordered, no disposition recommendation, no letters to taxing authorities, police or utilities
341-039587	220D Coaster Road Laundon, NH	Z		CITWEST DID NOT HAVE FILE/ VERBAL - STARTED PROCESS 5-12-99
061-151444	112 Lakeside Drive Andover, CT	1		Property decded to HUD 11-18-98, no inspection report, no letters to taxing authorities, police or utilities, no appraisal/indication appraisal ordered
061-086601	103 Platt Street Ansonia Court 66 Benz Street	ICS		CITWEST DID NOT HAVE FILE no inspection report, no letter to taxing authority, police or utilities, sold 4-17

061-144974	Ansonia, CT 333 Tunxis Avenue Bloomfield, CT	7	111,500, not out to closing - waiting for corrections to contract
061-111540	114 Laurel Place Bridgeport, CT	8	no letter to taxing authority, police or utilities CITWEST DID NOT HAVE FILE/ VERBAL - CALLED
061-159363		Z	MORTGAGEE 5-18-99

*PER GARY CARTER

FILE REVIEW

CONTRACTOR: Citwest
REVIEWERS: Erle/Wright
DATES: 5-26-99 & 5-27-99

CASE NUMBER	ADDRESS	STEP	FINDINGS
061-140885	330 RIVER STREET UNIT #1 LISBON, CT	1	Citwest requested 27011 A on 4-6-99. No follow-up
061-087063	281 LYME STREET HARTFORD, CT	Z	No documents in file - 27011 A in route (5-24-99) no notification to tax authorities, police & utilities, defective paint report
061-086287	273 PORTSEA STREET NEW HAVEN, CT	1	notes no defective paint but photos show peeling paint, appraisal dated 5-2-99, no disposition recommendation in file
451-039798	813 YORK AVENUE PAWTUCKET, RI	1	NO DOCUMENTS IN FILE initial inspection 4-11-99 indicates excessive debris, no documentation in file
061-087668	65 ROBERTSON STREET BRISTOL, CT	5	of remedy for deficiencies, no notifications to tax authorities, police & utility companies, property is a condo - no notification to condo association
	74 LAFAYETTE STREET		no inspection from Citwest, no notifications to tax authorities, police &

341-052570	CLAREMONT, NH	2	utility companies
531-014540	112 LINCOLN STREET BENNINGTON, VT	1	no inspection from Citwest; no notifications to tax authorities; police & utility companies, no environmental review
061-156559	79 BIRCH STREET WATERBURY, CT	5	no notifications to tax authorities; police & utility companies, inspection identifies broken railing, trash, defective paint and no documentation of remedy for deficiencies.
151-019391	76 BARTLETT AVENUE CRANSTON, RI	1	decided to HUD 3-17-99, no inspection, no notification to taxing authorities; police & utility companies, no environmental review, no appraisal or no evidence appraisal has been ordered
061-092276	372 FRENCH STREET BRIDGEPORT, CT	1	decided to 3-25-99 - received by Citwest 4-12-99, no inspection, no notification to taxing authorities; police & utility companies, no environmental review; appraisal ordered 5-19-99
061-087393	376 BOND STREET BRIDGEPORT, CT	7	Citwest inspection 4-17-99 indicates debris no evidence of remedy for deficiencies; no notification to taxing authorities; police & utility companies; appraisal dated 10-29-98 (expired) no updated appraisal ordered, property in Step 7 no documentation in file of preliminary accept
061-137447	465 WOODLAND STREET WINDSOR LOCKS, CT	6	Citwest inspection dated 4-12-99 indicates interior & exterior debris inspection dated 5-6-99 indicates property NOT cleaned out, no indication deficiency has been remedied, no notification to taxing authorities; police & utility companies
061-138593	539 GEORGE WASHINGTON TPKE BURLINGTON, CT	1	decided to HUD - 4-14-98; no notification to taxing authorities; police & utility companies; no environmental review, no appraisal, no indication Citwest ordered an appraisal
061-125802	103 COOLIDGE STREET HARTFORD, CT	8	no notification to taxing authorities; police & utility companies; no environmental review, no inspection report, defective paint - no documentation of remedy
061-098373	30-32 GEORGE STREET TORRINGTON, CT	1	decided to 2-22-99 - received by Citwest 4-1-99, no inspection, no notification to taxing authorities; police & utility companies, no environmental review, no appraisal, no appraisal ordered
061-106694	25 FLORENCE ROAD BRANFORD, CT	3	OCCUPIED PROPERTY - NO INDICATION CITWEST HAS BEEN TO PROPERTY (DECEDED TO HUD 9-39-98)
061-110524	21 ABERN COURT BRIDGEPORT, CT	2	no notification to taxing authorities; police & utility companies; property is a Condo - no notification to Condo association; appraisal dated 9-23-98 (expired) no updated appraisal ordered, no disposition recommendation (expired) - received by Citwest 5-5-99, no inspection report, no

451-044217	141-143 LEDGE STREET PROVIDENCE, RI	1	notification to taxing authorities, police & utility companies, no environmental review, no appraisal, appraisal ordered 5-13-99
231-041725	772 WASHINGTON STREET AUBURN, ME	1	deeded to 4-28-99 - received by Citwest 4-30-99, no inspection report, no notification to taxing authorities, police & utility companies, no environmental review, no appraisal, no appraisal ordered
061-089912	289 SOUTH ORCHARD STREET WALLINGFORD, CT	1	deeded to 4-01-99 - received by Citwest 4-15-99, no inspection report, no notification to taxing authorities, police & utility companies, no environmental review, no appraisal, appraisal ordered 4-23-99 - no disposition recommendation
252-000929	31 VERNON STREET HOLYOKE, MA	1	no notification to taxing authorities, police & utility companies, no environmental review, no appraisal, no appraisal ordered, defective paint found - no remedy indicated in file
251-166070	65 BROOKS VILLAGE ROAD PHILLIPSTON, MA	2	no notification to taxing authorities, police & utility companies, appraisal dated 11-9-98 no updated appraisal ordered, no disposition recommendation
231-047063	133 CONGRESS STREET MILLINOCKET, ME	6	Citwest inspection dated 4-20-99 indicates interior & exterior debris and broken windows, no indication deficiencies have been remedied, no notification to taxing authorities, police & utility companies
531-015735	25 WEST STREET PROCTOR, VT	1	no Citwest inspection, no notification to taxing authorities, police & utility companies, no environmental review, no appraisal, no appraisal ordered (deeded to HUD 3-4-99)
061-095731	46 FAIRBANKS STREET BRIDGEPORT, CT	2	no notification to taxing authorities, police & utility companies, appraisal dated 9-22-98 no updated appraisal ordered
061-135749	4 BUNGAY COURT SEYMOUR, CT	1	property deeded to HUD 5-6-99 received by Citwest 5-7-99, inspected 5-11-99 - report indicates high grass and debris, defective paint found - no indication of remedy of deficiencies in file, no notification to taxing authorities, police & utility companies
061-133223	71 MINK TRAIL COVENTRY, CT	1	property deeded to HUD 5-12-99 received by Citwest 5-20-99, no inspection report, no notification to taxing authorities, police & utility companies, no environmental review, no notification to taxing authorities, police & utility companies
061-122579	270 MILL PLAIN AVENUE WATERBURY, CT	1	inspected 4-3-99 report indicated 10-12 yards of debris - inspection report 4-19-99 indicates property still NOT free of debris, no indication of remedy of deficiencies in file, no appraisal no appraisal ordered.
			no Citwest inspection, no notification to taxing authorities, police & utility companies, no environmental review, no appraisal, no appraisal ordered

061-058934	177-179 GREENFIELD ST U-5A HARTFORD, CT	1	(deeded to HUD 1-27-99), property is a Condo - no notification to Condo association
061-116086	10 GRANDVIEW DANBURY, CT	5	Citwest inspection 4-18-99 indicates debris, file contains no evidence of remedy for deficiencies in file, no notification to taxing authorities, police & utility companies
451-027599	135 WAYNE STREET WARWICK, RI	1	NOTHING IN FILE
532-000093	84 PLAIN STREET RUTLAND, VT	1	no inspection report, no notification to taxing authorities, police & utility companies, no environmental review, no appraisal, no appraisal ordered (deeded to HUD 2-24-99)
231-053373	8 PEARL STREET SANFORD, ME	6	no Citwest inspection, no notification to taxing authorities, police & utility companies
231-051315	31 BURNHAM STREET OLD TOWN, ME	6	no Citwest inspection, no notification to taxing authorities, police & utility companies
251-157387	319 SOUTH MAIN STREET HOPEDALE, MA	7	no Citwest inspection, no notification to taxing authorities, police & utility companies
251-177384	133 BONDSVILLE ROAD WARE, MA	6	4-15-99 inspection indicates 12" grass, no documentation of remedy of deficiencies in file, no notification to taxing authorities, police & utility companies
251-184115	56 JUDY ANN DRIVE EAST PALMOUTH, MA	1	4-19-99 inspection indicates high grass, defective paint reported, no documentation of remedy of deficiencies in file, no notification to taxing authorities, police & utility companies, no appraisal - no appraisal ordered
061-082656	350 COLONIAL AVENUE WATERBURY, CT	2	no inspection, no notification to taxing authorities, police & utility companies, no environmental review, appraisal dated 5-2-99 no disposition recommendation
253-000130	45 JUDSON STREET SPRINGFIELD, MA	1	no inspection, no notification to taxing authorities, police & utility companies, no environmental review, appraisal dated 5-13-99 no disposition recommendation
251-172959	113 CLARK STREET NEW BEDFORD, MA	6	4-18-99 inspection indicates 12" high grass and debris - no documentation of remedy of deficiencies in file, no notification to taxing authorities, police & utility companies
061-158733	33 LANERDON COURT KENSINGTON, CT	6	no notification to taxing authorities, police & utility companies, no environmental review, property is a Condo - no notification to Condo assn.
061-119048	68 MILITARY DRIVE MIDDLETOWN, CT	1	NO FILE

061-128497	75 REDWOOD DRIVE #1303 WAST HAVEN, CT	1	NO FILE
061-151852	15 KELSEY PLACE BLOOMFIELD, CT	6	4-13-99 inspection indicates defective paint on windows. inspection reports 5-6 & 5-21 indicates lawn needs cut & branches to be removed, - no documentation of remedy of deficiencies in file, no notification to taxing authorities, police & utility companies initial inspection indicates on unit (193) occupied and other has 35 yards of debris, no documentation of remedy of deficiencies in file, no notification to taxing authorities, police & utility companies, nothing indicating investigation of occupied property
061-144266	193-195 OTIS STREET HARTFORD, CT	1	taxing authorities, police & utility companies, nothing indicating investigation of occupied property
061-142550	58 WHEELER AVENUE MILFORD, CT	1	OK
061-178275	48 TRUMAN STREET NEW LONDON, CT	1	no inspection, no notification to taxing authorities, police & utility companies, no environmental review, no appraisal - no appraisal ordered
341-052751	15 KIMBALL HEIGHTS GREENVILLE, NH	1	no inspection, no notification to taxing authorities, police & utility companies, no environmental review

FILE REVIEW

CONTRACTOR: Citivest
 DATE: 5-18-99
 REVIEWERS: Schwartz/Papili,Erle,Wright,Cline

NOTE - ONLY DEFICIENCIES NOTED

CASE NUMBER	ADDRESS	STEP	COMMENTS
061-162156	115 WHITNEY AVENUE BRIDGEPORT, CT	1	INSPECTION REPORT 12' HIGH GRASS & DEBRIS NO REMEDY INDICATED IN FILE, NO LETTERS TO TAXING AUTHORITIES, POLICE OR UTILITIES. INSPECTION REPORT - COLLAPSED RETAINING WALL, DEBRIS

061-159313	98 LYNNE PLACE BRIDGEPORT, CT	1	& HIGH GRASS NO REMEDY INDICATED IN FILE; NO LETTERS TO TAXING AUTHORITIES, POLICE OR UTILITIES, APPRAISAL NO DATE
061-143891	31 CLIFTON PLACE BRIDGEPORT, CT	1	9516-A DATED 4-16-99, NO APPRAISAL OR INDICATION APPRAISAL WAS ORDERED, NO LETTERS TO TAXING AUTHORITIES, POLICE OR UTILITIES
061-108230	5 NOD COURT CLINTON, CT	2	INSPECTION REPORT - 41 YDS OF DEBRIS & HIGH GRASS - NO REMEDY INDICATED IN FILE, NO LETTERS TO TAXING AUTHORITY, POLICE OR UTILITIES
061-086111	8-16 128 CLAY HARTFORD, CT	1	27011-A 2-24-99 - NO INSPECTION REPORT, NO LETTERS TO TAXING AUTHORITIES, POLICE, UTILITIES, OR INDICATION APPRAISAL HAS BEEN ORDERED
061-133668	1407 MILL POND DRIVE SOUTH WINDSOR, CT	1	27011-A 4-27-99 - NO INSPECTION REPORT, NO LETTERS TO TAXING AUTHORITIES, POLICE, UTILITIES; NO INDICATION APPRAISAL HAS BEEN ORDERED
251-176850	54 DELAWARE DRIVE WORCHESTER, MA 2171 ROUTE 9	1	27011-A 4-27-99 - NO INSPECTION REPORT, NO LETTERS TO TAXING AUTHORITIES, POLICE, UTILITIES, APPRAISAL ORDERED NO DATE.
251-204287	WINDSOR, MA	1	27011-A 4-26-99 - NO INSPECTION REPORT, NO LETTERS TO TAXING AUTHORITIES, POLICE, UTILITIES, OR INDICATION APPRAISAL HAS BEEN ORDERED
251-181224	1194 BARK STREET SWANSEA, MA	2	NO INSPECTION REPORT, NO LETTERS TO TAXING AUTHORITY, POLICE, UTILITIES, OR DISPOSITION RECOMMENDATION
251-181293	3 BROWN STREET SPENCER, MA	2	NO INSPECTION REPORT, NO LETTERS TO TAXING AUTHORITIES, POLICE, UTILITIES, OR IDISPOSITION RECOMMENDATION, APPRAISAL DATED 11-20-98 - NO EVIDENCE OF NEW APPRAISAL
251-144495	135 GROVE STREET # 124 ROCKLAND, MA 20 ORLEANS STREET	6	NO LETTERS TO TAXING AUTHORITIES, POLICE, UTILITIES, CONDO - NO LETTER TO CONDO ASSN.
231-052134	LEWISTON, ME	1	NO FILE SENT*
231-052467	22 MOODY ROAD LISBON, ME	1	27011-A 4-7-99 - NO INSPECTION REPORT, NO LETTERS TO TAXING AUTHORITIES, POLICE, UTILITIES, APPRAISAL ORDERED NO DATE.

231-015202	37 PLEASANT STREET MECHANIC FALLS, ME	2	INSPECTION REPORT 4-22 INDICATES HIGH GRASS & DEBRIS - NO REMEDY INDICATED IN FILE NO LETTERS TO TAXING AUTHORITIES, POLICE, UTILITIES
231-042890	11 OTTER DRIVE WATERBORO, ME	7	NO LETTERS TO TAXING AUTHORITIES, POLICE, UTILITIES, NO INSPECTION
341-044868	265 PEARL STREET MANCHESTER, NH	1	NO FILE SEND*
341-051622	36 BARNARD RIDGE ROAD MEREDITH, NH	1	
341-036763	MINE LEDGE ROAD SURRY, NH	8	NO LETTERS TO TAXING AUTHORITIES, POLICE, UTILITIES, NO INSPECTION
341-030500	89 TAYLOR STREET CLAREMONT, NH	2	NO LETTERS TO TAXING AUTHORITIES, POLICE, UTILITIES, NO INSPECTION FROM CITWEST, APPRAISAL DATED 2-11-98 INDICATION UPDATED APPRAISAL ORDERED
341-039010	238 MAIN STREET SOMERWORTH, NH	CS	NO FILE
451-039300	283 GREENWOOD AVENUE WARWICK, RI	1	NO FILE
451-032706	10 DEWEY AVENUE TIVERTON, RI	1	APPRAISAL ORDERED - NO DATE (27011 4-30-99) NO LETTERS TO TAXING AUTHORITIES, POLICE, UTILITIES, NO INSPECTION
451-039964	30 PRINCE STREET WARWICK, RI	2	NO LETTERS TO TAXING AUTHORITIES, POLICE, UTILITIES, NO INSPECTION
451-039615	168 WINTER STREET SOUTH KINGSTON, RI	8	NO LETTERS TO TAXING AUTHORITIES, POLICE, UTILITIES, INSPECTION REPORT INCOMPLETE
451-031688	36-38 BRATTLE STREET PROVIDENCE, RI	1	NO FILE
531-014198	4 ORIENT STREET SOUTH JOHNSBURY, VT	1	NO LETTERS TO TAXING AUTHORITIES, POLICE, UTILITIES, NO INSPECTION, APPRAISAL ORDERED NO DATE -(27011 3-29)
531-014466	56 SAXONS RIVER ROAD NORTH WESTMINSTER, VT	6	NO LETTERS TO TAXING AUTHORITIES, POLICE, UTILITIES, NO INSPECTION, APPRAISAL 11-5-98 NO INDICATION NEW APPRAISAL ORDERED

QUESTIONS FOR DEPUTY SECRETARY SAUL N. RAMIREZ, JR.**1) Creation and Implementation of Community Builder Program**

Identify all reports and specific report findings (other than your previous testimony in this hearing) that identified the need for Community Builder Fellow positions. Identify any finding that specifically recommends temporary external Community Builder positions. Specify each contractor or entity responsible for each report, the purpose and parameters of each report, the offices and officials within HUD responsible for administering each project and reviewing the project reports, and the total cost paid for each report. Explain any contributions of Mr. David Osborne to recommending the creation of Community Builders, and any compensation that he may have received.

During the course of your testimony you stated that an attorney from the Office of the Inspector General crafted and signed off on the legal analysis justifying HUD's hiring under Schedule A authority. Your "note for the record" was in response to the OIG's testimony about violations of personnel rules in the hiring process. This attempt to mislead the Subcommittee by implying that an OIG counsel had signed off on the implementation of Schedule A authority is deplorable. First, your statement implied that the OIG's office had signed off on the implementation of the Schedule A hiring, when in fact the OIG's report clearly asserts hiring irregularities. In fact, even the General Counsel's opinion does not approve in any way of HUD's implementation of the Schedule A authority - - it merely asserts that HUD could use Schedule A authority to hire Community Builders. Please provide the Subcommittee with an accurate description of the contents of HUD's General Counsel's opinion. Also, please explain why HUD failed to mention veterans' preference in advertising the positions and why veterans' preference was ignored in the selection process. If you choose to argue that veterans' preference was not ignored, please provide the Subcommittee with documents that demonstrate HUD's compliance with veterans' preference requirements.

2) Purported Success of Community Builders Program

You testified that the "Community Builder Program has been a remarkable success," despite the criticisms voiced within HUD by its employees and unions, by the HUD Office of Inspector General, and by the U.S. Congress (as cited in recent appropriations language). You indicate that Community Builders streamline the HUD customer service function by serving as a single point of contact. Yet, as shown in our questions to Assistant Secretary Apgar, incidents that have come to our attention do not demonstrate the program is working. (See complaint directed to Rep. John Shimkus regarding the disposition of FHA housing in Springfield, Illinois.) Furthermore, given the continued designation of HUD as an agency "at risk" and the unprecedented management and marketing issues facing FHA and other HUD programs, how can HUD possibly afford to dedicate hundreds of staff to new external Community Builder positions without direct programmatic and oversight responsibilities?

Despite HUD's assertions to the contrary, distinguishing external Community Builders from Public Trust Officials defies sound management logic. Identify the officials within HUD who requested or participated in the solicitation, collection, and dissemination of support letters regarding the contributions of the Community Builder Program. Produce copies of any

correspondence sent to Community Builders regarding individual Members of Congress who either supported or opposed the program, and copies of any advice or guidance to Community Builders regarding how to influence Members of Congress.

3) Consultation With and Approval By the U.S. Office of Personnel Management (OPM)

You testified that you, "consulted with OPM regarding the process [in hiring Community Builders] and they did not object to any part of our plan." In a letter dated July 26, 1999, from OPM Director Janice R. Lachance to Rep. Joe Scarborough, Chairman of the Subcommittee on Civil Service, the OPM Director stated: "Although we established the authority for use by all agencies, we must defer to HUD to answer your specific questions on appointing individuals to the 'Community Builders' positions." Please identify all meetings and discussions and the dates held or conducted by HUD employees with OPM on this topic, including the names and positions of all persons who attended and/or participated, and provide us with all letters, summaries, notes, and/or documents produced as a result of each meeting and/or discussion.

4) Veterans' Preference.

You and your department further indicate, in direct contradiction of the HUD OIG report, that all veterans' preference requirements were met. According to OPM, HUD was instructed that veterans' preferences would apply to the hiring of Community Builders. Please explain in detail how the hiring process ensured the full consideration and proper calculation of veterans' preferences for all applicants. Describe the circumstances where any veterans were not hired and specify the method used to calculate individual scores. Explain any lack of documentation which would have shown full compliance with veterans' preference regulations.

5) Training of Temporary Community Builder Fellows

Describe in detail how the decision was made to send temporary Community Builders to Harvard University for training. Identify any current or former HUD officials involved in promoting, arranging, conducting, or contributing to the training of Community Builders at Harvard University, and fully explain their individual roles and contributions. Who, if anyone, previously associated with the Kennedy School of Harvard University was hired into the program? What was the cost of training per individual Community Builder at Harvard University, and the total cost for all Community Builders training for HUD?

6) Selection of New Community Builders

In your testimony, you indicate that career employees hired the new Community Builders. Identify all non-career HUD employees who provided guidance regarding selections to the selecting officials, reviewed applications or applicants prior to their final hiring, or otherwise was involved in the selection and hiring process. Explain the roles and actions of each in the selection and hiring process.

7) HUD's Actions in Dramatically Raising Position Grades and Salaries

Explain in detail HUD's planning and rationale for the many high graded positions for Community Builders, and the increases in grades and salaries of other positions related to these changes. Please describe your intentions in elevating these grades, and report on any discussion of these positions within HUD's Partnership Council. Explain in detail how HUD has strictly and fully complied with applicable position classification standards. Identify all instances where non-career HUD officials have influenced the grade levels assigned to specific Community Builders.



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
THE DEPUTY SECRETARY
WASHINGTON, D.C. 20410-0050
November 24, 1999

The Honorable John L. Mica
Chairman
Subcommittee on Criminal Justice, Drug Policy and Human Resources
B-373 Rayburn House Office Building
Washington, DC 20515

Dear Chairman Mica:

I have enclosed responses of the Department of Housing and Urban Development to your follow-up questions dated November 10, 1999. One of your questions states that a comment I made was an "attempt to mislead the Subcommittee." Nothing could be further from the truth. My comment simply pointed out a troubling inconsistency between the position taken by OIG audit staff and that taken by a current OIG attorney. The OIG's audit report on Community Builders and the testimony of OIG auditors took issue with the legal authority of the Department to use Schedule A hiring authority to hire Community Builders. In fact, legal authority for the use of Schedule A is the primary issue raised by the audit report regarding the hiring. In his testimony before the Committee, the OIG official repeatedly raised this point. HUD's Office of General Counsel evaluated the legality of using Schedule A to hire Community Builders and concluded that the Department could do so. In direct response to this criticism, I noted that the current Assistant Counsel in the OIG, Anthony DeMarco, helped draft and formally concurred in HUD's legal opinion approving the use of Schedule A authority to hire the Community Builders. That HUD legal opinion directly contradicts criticism that appears in the OIG's audit report and testimony. The current OIG Assistant Counsel's approval of that opinion in his prior capacity as an OGC attorney raises legitimate questions about the nature of the OIG's "second-guessing" of HUD on issues of legal interpretation. My comments conveyed this point to the Committee accurately and my comments were not misleading.

In addition, I included the Department's legal opinion regarding Schedule A authority as an attachment to my written testimony and asked that it be made part of the record of the hearing. The attachment included Mr. DeMarco's signature concurring in the opinion. I can think of no way to more fully and accurately apprise the Committee of the contents and meaning of the opinion than to include it in the record in its entirety.

I appreciate this opportunity to further elaborate on HUD's positions regarding the Community Builder Program and look forward to working with you and your staff in the future.

Sincerely,

A handwritten signature in cursive script that reads "Saul N. Ramirez, Jr." The signature is written in dark ink and is positioned above the printed name.

Saul N. Ramirez, Jr.

Enclosures

**The U.S. Department of Housing and Urban Development's Responses
to Questions From Chairman Mica Regarding the Community Builder Program**

1) Creation and Implementation of the Community Builder Program

Identify all reports and specific report findings (other than your previous testimony in this hearing) that identified the need for Community Builder Fellow positions. Identify any finding that specifically recommends temporary external Community Builder positions. Specify each contractor or entity responsible for each report, the purpose and parameters of each report, the offices and officials within HUD responsible for administering each project and reviewing the project reports, and the total cost paid for each report.

HUD instituted its 2020 Management Reform Plan and the Community Builder Program in order to respond to longstanding criticisms of the management and operation of the Department. These criticisms were raised by organizations including the General Accounting Office, Office of Inspector General and the National Academy of Public Administration. For example, the General Accounting Office placed HUD on its high risk list. One of the four weaknesses cited by GAO to justify HUD's inclusion on the high risk list was "overlapping and ill-defined responsibilities." GAO, High Risk Series: Department of Housing and Urban Development, February 1997 at 17. The Community Builder Program directly addresses this criticism. HUD segregated customer service functions from program and monitoring functions and vested those separate functions in two different jobs – Community Builders and Public Trust Officers. This change has made all of the Department's jobs more clearly defined, more focused and has addressed the problem of overlapping responsibilities.

The Department's Office of Inspector General has advocated similar reforms over the years. As early as 1994, the Office of Inspector General recommended that HUD's Office of Community Planning and Development ("CPD") implement changes that included changing its role from that of "*program regulator* to more of a *community enabler*." HUD Office of Inspector General, Semiannual Report to the Congress For the Period Ending March 31, 1994 ("March 1994 Semiannual Report") at 12-13 (emphasis in original). The March 1994 Semiannual Report noted that the changes that CPD was to implement included "a more holistic approach to address community problems" and "providing greater flexibility and support to facilitate locally derived strategies and activities." March 1994 Semiannual Report at 12. The Office of Inspector General assessed CPD's plans and concluded, "Now that the CPD program delivery strategy is more clearly defined, management attention needs to be focused on timely and effective implementation." March 1994 Semiannual Report at 13. Of course, the Community Builder Program makes the goals of CPD's 1994 plans available for the entire Department.

In addition, prior to the advent of the Community Builder Program, HUD's Office of Inspector General called for a more precise definition of the "community catalyst" role

played by HUD staff. HUD Office of Inspector General, Semiannual Report to the Congress For the Period Ending September 30, 1995 ("September 1995 Semiannual Report") at 3-4. The Community Builder Program has provided HUD with a more precise definition of the community catalyst role. Community Builders have received extensive instruction and training related to this role and focus all of their efforts on advancing those goals. This change has not only clarified the community catalyst role but has removed the ambiguities in the programmatic and monitoring roles played by other HUD staff. This has provided a sharper focus for both types of jobs completed by HUD staff.

Another report that pointed out the need for the Community Builder function was completed by the National Academy of Public Administration ("NAPA"). NAPA completed a thorough review of the Department in 1994 entitled Renewing HUD: A Long-Term Agenda for Effective Performance ("NAPA Report"). The NAPA Report was mandated by Congress because the Appropriations Committees "were concerned about HUD's ability to carry out its mission efficiently and effectively." NAPA Report at iii. One of NAPA's recommendations was that HUD take action to "put communities first." NAPA Report at 20. NAPA stressed the importance of inter-program coordination to "provide holistic services to communities" and concluded, "HUD must devote adequate resources to working collaboratively with communities if it is to become a true partner in the intergovernmental community." NAPA Report at 20-21. The Community Builder Program addresses the needs identified by NAPA.

The NAPA Report cost \$931,989.87. HUD's Office of Policy Development and Research coordinated with NAPA on its work and work product for this project.

Explain any contributions of Mr. David Osborne to recommending the creation of Community Builders, and any compensation that he may have received.

David Osborne did not recommend the creation of Community Builders and, therefore, did not receive any compensation for such an effort. Mr. Osborne and the Public Strategies Group did review HUD's 2020 Management Reform Plan including the Community Builder Program and concluded, "PSG believes that the HUD 2020 plan lays out a sound blueprint for reforming the Department and setting it on a path for making it a model federal agency for the 21st century."

Please provide the Subcommittee with an accurate description of the contents of HUD's General Counsel's opinion.

A copy of the General Counsel's opinion is attached and its language is the most complete and accurate description of its contents. Contrary to assertions made by the Inspector General in a letter to Chairman Mica, this legal opinion was provided to the Office of Inspector General and at no time did the Department deny its existence. As noted during the hearing, this legal opinion supports the Department's contentions

regarding the hiring of Community Builders. We have attached a memorandum to District Inspector General for Audit Michael Beard addressing this issue.

Also, please explain why HUD failed to mention veterans' preference in advertising the positions and why veterans' preference was ignored in the selection process. If you choose to argue that veterans' preference was not ignored, please provide the Subcommittee with documents that demonstrate HUD's compliance with veterans' preference requirements.

HUD did not ignore veterans' preference in the hiring of Community Builders. Applicants who indicated military service were awarded veterans' preference points. There was no requirement for HUD to mention veterans' preference in the announcement for the Community Builder Fellow positions. Our response to question number 4 explains in detail how veterans' preference was applied in the hiring process.

2) **Purported Success of Community Builders Program**

How can HUD possibly afford to dedicate hundreds of staff to new external Community Builder positions without direct programmatic and oversight responsibilities?

HUD cannot afford to operate without the Community Builder program. Community Builders are crucial to the Department's success. Community Builders help the Department achieve each and every one of its strategic objectives as noted by Ernst & Young LLP. Ernst & Young's finding demonstrates that it is only through the work of Community Builders and Public Trust Officers together that HUD will continue to improve its management and operations. Ernst & Young found that Community Builders advanced the Department's mission by:

- Providing increased customer service and responsiveness to community needs and requests;
- Expanding outreach to new and in some cases previously under served partners;
- Facilitating working partnerships furthering the Department's mission of providing economic development and affordable housing;
- Utilizing valuable private sector experience and skills to benefit the public sector; and
- Furthering the Department's strategic objectives.

Ernst & Young concluded, "These results, along with our understanding of the Program and considering the recommendations in this report, support our belief that the Community Builder Program may serve as an innovative government model of improved customer service for government institutions at all levels." In fact, one HUD customer told Ernst & Young that the Community Builder Program is the most significant and innovative model for delivering government programs in over twenty years.

Similarly, Andersen Consulting surveyed HUD customers and found that the Department was delivering customer service at a level comparable to Baldrige Quality Award winners. This was based on a survey of HUD customers indicating that they received courteous service (97%), professional service (96%), and accurate information (91%). These scores are particularly high for a governmental entity that must act in a regulatory as well as a customer service capacity toward its customers.

In addition, Community Builders allow Public Trust Officers to spend 100% of their time on programmatic and monitoring functions. If HUD were to return to its previous model in which Community Builder duties were shared by numerous employees throughout the Department, programmatic and monitoring work would receive less attention and would suffer. In sum, the Community Builder program is the best way for HUD to achieve every aspect of its mission – including customer service as well as programmatic and monitoring goals.

Identify the officials within HUD who requested or participated in the solicitation, collection, and dissemination of support letters regarding the contributions of the Community Builder Program.

Support letters regarding the Community Builder Program have typically been received by the Department through three processes: 1) unsolicited letters have been received by the Office of Executive Secretariat; 2) unsolicited letters also have been received in many of HUD's 81 Field Offices; and 3) in response to a request by Senator John Kerry, Field Office personnel have solicited feedback from HUD customers which have sometimes taken the form of letters.

All correspondence addressed to the Secretary or Deputy Secretary is received by the Office of Executive Secretariat ("Exec. Sec."), logged for tracking purposes, and then dispersed to the appropriate HUD office for handling and response. Correspondence relating to the Community Builder Program was assigned to the Office of Field Policy and Management ("FPM") for handling and, where appropriate, response. Overall, the receipt, handling and disposition of these unsolicited support letters regarding the Community Builder Program involved approximately 23 employees in Exec. Sec. and approximately 12 employees in FPM.

In addition, unsolicited support letters regarding the Community Builder Program were received and processed by HUD field offices and copies were forwarded to FPM. At the local level, these letters were handled by HUD employees. In all, these unsolicited support letters may have been collected and compiled by as many as 100 or more HUD employees in field offices and HUD headquarters.

Moreover, Senator John Kerry requested that HUD seek feedback from its customers regarding the work of Community Builders. In order to respond to Senator Kerry's request, HUD Field Office personnel contacted – and received letters from – a number

of HUD customers and clients (such as cities, housing authorities, and non-profit organizations) who had worked with Community Builders. These customers and clients were asked to provide information, comment on, or validate the activities of the Community Builders in their communities. These letters were received by HUD field offices and forwarded to FPM in the same manner as the unsolicited letters. This effort to respond to Senator Kerry's request involved hundreds of HUD employees.

FPM staff as well as the National Community Builders office – a total of approximately 20 employees – compiled all of the support letters regarding the Community Builder Program. Through the efforts of these two offices as well as HUD's print shop and the Department's Office of Congressional and Intergovernmental Relations, many of these letters were then disseminated to interested Members of Congress and their staffs.

Produce copies of any correspondence sent to Community Builders regarding individual members of Congress who either supported or opposed the program, and copies of any advice or guidance to Community Builders regarding how to influence Members of Congress.

We have attached documents responsive to this request.

3) Consultation With and Approval By the U.S. Office of Personnel Management (OPM)

Please identify all meetings and discussions and the dates held or conducted by HUD employees with OPM on this topic, including the names and positions of all persons who attended and/or participated, and provide us with all letters, summaries, notes, and/or documents produced as a result of each meeting and/or discussion.

HUD staff first met with OPM regarding the hiring of Community Builders on October 31, 1997. An attendance list from this meeting is attached. The October 31, 1997 meeting followed discussions between HUD's Deputy Secretary Dwight Robinson and the Director-Designate of OPM Janice Lachance. HUD staff next met with OPM on May 15, 1998. A list of attendees and notes from this meeting are attached. The May 15, 1998 meeting covered the hiring of Community Builders, the use of Schedule A hiring authority and the application of veterans' preference. The attached August 27, 1998 memorandum from HUD's Acting Deputy Director of Human Resources Sandi Chavis memorializes instructions to individuals evaluating Community Builder applications. Ms. Chavis' memorandum is based upon the conversations with OPM staff that occurred on May 15, 1998 and includes discussion of the application of veterans' preference.

4) Veterans' Preference

Please explain in detail how the hiring process ensured the full consideration and proper calculation of veterans' preferences for all applicants. Describe the circumstances where any veterans were not hired and specify the method used to calculate individual scores. Explain any lack of documentation which would have shown full compliance with veterans' preference regulations.

HUD applied veterans' preference, consistent with relevant regulations and OPM guidance, as follows:

- The Department evaluated all applications to determine minimally qualified candidates. Those candidates who were determined minimally qualified were further evaluated against established criteria and assigned a score to determine highly qualified candidates.
- Veteran applicants who were determined to be minimally qualified were evaluated against the same criteria as other minimally qualified applicants and assigned a score. However, additional points were added to the scores of veterans. Points awarded were as follows: 10 points for disabled veterans; 10 points for recipients of the Purple Heart; 10 points for widow/widower or mother of a deceased veteran; 10 points for spouse or mother of a disabled veteran; and 5 points for all other veterans eligible for preference. A determination of highly qualified was not made until after the Department added veterans' preference points to the qualified veteran candidate's score. We have attached a sampling of the evaluation forms that were completed for qualified veteran candidates, which demonstrate that veterans' preference was applied. Please note that these forms and the applicant lists produced in response to this question are covered by the Privacy Act. We request that these materials receive confidential treatment by your office.
- Applicants who met the highly qualified cut-off score went to the next phase of the selection process. During this phase, highly qualified applicants were rated against additional criteria and assigned another score. The top 5 candidates for each position allocation were identified and they moved on for further scoring during the interview process. Candidates who were not among the top 5 candidates for each position allocation were not interviewed. We have attached a list of veteran candidates who were not among the top 5 candidates for a position.
- The rating and interview scores of each of the remaining candidates were then combined and a cutoff score was established to determine the best qualified candidates. The best qualified candidates were referred to the selecting official. Any candidate who was not determined best qualified was not referred to the selecting official. We have attached a list of veteran candidates who did not meet the best qualified cutoff score.

- The hiring process for Community Builder Specialists was completed separate from the process for other Community Builders. Applicants who applied for Community Builder Specialist positions did not receive any scores. Hiring panels of career employees reviewed all applications against established criteria to determine the candidates who would be referred to the selecting official. Any candidate who did not meet the criteria was not referred to the selecting official. Veteran candidates that met the criteria were placed on the selection list ahead of all non-veteran candidates. We have attached a sample of a selection list that was referred to the selecting official demonstrating that veterans were placed at the top of the list and the corresponding list of applicants who were not referred to the selecting official.

As described above, there were veterans and non-veterans who were eliminated from consideration at each stage of the hiring process. Each decision regarding the evaluation, scoring and selection of individual applicants was made by a career HUD employee or a panel of career HUD employees.

5) **Training of Temporary Community Builder Fellows**

Describe in detail how the decision was made to send temporary Community Builders to Harvard University for training.

Before providing you with the Department's reasoning for training Community Builders at Harvard it should be recognized that all Community Builders – not just the “temporary” Community Builders – have been trained at Harvard University's Kennedy School of Government. The Department also is sending some of its public trust officers to the Kennedy School for intensive training.

In the Spring of 1997, HUD began to develop a comprehensive plan to train the Community Builders. The training program consists of three components: an orientation program conducted by HUD, the program at the Kennedy School of Government, and community context training provided locally. The Kennedy School training provides the participants with a sophisticated appreciation of the historical, social, economic and political factors that create the context for community development work in America's cities.

Prior to deciding to send Community Builders to the Kennedy School, HUD reviewed programs offered by various universities. In order to make the program operational and provide needed training expeditiously, HUD decided that it should utilize an existing university program rather than having an institution customize a comprehensive program for Community Builders. After researching existing university programs including those at universities with which HUD had pre-existing programs (such as Yale University, the University of Maryland, Portland State University, and DePaul University), HUD determined that the curriculum available

through the Kennedy School would best suit its needs. The program chosen is the "Program for Leaders in Community Development" offered by the Kennedy School.

Identify any current or former HUD officials involved in promoting, arranging, conducting, or contributing to the training of Community Builders at Harvard University, and fully explain their individual roles and contributions.

The training was carried out by the Kennedy School of Government at Harvard University. HUD officials did not promote, conduct or contribute to the training. The Department did work with the Kennedy School to arrange the training. This effort involved HUD's Training Academy ("HTA"), the Office of the Chief Financial Officer, and the Office of Field Policy and Management. The Office of the Chief Financial Officer put money into the HTA training budget and the HTA reserved funds to cover the costs of the training. HTA staff contacted the Kennedy School to determine the dates available for the training, FPM prepared participant lists and HTA staff sent participants information about the program as well as guidance for obtaining travel authorization.

Who, if anyone, previously associated with the Kennedy School of Harvard University was hired into the program?

The Department is not aware of anyone who previously worked for the Kennedy School of Government who was hired into the Community Builder Program.

What was the cost of training per individual Community Builder at Harvard University, and the total cost for all Community Builders training for HUD?

The average cost of training at Harvard University is \$5,256 for tuition and \$586 for travel per Community Builder. On August 6, 1999, the Department provided Congressman Mica's office with figures representing the total estimated obligations for all Community Builder training in fiscal years 1998 and 1999. Those figures totaled \$9,672,227. The actual expenditures to date have been less than the estimated obligations. The Department to date has expended \$5,161,785 on Community Builder training and related travel. This figure includes Community Builder training at four different universities and HUD orientation and training programs.

6) Selection of New Community Builders

Identify all non-career HUD employees who provided guidance regarding selections to the selecting officials, reviewed applications or applicants prior to their final hiring, or otherwise was involved in the selection and hiring process. Explain the roles and actions of each in the selection and hiring process.

All Community Builders were selected by individual career employees or panels composed entirely of career employees. No non-career employees provided guidance

regarding an individual selection to the selecting officials. Specifically, no non-career employees reviewed applications, interviewed applicants or were otherwise involved in selecting which applicants were hired as Community Builders.

7) HUD's Actions in Dramatically Raising Position Grades and Salaries

Explain in detail HUD's planning and rationale for the many high graded positions for Community Builders, and the increases in grades and salaries of other positions related to these changes. Please describe your intentions in elevating these grades, and report on any discussion of these positions within HUD's Partnership Council. Explain in detail how HUD has strictly and fully complied with applicable position classification standards. Identify all instances where non-career HUD officials have influenced the grade levels assigned to specific Community Builders.

Under HUD 2020, the Department made a clear distinction between community empowerment and ensuring the public trust. The Community Builder provides direct customer service to address real community needs. The work of the Community Builders is guided by the Department's focus on community consulting and collaboration, community-focused planning, and fostering neighborhood-based empowering partnerships. They build local capacity for problem solving, and facilitate the development of comprehensive and integrated service strategies within the communities and at HUD.

These tasks are important and demand initiative, judgment and planning by Community Builders to achieve success. Accordingly, the Department weighed the duties, responsibilities and demands of the positions against Office of Personnel Management classification principles and determined that Community Builders should be classified at GS-13 through 15 levels. This determination was made by career employees in HUD's Office of Human Resources. Non-career officials did not influence the grade levels assigned to any specific Community Builders.

During the implementation of HUD 2020, the Department also recognized the need for a cadre of experienced and capable staff to restore the public trust in HUD's ability to efficiently manage and allocate its resources. New positions with the job title of Public Trust Officer ("PTO") were created to develop a cadre of leaders and experts in each major program office who will be responsible for the most complex program monitoring, compliance and administrative oversight responsibilities. Moreover, this cadre will serve to develop and mentor employees throughout the Department in the skills and characteristics necessary to carry out the public trust function.

In order to determine grade levels, the Department weighed the duties, responsibilities and demands of the positions against Office of Personnel Management classification principles and determined that PTOs should be classified at the GS-13 through 15 levels. This determination was made by career employees in HUD's Office of Human Resources.

The HUD Partnership Council was advised of the development and recruitment of PTO positions, and was invited to provide comment and recommendations.

 Secretary Andrew Cuomo
10/18/99 12:31 PM

To: Carolyn Federoff/OGC/BOS/HUD@HUD
cc:
Subject:

Last Friday, the Senate voted on and passed the HUD/VA appropriations bill, following Thursday's passage by the House. While the President must still sign it, this bill is a major victory for this Department, its employees, and most importantly, for the people we serve.

As you know, these last few weeks have been anxious and difficult as members of Congress debated and conferees met to negotiate the bill. For the first time in HUD's history, the President issued a "veto-threat" to any bill brought to him that did not go far enough to meet our priorities for housing. I believe that this historic strong stance reflects the strides that we have made and the new confidence the White House has in this Department and its ability to carry forth its mission. What's more, the veto threat worked: we got a bill!

HUD's historic FY 2000 budget contains the following key provisions:

60,000 new Section 8 vouchers - an important step forward from the House and Senate budget proposals which contained no funds for expansion of this vital assistance to more of America's struggling families. Last year, which was a good budget, achieved 50,000 vouchers. This year we out-did ourselves.

Increase in funds for public housing and special needs - including \$3.1 billion for modernization of public housing operating assistance; a \$45 million increase for HUD's homeless assistance and prevention programs; and a \$7 million increase for HOPWA.

Funding for 2nd round of Empowerment Zones - providing a \$70 million investment that builds on the experience of the program's successful first round which has resulted in more than \$8 billion in private-sector investments in designated communities and unprecedented public-private partnerships around the country.

New investment in job growth with \$20 million for President Clinton's and Vice President Gore's America's Private Investment Companies (APIC) initiative - a bold new vehicle for expanding the availability of investment capital in distressed areas, both urban and rural.

Restoration of critical S & E (Salaries and Expenses) funds and recognition of importance of the Community Builder Function - *
 Congressionally proposed reductions in staff S & E and the Community Builder program were reversed, with a restoration of \$20 million in salaries and expenses. Initial suggestions to eliminate the Community Builder function, and politically motivated criticism, backfired and we actually gained more than we could have hoped. We will now be able to make the program and function permanent. Congress did not like the temporary nature of the Fellowship portion of the Community Builder program, which will not be continued after September 1, 2000 (the end of the first class). But, I am extremely pleased that Community Builders will become a permanent part of the Department's organization -- which is more important and a big net gain. All current employees - CBs, Fellows and PTOs - as well as individuals outside the Department will have the opportunity to compete for these positions to be filled prior to September 1, 2000.

The final budget agreement reflects the renewed importance placed upon affordable housing and economic development, and the recognition that efforts to restore confidence in the Department are working. Our HUD 2020 reforms have triumphed - this budget victory is clear affirmation by the President and Congress that we are on our way.

I know these past few weeks have been difficult. Every operation worked tirelessly and in coordination. We fought the good fight and won!

Let us go forward together as one HUD: different players covering different positions; but in the end, one team, with one goal and one destiny. I am proud and heartened by what we have done. And the best is yet to come.

DAN BURTON, INDIANA
 CHAIRMAN
 BENJAMIN A. BILMAN, NEW YORK
 COSTANCE A. MORELLA, MARYLAND
 CHRISTOPHER SHAYS, CONNECTICUT
 ILLIANA SCHLEIFMITH, FLORIDA
 JOHN M. MCHEJAH, NEW YORK
 STEPHEN HORN, CALIFORNIA
 JOY... FLORIDA
 DAVIS H. VIRGINIA
 GINTOOL, INDIANA
 MA... INDIANA
 JOE SCARBOROUGH, FLORIDA
 STEVEN C. LATOURETTE, OHIO
 WARREN M. "MARK" SANDFORD, SOUTH CAROLINA
 BOB BARR, GEORGIA
 DAN MILLER, FLORIDA
 ASA HUTCHINSON, ARKANSAS
 LEE TERRY, NEBRASKA
 JOY BRIGGERT, ILLINOIS
 GREG WALDEN, OREGON
 DOUG COSE, CALIFORNIA
 PAUL RYAN, WISCONSIN
 JOHN T. DOOLITTLE, CALIFORNIA
 HELEN CHENOWETH, IDAHO

ONE HUNDRED SIXTH CONGRESS
Congress of the United States
House of Representatives
 COMMITTEE ON GOVERNMENT REFORM
 2157 RAYBURN HOUSE OFFICE BUILDING
 WASHINGTON, DC 20515-6143

MAJORITY (202) 225-5074
 MINORITY (202) 225-5961
 TTY (202) 225-4652

HENRY A. WAXMAN, CALIFORNIA
 RANKING MEMBER
 TOM LANTOS, CALIFORNIA
 ROBERT E. WISE, JR., WEST VIRGINIA
 MADON B. CONWELL, NEW YORK
 EDOLPHUS TOWNS, NEW YORK
 PAUL E. KANJORSKI, PENNSYLVANIA
 SARY A. CONDT, CALIFORNIA
 PASTY T. MIKE SHANNI
 CAROLYN B. MALONEY, NEW YORK
 ELANOR HOLMES NORTON,
 DISTRICT OF COLUMBIA
 CHAKA PATTAN, PENNSYLVANIA
 ELIANE E. CUMMERS, MARYLAND
 DENNIS J. KUCIACH, OHIO
 ROOP B. SUGOJEVICH, ILLINOIS
 DANNY K. DAVIS, ILLINOIS
 JOHN P. TERNET, MASSACHUSETTS
 JIM TURNER, TEXAS
 THOMAS H. ALLEN, MAINE
 HAROLD E. FORD, JR., TENNESSEE
 BERNARD SANDERS, VERMONT,
 INDEPENDENT

MEMORANDUM

TO: Members, Subcommittee on Criminal Justice, Drug Policy and Human Resources
FROM: John L. Mica, Chairman
DATE: October 29, 1999
RE: Changes at HUD: Promoting Home Ownership or Agency Image?

On Wednesday, November 3, at 10:00 a.m., in room 2154 Rayburn HOB, the Subcommittee on Criminal Justice, Drug Policy and Human Resources will hold a hearing to discuss recent developments and management practices at the Department of Housing and Urban Development (HUD). The hearing will examine the Federal Housing Authority (FHA) Single-Family Property Disposition Program's recent implementation of its Management and Marketing (M&M) program. In addition, the hearing will examine the effectiveness of the Community Builders program recently initiated by HUD to "empower America's people and local governments to take the leading role in improving lives and strengthening communities."¹ Questions have been raised as to HUD's funding, management and oversight of the M&M program and the Community Builders initiative.

RECENT FHA DEVELOPMENTS

HUD's Federal Housing Administration has the largest real estate portfolio and operation in the United States. Its Single Family Mortgage Insurance Program is designed to help low and moderate income families become homeowners by reducing their downpayments and by limiting the fees which their lender can charge them. Currently, FHA is insuring about seven million loans totaling over \$400 billion. Each year thousands of borrowers default on their FHA insured loans. In Fiscal Year 1998, FHA paid more than 76,000 claims valued at approximately \$5.8 billion and had about 42,300 properties in its inventory with a value of about \$3.5 billion.

Real Estate Asset Management (REAM)

In March 1997, as part of HUD's 2020 Management Reform Plan, FHA issued its 2020 Field Consolidation Plan with the intention of improving property disposition. The 1993 National Performance Review recommended that HUD "outsource" its property disposition function. Consequently, FHA contracted out many of its property program functions to contractors under a new program, Real Estate Asset Management (REAM). Under REAM, a contractor's job was (1) to inspect and secure properties, (2) report the properties' condition to FHA, (3) notify interested parties of HUD's ownership of the property, (4) perform needed exterior and interior maintenance, and (5) ensure

¹ June 26, 1997 HUD press release

the properties were free of debris and hazardous conditions. According to audits and reviews, FHA's controls for monitoring and assessing the performance of REAM contracts were inadequate. A March 1998 GAO report indicates that because of problems with the REAM contracts, property inventory went up 71% from September 30, 1996 to February 28, 1999. Additionally, property sales to homeowners declined and processing delays caused the properties to stay in inventory longer. This increased property holding costs and vandalism, with a resultant decline in the properties' value.

Management and Marketing Program replaces REAM

In responding to these problems, FHA created its Management and Marketing Program (M&M). On March 29, 1999, sixteen M & M contracts were awarded to seven contractors: Citiwest Properties, First Preston, Golden Feather, Intown Management Group, Michaelson, Connor, PEMCO Ltd. and Southeast Alliance -- with a 5-year value of \$927 million. These companies were to manage property dispositions, including acquisitions, maintenance, marketing and sales. In an attempt to reduce holding costs and optimize the properties' sales price, FHA has established sales goals for the M&M program of selling a property within 150 days, at 98% of its appraised value.

FHA's Management and Marketing Program has been criticized by community activists and by HUD's Inspector General. One problem is the fees which are paid to the contractors. These fees are determined by a formula and cover such contractor services as appraisals, debris removal and advertising. While there are some property repair costs that are reimbursable with FHA's prior approval, it is claimed that such approval is rarely given as FHA prefers to sell the properties "as is", without the repairs having been made. FHA's reluctance to make repairs has put some properties on the market at an appraised value below what would otherwise have commanded. Because HUD and the contractors seek to sell properties as quickly as possible, contractors are not encouraged and seldom authorized to make repairs even though doing so would bring up the properties' value. The reduced value of the damaged property has the negative effect of dragging down the value of the neighborhood and creating ill will among other property owners.

Issues with Management and Marketing

A particularly troublesome HUD contract involves Intown Management Group ("Intown"). Intown, an Atlanta based company, won contracts to manage properties in 21 states and the District of Columbia with almost 25,000 properties in its inventory. An issue exists as to whether the contract awarded to Intown was adequately evaluated. Other contracting issues include failures in providing adequate contract controls and the failure to follow OMB Circular A-76 in studying costs and benefits.

During the period April through August 1999, Intown's performance in reducing its property inventory was significantly worse than those of the other six contractors and the inventory increased by 91%. Intown sold only 2.8% of its properties and because contractors receive 30% of their fees when the properties are listed and the remaining 70% when they are sold, Intown found itself in a financial bind. In response to Intown's demonstrated lack of ability in meeting its contractual obligations, HUD terminated Intown's contract on September 23, 1999. Unfortunately, that was too late to protect the subcontractors Intown had hired to maintain and protect the properties. To protect themselves financially, these subcontractors have had to file liens against properties on which they worked. As a result, many homebuyers are reluctant and unable to close on the properties while the liens are in effect. This has resulted in the homebuyer frustrations and legal problems because of liens.

COMMUNITY BUILDERS PROGRAM

On June 26, 1997, HUD announced a new "Community Builder" initiative. According to HUD, Community Builders were created because HUD field office employees were expected to be facilitators as well as monitors. HUD decided to divide the two functions into Community Builders and Public Trust Officers. Community Builder positions were to serve as initial points of contact for local officials, links between HUD programs and locals, and promoters of community development. Public Trust Officers were responsible for program monitoring, compliance and enforcement.

In the fall of 1997, HUD hired 361 career employees as Community Builders (often referred to as "internal Community Builders"). In the spring of 1998, HUD announced 460 temporary Community Builder Fellows (often referred to as "external Community Builders", some designated as Community Builder *specialists*). HUD relied upon "Schedule A" hiring authority in filling the temporary positions. As of July 26, 1999, HUD reported 778 Community Builders. The new Community Builder Fellows came from a variety of backgrounds - previous career HUD employees, community activists, local elected officials, recent college graduates, and others.

A recent HUD Inspector General Report on the Community Builder program issued on September 30, 1999 raised a number of concerns about the Community Builder initiative, including the selection and hiring practices used. Among the concerns are 1) differences in pay between the career HUD staff and the Community Builders, 2) issues associated with references to the Community Builders as the "best and the brightest," 3) the viewpoint from some HUD career staff that new Community Builder Fellows have not added value, 4) a perceived lack of knowledge by Community Builder Fellows of HUD programs, 5) the expenses of training provided to these temporary employees at Harvard University, 6) the absence of clearly defined roles and responsibilities of Community Builders, 7) the specialized communication channels created for Community Builders, and 8) the surge of Community Builder hiring at a time of Department-wide downsizing.²

The HUD Community Builder program has received considerable congressional attention in recent months. On September 16, 1999 the Senate Appropriations Committee reported:

"The Committee is very disappointed in the growth of the Community Builders program, from a fledgling thought to a full-blown program of some 800 staff, including a new class of 400 high-paid contract employees whose primary job is to communicate HUD programs to local governments and communities. Unfortunately, there is no valid evidence that these community builders are communicating HUD programs effectively or providing a link for the delivery of program services, and much of the activity seems to be primarily for public relations. In many cases, the Community Builders do not appear to act like HUD staff, but instead seemingly act in the capacity of lobbyists for a particular community or group. The Committee also is concerned that the growth of this program is occurring at a time when HUD is committed to reducing career staff from the current level of 9,300 to 7,500 in 2002."

The conference report on HUD appropriations contained the following:

"The conferees are aware of a number of significant concerns with HUD's external Community Builders program. Most importantly, the conferees believe that HUD must rebuild itself from within, from staff that are committed to HUD's

² HUD Inspector General audit, "Nationwide Audit of Community Builders," September 30, 1999

long-term future and the federal investment in local communities and neighborhoods. Therefore, the conferees are terminating the external Community Builders program effective September 1, 2000 (rather the February 1, 2000, as proposed by the Senate). The conferees expect that, following the termination of the program, functions now being performed by external Community Builders will be carried out by career civil servants, and that FTEs now occupied by external Community Builders will be filled instead by regular civil service employees...

In addition, the conferees remain concerned with potential problems with conflicts of interest in the Community Builders program, and direct HUD to establish clear rules to avoid any appearance of self-interest. In particular, there should be a bright line test prohibiting any Community Builder from being involved in any HUD transaction in which that person has a fiduciary interest or has had an employer/employee relationship with the entities involved in the transaction."

REFERENCES

- HUD Inspector General Audit Report: Single Family Property Disposition Program
Issue Date: September 17, 1999
Audit Case Number: 99-AT-123-0001
- HUD Inspector General Audit Report: Follow-up Review of HUD Contracting
Issue Date: September 30, 1999
Audit Case Number: 99-PH-163-0002
- HUD Inspector General Audit Report: Nationwide Audit on Community Builders
Issue Date: September 30, 1999
Audit Case Number: 99-FW-177-0002

WITNESSES

The following witnesses will testify or have been invited to testify before the Subcommittee.

HUD Program Participant
HUD Employee

Ms. Kathy Kuhl-Inclan, Assistant IG for Audit, Dept. of Housing and Urban Development
Mr. D. Michael Beard, Texas District IG for Audit, Dept. of Housing and Urban Development
The Honorable Saul Ramirez, Deputy Secretary, Dept. of Housing and Urban Development
The Honorable William Apgar, Asst Sec. for Housing, Dept. of Housing and Urban Development

STAFF CONTACT

If you have any questions, please contact Sharon Pinkerton, Staff Director, or Frank Edrington, Counsel, at (202) 225-2577.