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REPORT TO THE CONGRESS



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Weaknesses In Administration Of The Program To Correct Defects In Housing Insured Under The Section 235 Program

Department of Housing and Urban Development

**BY THE COMPTROLLER GENERAL
OF THE UNITED STATES**

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MARCH 19, 1975

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

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To the President of the Senate and the
Speaker of the House of Representatives

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This is our report on weaknesses in administration of the
Department of Housing and Urban Development's program to correct }
defects in housing insured under its section 235 program.

We made our review pursuant to the Budget and Accounting Act,
1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950
(31 U.S.C. 67).

We are sending copies of this report to the Director, Office
of Management and Budget, and to the Secretary of Housing and
Urban Development.

A handwritten signature in cursive script, reading "James B. Stewart".

Comptroller General
of the United States

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ABBREVIATIONS

HUD	Department of Housing and Urban Development
GAO	General Accounting Office
HPMC	Housing Production and Mortgage Credit

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

WEAKNESSES IN ADMINISTRATION OF
THE PROGRAM TO CORRECT DEFECTS
IN HOUSING INSURED UNDER THE
SECTION 235 PROGRAM
Department of Housing and Urban
Development

D I G E S T

WHY THE REVIEW WAS MADE

The National Housing Act permitted the Department of Housing and Urban Development to correct or to compensate owners for structural or other defects which seriously affect use and livability of existing houses insured by the Department under its section 235 homeownership assistance program. 23

On the basis of a Housing and Urban Development audit, GAO estimated that about 39 percent of the houses sold as of November 1970, or a total of 15,300, had defects. At January 31, 1973, the Department had spent about \$6.1 million to correct such defects in 4,250 houses. By June 30, 1974, expenditures had risen to \$7.4 million.

Because of the Federal money involved and because the Congress was considering expanding the program, GAO reviewed this program--created by section 518(b) of the act--to determine the effectiveness of the Department's administration and to identify action needed so that the program assists eligible homeowners properly.

FINDINGS AND CONCLUSIONS

Improvements needed in making
and inspecting repairs

GAO visited six Housing and Urban Development field offices and selected for review 101 houses on which the Department, at the homeowner's request, had made repairs costing over \$500. On the average, 298 days elapsed from the Department's receipt of a homeowner's request until completion of repairs and its acceptance of the work. The actual time range was from 18 to 791 days. Many houses contained serious defects affecting the safety and health of occupants.

Department headquarters and field offices had not established time standards or monitoring procedures to insure that necessary repairs were made promptly. A lack of adequate guidance from headquarters and of control at all levels prevented effective use of staff and contributed to unnecessary delays. (See pp. 6 to 9.)

The repairs on the 101 houses had been completed and accepted by the Department. It assisted GAO by providing its inspectors from field offices not involved in the original inspection of the houses.

Inspections of the 101 houses showed that three of the six responsible field offices had not always inspected completed repairs. These offices were responsible for a greater percentage of inadequately repaired defects than the offices that had inspected repairs. (See pp. 5 and 10.)

Also, one field office limited its inspections to defects identified by the homeowners, making no attempt to discover other eligible defects. Another field office would not reimburse homeowners for the repair of eligible defects corrected before the Department's inspections. In both instances the field office practices were contrary to Department guidelines. (See p. 15.)

Inspection of the 101 houses showed that 74 houses, or 73 percent, had 242 defects that were approved for correction but had not been properly corrected. (See pp. 10 to 15.)

Also 52 of the 101 houses, or 51 percent, had 121 other eligible defects either not approved or not identified for correction. (See pp. 10 and 15 to 19.)

Photographs of defects identified are shown on pages 17 and 18.

Weaknesses in contracting for repairs and settling claims

Unlike Federal Procurement Regulations, Department guidelines did not require field officials to prepare contract specifications for repairing defects. One field office prepared no specifications at

all, and those prepared by other field offices were often incomplete. (See p. 23.)

The field offices were inconsistent in implementing guidelines. Repairs had been authorized by the Department without

--confirming oral contracts in writing,

--obtaining competitive bids or using other methods to insure that reasonable repair estimates were made, and

--incorporating labor standards provisions required by the Department. (See pp. 25 to 27.)

Guidelines required sellers of existing (not new) houses, that were insured under section 235, to agree to reimburse the Department for funds spent to repair structural or other defects eligible for correction under section 518(b).

In three of the field offices visited, claims of about \$25,700 against 35 sellers had not been settled. Field offices had failed to notify 18 of these sellers that a reimbursement was due. Headquarters and field offices had not established controls to insure that the funds ever would be collected. The field offices had not forwarded any of the 35 unsettled claims to the General Counsel or to the Department's Claims Officer although so required. In addition, the Department could not give GAO a reliable accounting of the total claims for repairs outstanding against sellers and the amounts collected, suspended, terminated, or referred to other

agencies for collection.
(See p. 28.)

RECOMMENDATIONS

The Secretary of Housing and Urban Development should

- insure the correction of those eligible defects identified in this report that have not been approved for repair or have been repaired improperly;
- insure that the 518(b) program is implemented uniformly and that all eligible homeowners are treated equally by requiring field personnel to (1) process requests promptly, (2) identify all defects eligible for correction, and (3) inspect completed repairs;
- require that relevant information, such as processing time and homeowner's nonacceptance of work done, be reported periodically so that management at the local and headquarters levels will be aware of the problems needing resolution;
- revise the Department's instructions to emphasize the need to comply with Federal Procurement Regulations so that required contracting practices--such as obtaining competitive bids on repair work, executing written agreements of work to be done and prices to be paid, and incorporating labor standards provisions on contracts--are followed;
- strengthen controls over claim collections to insure that claims are collected or

referred to the Department's General Counsel or to its Claims Officer for proper resolution; and

- require the recording of reliable data on the total claims against sellers, including information on those outstanding, collected, suspended, terminated, or referred to other agencies for collection.

AGENCY ACTIONS AND UNRESOLVED ISSUES

The Department agreed that GAO had identified some valid problem areas which have concerned the Department and which it believes can be corrected after some administrative procedures are implemented. It said the new procedures would be contained in a handbook currently being cleared within the Department. (See p. 21.)

It said also that it would review all eligible defects GAO identified as improperly repaired or not authorized for repair to determine what action would be taken. It also said that the handbook, when revised, would contain target goals for prompt completion of processing steps and would emphasize the need for timely processing. (See p. 21.)

The Department agreed that information, such as homeowner's nonacceptance of work, should be obtained. The Department told GAO that it was obtaining information on processing time. GAO found that such information was no longer being obtained and GAO believes that there is a need for such information. (See pp. 21 and 22.)

The Department said it would revise its handbook and processing instructions to reflect compliance with the Federal Procurement Regulations and to strengthen controls over claim collections. It did not, however, comment on requiring the recording of data on claims against sellers necessary for pursuing claims for funds due the United States Government. (See p. 29.)

MATTERS FOR CONSIDERATION
BY THE CONGRESS

This report informs the Congress of the degree of effectiveness of Housing and Urban Development's administration of the program and includes suggestions for improvement of the program by the Department. GAO's findings should be of particular interest to the Congress because the Congress recently extended the 518(b) program to other existing housing programs.

CHAPTER 1

INTRODUCTION

The Housing Act of 1949 (42 U.S.C. 1441) expressed a national objective of a "decent home and a suitable living environment for every American family." In the Housing and Urban Development Act of 1968 (42 U.S.C. 1441a), the Congress reaffirmed that objective and set as a national goal the production and rehabilitation of 26 million housing units by 1978. Six million units were to be provided to low- and moderate-income families with some form of Federal assistance. Half of these would be houses that such families could buy with Federal financial assistance. The Federal Housing Administration of the Department of Housing and Urban Development (HUD) was authorized to provide this financial assistance under the section 235 homeownership assistance program.

SECTION 235 PROGRAM

Section 235 of the National Housing Act, as amended (12 U.S.C. 1715z), which was added in accordance with section 101(a) of the Housing and Urban Development Act of 1968, authorizes HUD to help low- and moderate-income families become homeowners by providing mortgage insurance and subsidizing portions of the monthly payments due under the mortgages.

Effective January 5, 1973, the President suspended most new commitments for subsidized housing, including houses to be insured under section 235, pending an evaluation of the subsidy programs and consideration of alternative programs to meet the housing needs of low- and moderate-income families.

On September 19, 1973, the President announced the completion of the study and issued his proposed housing policy for the seventies. He proposed to expand HUD's ongoing experimental housing allowance program, which provides direct cash housing assistance to families with low incomes, in order to determine whether this approach is a feasible alternative to existing subsidized housing programs. In the interim, the section 235 program was to be continued on a limited basis. Mortgages on 9,662 existing houses were insured at a total insured value of \$165 million during fiscal year 1974. HUD estimates that mortgages on about 1,600 existing houses will be insured under section 235 at a total insured value of about \$31.2 million during fiscal year 1975. These will, in the main, be sales of acquired

properties. Use of 518(b) for these houses should be minimal because, according to HUD, property deficiencies are corrected by HUD under its 1-year sales warranty.

Purchasers of new houses under section 235 are protected against defects by homeowner service policies requiring builders to correct defects during the first year after purchase. Congressional concern was expressed during 1970 that purchasers of existing houses were not similarly protected.

A December 1970 report by the staff of the House Committee on Banking and Currency¹ disclosed that houses with serious defects had been sold to low- and moderate-income families under the section 235 program. Effective December 31, 1970, section 518 of the National Housing Act was amended to permit HUD to correct defects that seriously affected the use and livability of any existing house insured under the section 235 program.

After the congressional report was issued in December 1970, HUD's Office of Audit reviewed the administration of the section 235 program. It made physical inspections of 1,281 houses HUD previously inspected and approved. It found that 34 percent of the houses inspected had serious defects. We verified the inspection results and concluded that they could be projected to the 78,700 new houses and 40,600 existing houses insured as of November 1970. We therefore advised the Congress in our report "Opportunities To Improve Effectiveness and Reduce Costs of Homeownership Assistance Programs" (B-171630, Dec. 29, 1972) that about 18,900 new houses (24 percent) and 15,800 existing houses (39 percent) had defects.

SECTION 518(b) PROGRAM

Section 518(b) of the National Housing Act (12 U.S.C. 1735b) was added in accordance with section 104 of the Housing and Urban Development Act of 1970. This section authorized HUD to make expenditures to correct, or to compensate owners for, serious structural or other defects that affect the use and livability of any single-family house covered by a mortgage issued under section 235 and more than 1 year old on the date of the issuance of the insurance commitment, if

¹ Investigation and Hearing of Abuses in Federal Low- and Moderate-Income Housing Programs, Staff Report and Recommendation.

- the owner requested assistance not later than 1 year after the insurance of the mortgage, or, in the case of a house covered by a mortgage which was issued before December 31, 1970, 1 year after this date, and
- the defect existed on the date the insurance commitment was issued and could reasonably be expected to be disclosed by a proper inspection.

HUD is also authorized to require the sellers of such houses to sign an agreement to reimburse HUD for any payments it makes to correct eligible defects.

Section 518(b) also contains authority for HUD to

- pay the cost of relocating a family which is forced temporarily to vacate a house in order for the defects to be corrected,
- acquire title to houses where repair is not feasible, and
- reimburse the owners of unrepairable houses for relocation expenses and their downpayments on that house.

In April 1971 HUD issued guidelines to its field offices on the administration of the 518(b) program. At the same time mortgagees, such as lending institutions, were informed of the new program. In June 1971, HUD transmitted through the mortgagees a letter to homeowners notifying them of the available financial assistance. A copy of this letter is included as appendix I.

Because HUD did not accumulate overall statistical or accounting data on the 518(b) program, we requested from the 77 HUD field offices data on the number and status of homeowner requests for assistance as of January 31, 1973. According to this data, HUD had insured mortgages for 70,526 existing houses that could be eligible for section 518(b) assistance. There had been 8,855 requests for financial assistance, of which 5,923 were authorized. The repairs in 4,250 houses had been completed at a cost of about \$6,147,000. Authorized repairs for 987 of the remaining 1,673 houses were estimated by HUD to cost about \$1,095,000. Repair estimates for the 686 other houses were not available. Information on the status of the program in the six field office locations at the time we started our review is included as appendix II.

NEW LEGISLATION

The Housing and Community Development Act of 1974 enacted in August 1974 modified HUD's authority to provide assistance under section 518(b) to

- include one and two family dwellings, instead of just single-family dwellings;
- include houses located in older declining urban areas covered by mortgages insured under other existing sections of the National Housing Act between August 1, 1968, and January 1, 1973; and
- correct only such defects which seriously affect use and livability by creating danger to the life or safety of the inhabitants.

According to an official in HUD's Office of Budget, the budget request for fiscal year 1976 includes \$26 million for this modified program.

SCOPE OF REVIEW

The objectives of our review were to

- evaluate HUD's administration of the program and
- identify actions needed to help insure that the program assists homeowners eligible for assistance.

We made our review at the HUD central office, Washington, D.C., and at the following six HUD field offices.

Cincinnati, Ohio, insuring office.
Cleveland, Ohio, insuring office.
Columbus, Ohio, area office.
Detroit, Michigan, area office.
Washington, D.C., area office.
Seattle, Washington, area office.

Initially we reviewed HUD's handling of selected homeowner complaints received in the Washington, D.C., area office and the Cincinnati insuring office from inception of the program through February and March 1973, respectively. On the basis of our findings at these two offices, we randomly selected homeowner complaints received from the inception of the program through June 1973 in the four other field offices to determine whether findings would be similar. Our selection of complaints totaled 101 for the six offices. The six offices in our review accounted for 40 percent of

the \$6.1 million spent by HUD under the 518(b) program as of January 31, 1973.

We interviewed HUD officials at the headquarters and field office levels, reviewed and evaluated HUD's procedures for carrying out the program, and examined files and records relating to homeowner complaints. We also studied pertinent legislation.

In addition, we accompanied HUD inspectors who, at our request, reinspected 101 houses at the six field office locations. These inspectors were from offices not involved in the original inspection. During the reinspections, we interviewed homeowners. We also discussed our observations with repair contractors.

CHAPTER 2

IMPROVEMENTS NEEDED IN MAKING AND INSPECTING REPAIRS

Although HUD had provided financial assistance to about 5,800 homeowners under the 518(b) program as of December 31, 1973, our review of 101 houses showed that

- repairs were not being made promptly,
- defects approved for repair by HUD were not properly corrected, and
- all defects eligible for repair were not approved by HUD.

These weaknesses result from a definite lack of guidance to field personnel to insure that the program is implemented uniformly and equitably. We noted inconsistencies among regions in implementing the program, particularly in (1) advising homeowners of the assistance available to them, (2) determining the eligibility of defects, and (3) inspecting the houses first to identify defects and later to accept repairs performed.

PROMPT HOMEOWNER ASSISTANCE NOT PROVIDED BY HUD

At the six HUD field offices we visited, we randomly selected 101 houses on which HUD, at the homeowner's request, had made repairs costing over \$500. We learned that, on the average, 298 days would elapse from HUD's receipt of a homeowner's request until completion of repairs, and the acceptance of work by HUD. The actual elapsed time ranged from a low of 18 days to a high of 791 days. Many of these houses had defects affecting the safety and health of occupants.

Presented below is a schedule showing, by HUD field office location, the average number of days required to assist the homeowners. The average number of days shown in this schedule is the time from HUD's receipt of the request for assistance to the time when HUD accepted the repairs.

<u>Field office</u>	<u>Number of houses in GAO selection</u>	<u>Average number of days to provide assistance</u>
Cincinnati	14	209
Cleveland	20	350
Columbus	17	134
Detroit	18	413
Seattle	20	315
Washington, D.C.	<u>12</u>	345
Total	<u>101</u>	

Average days to
provide assistance 298

HUD guidelines provide that, in processing homeowner requests for assistance, HUD field offices insure that eligible defects are corrected promptly. However, neither HUD headquarters nor the field offices we visited had established guidelines or monitoring procedures necessary to good administration.

HUD, in disposing of properties it acquires under other programs, performs many of the same functions that are required under the 518(b) repair program. These include inspections of the house to identify defects, issuance of specifications for the repairs, solicitation of bids, selection of contractors, execution of purchase orders or contracts, and the inspection of the repairs. In disposing of these other properties, HUD headquarters officials established a goal of 70 days for completing the entire processing, from identification of defects to approval of the necessary repairs.

Because the extent of repairs required under the 518(b) program would generally be less than those required under HUD's regular property disposition program, we believe that HUD should require a shorter time period to complete repairs under the 518(b) program. HUD, however, stated that it had been more difficult to obtain bids on miscellaneous repairs than for a complete rehabilitation job and that contractors were much slower in completing such miscellaneous repairs.

Two examples of the type of delays experienced in processing homeowner complaints and completion of eligible repairs are presented below.

1. A homeowner filed a complaint on April 30, 1971, requesting HUD's assistance in repairing

- a defective sewer,
- the kitchen sink plumbing,
- the kitchen floor under the sink, and
- holes in the walls.

HUD did not inspect the property until June 19, 1971, or 50 days after the complaint was made. At this time, the inspector considered the items reported by the homeowner ineligible because they were maintenance items rather than defects seriously affecting the use and livability of the house. However, the HUD inspector did note defective wiring and a defective water heater. These defects were approved as eligible for correction by the HUD area office on September 21, 1971, or 94 days after the inspection of the house. At this time, HUD requested the homeowner to obtain bids for the repairs.

On February 16, 1972, after bids had been received, HUD awarded a contract but the work was not completed because of problems between the contractor and electrical subcontractors. In May 1972 the homeowner again complained to HUD about the defects previously considered ineligible and about the eligible defects that had not been properly repaired. In response, HUD reinspected the property. On June 14, 1972, almost a year after determining the defective sewer and the damaged walls ineligible, HUD reversed its position and approved these for repair. Shortly afterwards, bids were taken and two additional contracts were awarded. On December 12, 1973, HUD stated that all work performed under the three contracts had been inspected and was acceptable.

The time from the homeowner's request for aid to HUD's final inspection and acceptance of the repairs was 607 days.

2. On November 24, 1971, HUD received a homeowner's request for financial assistance to correct several defects. Even though the owner reported a defective electrical system that had caused a fire, HUD did not inspect the house until November 21, 1972--almost a year after receiving the request. During this inspection, the electrical system and 23 other items were identified by HUD as defective and eligible for repair. HUD awarded a contract for the repairs on December 15, 1972, but through an oversight did not include the electrical work. The contracted work was completed and accepted by HUD on July 9, 1973--593 days after the homeowner's request. During our inspection in August 1973, we informed HUD that the electrical system had not been repaired. HUD awarded a repair contract on October 24, 1973, and accepted the work on December 5, 1973--about 741 days after receipt of the homeowner's request for assistance.

HUD field office officials said the reason assistance to homeowners had been delayed was insufficient staffing at the field office level. After homeowners were notified in mid-1971 that assistance was available, the field offices were flooded with requests they were not staffed to handle. As a result, they developed a backlog of requests lasting until early 1973. Under these conditions specific time standards were not established for processing requests, and reviews of time incurred were not made. Further, we were told that the higher priority of other programs, such as the management and disposition of acquired properties, prevented assignment of additional personnel. We did note, in fact, that some field offices assigned only one person to administer the 518(b) program and others assigned only a part-time staff. We believe the lack of adequate guidance from HUD headquarters and control over the program at all levels prevented the more effective utilization of the staff assigned and contributed to unnecessary delays in providing assistance to homeowners.

ELIGIBLE DEFECTS NOT CORRECTED

In our inspection of 101 houses, we requested the inspectors who accompanied us to

- determine the eligibility of defects approved by HUD,
- determine the eligibility of defects identified by homeowners but disapproved by HUD,
- identify any eligible defects missed by HUD, and
- assess the quality of work performed in correcting eligible defects.

HUD inspectors identified 121 eligible defects not previously approved for repair even though many of them had been identified by the homeowners when requesting HUD's assistance. Also, 242 approved repairs in 74 of the 101 houses had not been adequately corrected. HUD inspectors said all defects previously authorized for repair by HUD were eligible under the 518(b) program. The table below shows the results of the inspections by field office location.

Location	Total houses in our selection	Number of defects approved by HUD as eligible	Approved defects not properly corrected		Eligible defects not approved by HUD	
			Houses	Defects	Houses	Defects
Cincinnati	10	146	9	36	8	28
Cleveland	20	230	14	36	7	14
Columbus	20	88	17	37	14	31
Detroit	19	286	13	38	6	13
Seattle	20	113	10	20	12	22
Washington, D.C.	<u>12</u>	<u>227</u>	<u>11</u>	<u>75</u>	<u>5</u>	<u>13</u>
	<u>101</u>	<u>1,090</u>	<u>74</u>	<u>242</u>	<u>52</u>	<u>121</u>

Approved defects not properly corrected

As shown above, 242 of the 1,090 defects approved for repair were not adequately corrected even though HUD guidelines required that the field offices inspect all repairs and obtain a statement from the homeowner that the work had been completed satisfactorily. In two offices 32 of 51 requests for payment were not accompanied by a homeowner's statement. In cases where a homeowner refused to sign the statement even though HUD considered the work satisfactory, a statement to this effect was required from the field office. Either the statement from the homeowner or from the field office was to accompany the field office's request that the contractor be paid.

Field office contracting officers in three of the six locations we visited had not always required an inspection of the repairs. In one field office, inspections had not been made because the HUD guidelines were interpreted to require an inspection only if the homeowner refused to sign a statement of satisfaction. Officials in the other two offices said the apparent failure to make inspections was due to either an oversight or the failure to document the inspection.

Those offices that had been lax about inspections were responsible for a higher percentage of the defects identified during our inspections as not being adequately repaired (32 percent) than the HUD offices that had inspected the repairs (15 percent).

Inadequate repairs can be attributed to a combination of factors such as inadequacy of repair specifications, the reliability of the contractors, and the competence of inspection personnel. However, the higher percentage of inadequate repairs at offices deviating from the inspection requirements for final inspection indicates that such

deviations may have contributed to the lack of effectiveness of the program.

Some examples of inadequate repairs noted in our review are discussed below.

1. In September 1971, a homeowner requested HUD's assistance in correcting a number of housing defects, including

- a roof leak,
- holes in floors,
- defective plumbing,
- rotted window sash, and
- steps in need of repair.

HUD inspected the house and authorized repair of the defects they considered eligible, including all of the above items. In January 1972 a contractor engaged to repair defective plumbing in a second floor bathroom found that there was no good access to this plumbing and so cut an opening in the ceiling of the first floor hallway. After repairing the defective plumbing, the contractor did not repair the ceiling. Presented below is a photograph showing the condition of the ceiling.



HUD had not inspected the repair work but approved the contractor's request for payment in February 1972. The homeowner said she repeatedly complained to both HUD and the contractor about the ceiling, but no corrective action was taken.

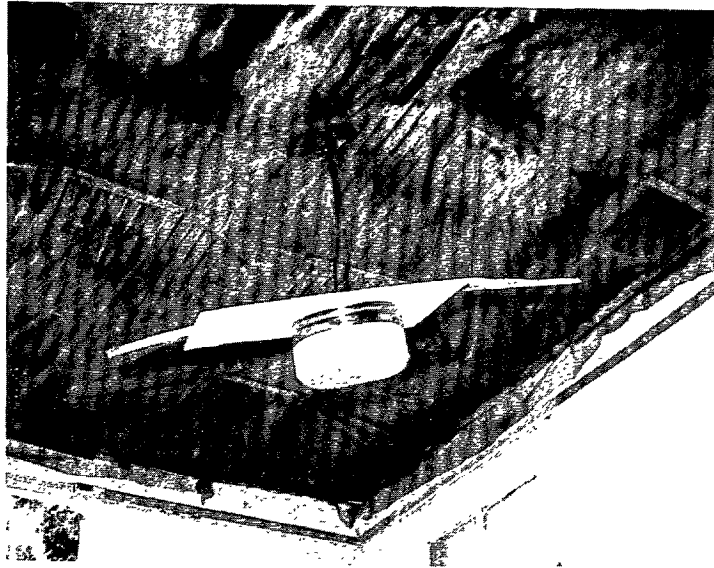
We brought this matter to the attention of HUD in April 1973. Later HUD told us the ceiling had been repaired and the work had been inspected and approved on September 7, 1973.

2. A homeowner requested assistance in October 1971 to correct a number of defects, including defective

- flooring throughout the house,
- window frames, sills, and sash,
- exterior and interior doors,
- plaster,
- plumbing, and
- roof.

HUD inspected the house in January 1972 and agreed to correct these defects. The specifications for correcting the defective plaster required removing loose plaster and installing a suspended ceiling in the kitchen and certain second floor rooms. Also, a new kitchen floor and a new toilet were to be installed.

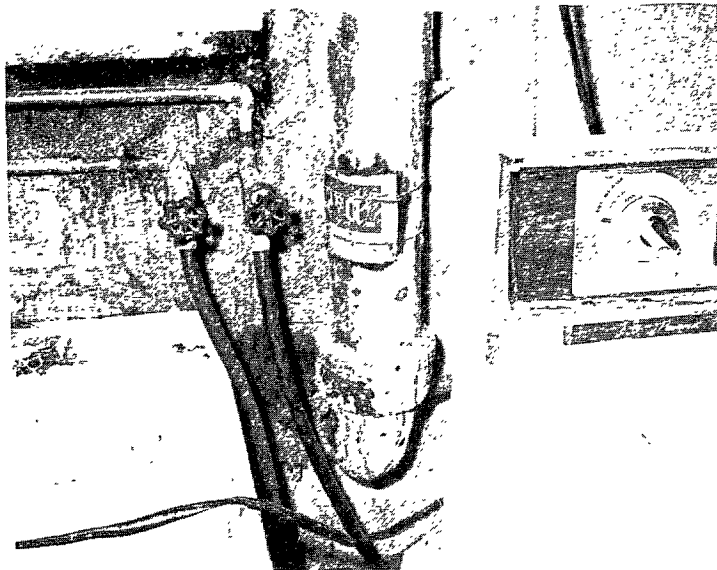
The HUD inspector who accompanied us said the new kitchen floor had been installed improperly and was not level. The new toilet was loose and leaking because it had been improperly anchored to the floor. The homeowner told us the suspended kitchen ceiling had collapsed 2 weeks before our visit. HUD had approved the contractor's request for payment in April 1972 but had not inspected the repairs before approving payment. The photograph below shows the condition of the kitchen ceiling.



HUD officials told us in September 1973 that the kitchen ceiling had been replaced by the contractor at no cost to HUD and was now considered acceptable. The contractor said that it had installed the floor properly and that the defects occurred later when basement shoring was installed and the floor jacked up. It said HUD should have required that the shoring be installed before the new floor was laid. It had since repaired the floor at a cost of \$295 to HUD and the toilet at no cost to HUD after HUD brought them to its attention.

3. On August 23, 1971, a homeowner requested HUD's assistance in correcting several defects in her house. HUD made an inspection of the house on December 14, 1971, and approved repair of the defects the homeowner had identified.

During our review the HUD inspector who accompanied us said that replacement of a sidewalk showed poor workmanship because it was sloped toward the house rather than away from it. At our request, HUD reinspected the work and agreed that the sidewalk (about 40 square feet) should have been sloped away from the house to prevent water from entering the basement. The homeowner told us water had been seeping into the basement ever since the repairs had been made in March 1972. The photograph below shows evidence of water leakage into the basement.



The contractor responsible for the work promised to repair the defective work at no cost to HUD. On December 21, 1973, HUD told us the repairs had been satisfactorily completed.

4. A homeowner requested assistance on August 6, 1971, to correct several housing defects. HUD inspected the house and approved repair of the housing defects, including replacement of the roof.

The HUD inspector accompanying us said the new roof had been installed over three old roofs and decayed sheathing. The old roofs should have been removed and the sheathing replaced before the new roof was installed. The contractor agreed with the inspector's observations but added that HUD had not authorized him to remove the old roofs, only to install a new one.

We discussed this matter with HUD area office officials and told them the area office work performance specifications make it clear that, if there are two or more roofs on a house, the entire roof must be removed before a new roof is installed. These officials admitted that they were not aware of this requirement or that the weight of more than two roofs could cause structural damage to a house. They agreed that in this case their specifications were deficient; they said that better specifications would be developed in the future but that they planned no further action on this particular case.

Eligible defects not approved by HUD

HUD guidelines to its field offices required inspections of houses to determine if defects listed in homeowners' assistance requests were eligible for correction. According to the guidelines, the inspections should not be limited to the specific items in the requests but should include all eligible defects noted. Also, if the homeowner completed repairs before filing a request, either because he was not aware of his right to assistance or because of the emergency nature of the repairs, the inspector was to determine the eligibility of the defect. Where the defect was considered eligible, HUD would reimburse the homeowner.

Contrary to these guidelines, one field office we visited limited its inspections and authorizations for repairs to the eligible defects listed by the homeowners, and another field office did not reimburse homeowners for eligible defects corrected before the HUD inspection.

Specific examples of eligible defects not being approved for correction are discussed below.

1. On September 23, 1971, a homeowner requested HUD's assistance in correcting several defects, including a major defect in the sanitary sewer system. Raw sewage was being discharged into an open ditch at the rear of the property. In January 1972, HUD, after making an inspection of the house, requested information from the city health department on its plans to install sanitary sewers in the area. By the time of our inspection on April 18, 1973, HUD had taken no additional action to correct either this or other

defects, such as removal of a deteriorated building behind the house, water leakage into the basement, and cracks in the walls and ceiling. Photographs of the deteriorated building, and water in the basement at the time of our visit, are shown on pages 17 and 18.

The HUD inspector who accompanied us said the lack of a sewer system was a defect that HUD should have corrected. In addition he said the building behind the house was a serious safety hazard that should have been razed. He also said the other defects identified by the homeowner should have been corrected. The following recommendations were also made by the HUD inspector during our visit.

- Raingutters needed relining or coating.
- A sewer plug and sump pumps needed to be installed in the basement.
- The roof needed repairing.
- The kitchen ceiling needed replastering.
- The exterior basement entrance needed weatherproofing.

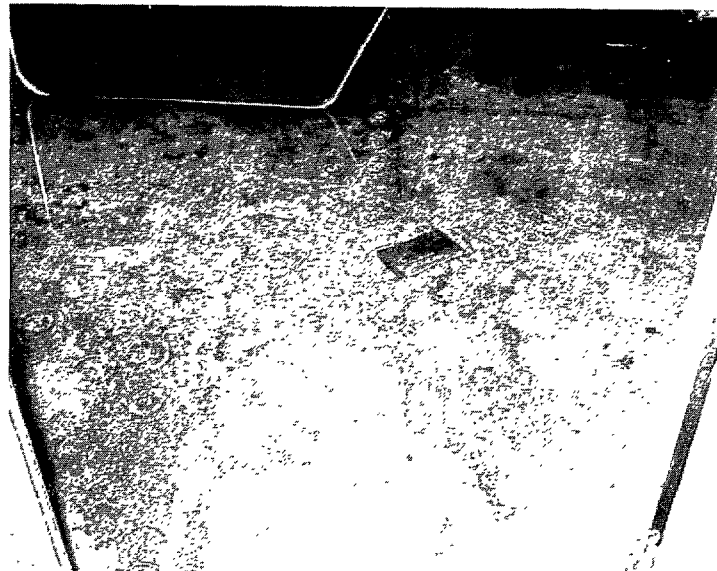
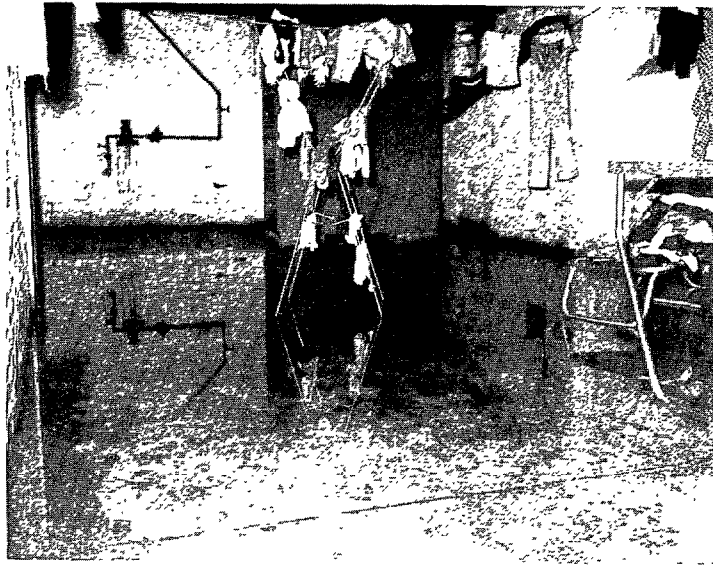
The inspector said these items should have been repaired as they appear to have existed when the house was insured. At our request, HUD reinspected the property and agreed that all but the last three items were eligible and should have been corrected. HUD officials said the last three items were homeowner maintenance items and therefore not eligible. They added that action would be taken to correct all items they considered eligible including installation of an adequate sewer system and removal of the deteriorated building.



EXTERIOR VIEW OF DETERIORATED BUILDING



INTERIOR VIEW OF DETERIORATED BUILDING
SHOWING CONDITION ON FLOOR



PHOTOGRAPHS SHOWING APPROXIMATELY 2 INCHES OF
WATER IN THE BASEMENT AT THE TIME OF OUR VISIT

2. Another homeowner requested assistance from HUD on May 28, 1971. The request included the following items needing repair or correction.

- Plumbing in kitchen, bathroom, and basement.
- Furnace.
- Wiring.
- Kitchen sink.
- Rotted window frames and broken windows.
- House and porch roof.

HUD inspected the house and approved the correction of all the above defects except the rotted window frames and the broken windows. No reason for the disapproval was given.

The HUD inspector who accompanied us said the window frames were eligible for repair. He also noted that the foundation wall was crumbling away. He said that it was possible in some areas "to see daylight through the foundation wall" and that water was seeping into the basement around the windows. The inspector pointed out that, even though the condition of the walls was not mentioned in the homeowners's request for assistance it should have been identified by HUD and repaired.

HUD field office officials said they normally made no attempt to identify defects other than those included in the homeowner's request. Further, even though they agreed the foundation wall and rotted window frames may have been eligible for repair, they planned no further action because they considered the case "closed."

- - - -

We told HUD officials in each field office of the defects the inspectors who assisted us had identified as either eligible but not authorized for correction or authorized but not adequately corrected. Officials in three of the six offices reinspected the houses and told us they agreed with the inspectors on only 44 of the 157 defects. Officials at the three other field offices did not reinspect the houses. Officials in two of these latter offices said that, if the inspectors were correct on the 156 defects they identified, then some procedural and administrative changes were indeed required and that action would be taken to prevent such deficiencies in the future. An official of the other field office accounting for 50 unrepaired defects agreed that, through an oversight, contracts for three authorized repairs had not been awarded, and he agreed to execute these contracts immediately. Otherwise they disagreed with the inspectors' determinations.

The disagreement between field office officials and inspectors was generally based on the officials' belief that the defects were (1) too minor to warrant correction, (2) caused by homeowners' abuse, or (3) not evident at the time of the initial inspection. Although there were differences in judgment between the field office officials and the inspectors, there were enough instances of agreement to demonstrate a need for improvement in the administration of the program.

In those field offices where we identified inconsistencies in implementing the guidelines regarding eligibility determinations and inspections of completed repairs, the responsible officials agreed to take action to comply with HUD regulations and good business practices.

CONCLUSIONS

Prompt identification and correction of all structural and other defects under the 518(b) program is necessary so that families do not continue living in houses with serious defects.

Although HUD had provided financial assistance to about 5,800 homeowners under the 518(b) program as of December 31, 1973, our review of 101 houses repaired under the program showed that HUD did not correct eligible defects promptly. Assistance was sometimes inadequate because HUD failed to approve the repair of all eligible defects or accepted repairs that had been improperly made.

RECOMMENDATIONS

We recommend that the Secretary of HUD

- insure the correction of those eligible defects identified in this report that have not been approved for repair or have been repaired improperly;
- insure that the 518(b) program is implemented uniformly and that all eligible homeowners are treated equally by requiring field personnel to (1) process requests promptly, (2) identify all eligible defects for correction, and (3) inspect completed repairs; and
- require that relevant information, such as processing time and homeowners' nonacceptance of work performed, be reported periodically so that management at the local and headquarters levels will be aware of the problems needing resolution.

AGENCY COMMENTS AND OUR EVALUATION

In commenting on our report HUD stated in its January 9, 1975, letter (see app. III) that our report identified some valid problem areas in the program which have concerned the Department and which it believes will be corrected after some administrative procedures are implemented. HUD said that the new procedures would be contained in a handbook currently being cleared within the Department.

HUD said it would review all eligible defects we identified as having been improperly repaired or not approved for repair to determine what action would be taken. It, however, pointed out that defects were ineligible for relief if they had not been reported or identified before the expiration of the statutory time limit. We have provided HUD with information on the cases we identified to assist in its review.

HUD said the revised handbook would emphasize the need for timely processing of 518(b) claims. It would contain target goals for prompt completion of such processing steps as determining eligibility, contracting, and completing repairs. HUD also stated that 518(b) contracting authority had been delegated to field office directors and that they now have full responsibility for using their staffs so that timely processing of 518(b) claims can be accomplished.

HUD stated that proper identification of defects continues to be a basic element of the 518(b) instructions. Although we agree that HUD guidelines address this matter, we do not believe they are sufficiently clear in defining the eligibility of items as shown by the differences of opinion between the original HUD inspector and the independent HUD inspector assigned to assist GAO.

HUD stated that its instructions had always required a final inspection but not necessarily by the Housing Production and Mortgage Credit (HPMC) personnel. HUD said it was reviewing the impact of requiring that final inspections be done by qualified HPMC technical personnel. We agree that performance of final inspections by HPMC personnel responsible for authorizing the repairs would more adequately insure that authorized work was completed.

In its January 1975 comments, HUD told us that information, such as processing time on requests for assistance, had been required for about 1 year and would continue to be required. We subsequently contacted pertinent HUD officials

who told us that field offices were required to furnish information to the central office on processing time for homeowner requests once in August 1973 but that they had not been required to furnish such information again. We continue to believe that HUD should require this information so that management is made aware of any problems needing action. HUD also agreed that information, such as homeowners' nonacceptance of work done, should be obtained.

CHAPTER 3

WEAKNESSES IN CONTRACTING FOR

REPAIRS AND SETTLING CLAIMS

Other weaknesses in administering the 518(b) program were in the contracting for repairs and the settling of claims against sellers of houses with defects. Specifically, we noted

- a lack of guidance in preparing contract specifications,
- a failure to follow sound contracting practices, and
- a failure to settle all claims against sellers.

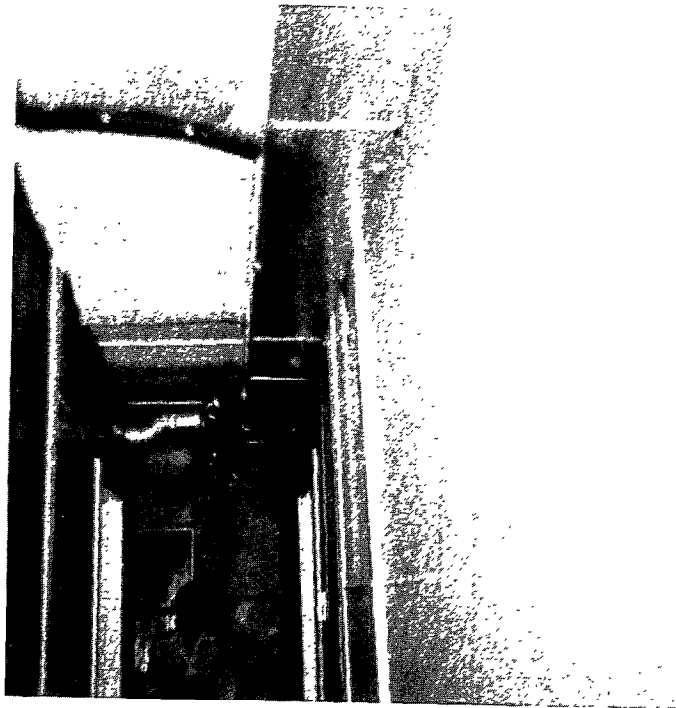
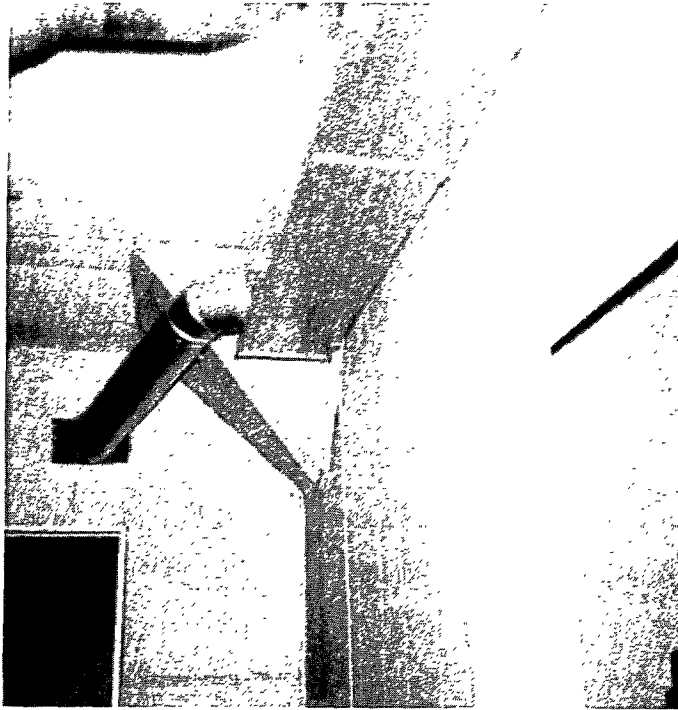
LACK OF GUIDANCE IN PREPARING CONTRACT SPECIFICATIONS

HUD guidelines do not require that HUD field office officials prepare contract specifications in contracting for 518(b) repair work. The Federal Procurement Regulations require that contract specifications be clear enough to allow the preparation of contract bids on a fair and competitive basis and to permit performance of the work without additional specifications, barring the occurrence of unforeseen conditions or necessary changes.

One of the six field offices did not prepare any specifications for repairs. Instead, a copy of the initial inspection report or the determination of the eligibility of defects was used. When this practice was called to the attention of the field office director, he acknowledged that these documents were not adequate to specify the repairs needed to correct the defects.

In five offices that did issue specifications, the inspectors who accompanied us said the specifications for correcting 46 defects in 20 houses were insufficient to describe the work required. Photographs illustrating the results of insufficient specifications are shown on the following page.

In one case the contract specifications called for installing heating ducts but did not state that the ducts were to be enclosed. As a result, the contractor merely installed heating ducts without enclosing them, right in the hallway of the house.



EXPOSED HEATING DUCT NOT PROPERLY ENCLOSED.
HUD SPECIFICATION DID NOT CALL FOR ENCLOSING THE DUCT.

In another case (see p. 14) the contract specification called for installing a new roof, without requiring that the old roofs and sheathing be removed. As a result the new roof was installed over old roofing and decayed sheathing.

FAILURE TO FOLLOW SOUND CONTRACTING PRACTICES

HUD guidelines allowed the homeowner or HUD to contract for repairs to correct eligible defects. Except for repairs completed by a homeowner prior to filing a claim, either because he was unaware of his right to assistance or because of the emergency nature of the repairs, HUD required that bids be solicited from responsible contractors and the work be given to the contractor submitting the lowest acceptable bid. HUD also required formal advertising for construction contracts in excess of \$2,000 and incorporation of the labor standards provisions of the Davis-Bacon Act (40 U.S.C. 276a) in contracts.

Contracting practices used by the six field offices we reviewed showed that the HUD guidelines had not been consistently followed. Repairs had been authorized in some cases without (1) confirming contract authorizations in writing, (2) using acceptable methods to determine the reasonableness of prices, and (3) incorporating the labor standards provisions required by HUD.

Verbal authorizations not documented

The contracting officer at one field office told us that purchase orders or contracts had not been written to show the work to be performed or the price to be paid. Instead, HUD forwarded a copy of the field office inspection report or the determination of eligibility report to the contractor selected to do the work. Subsequent agreement on the scope of the work and the price was made verbally. The only document confirming such agreement was a copy of the contractor's invoice noted by the contracting officer as "O.K. to pay."

In the absence of contractual documents and specifications of the work to be performed, we compared 16 contractors' invoices with either the field office inspection report or the determination of defects eligible for repair. From this comparison, we were able to determine that only 48 of 75 items claimed by the contractors on the invoices were authorized. The remaining 27 items were either not authorized for repair, only partially authorized, or of indeterminate status.

We asked the contractors for information to support their authority to repair items not on the inspection

report. They advised us that the repairs had been verbally authorized. The field office personnel who signed these reports said they had not given contractors the authority to make such repairs. The contracting officer added that he could not recall authorizing the repairs questioned.

In three other field offices, work modifications were verbally authorized after the original purchase order or contract was issued. In two of these offices, failure to formalize such verbal authorizations to reduce the scope of certain work led to three overpayments to contractors amounting to \$1,188. In these cases, the contractors billed HUD for the work originally authorized and were routinely paid by HUD because there was no written evidence that the amount of the billing was incorrect. HUD has taken action to recover the overpayments identified in our review.

Contractors selected without competition

Two of the six field offices did not select contractors on the basis of competitive bidding practices, although required by HUD, for work estimated to exceed \$2,000. Instead, the work was distributed to contractors believed by HUD to have performed satisfactory repairs at reasonable prices on other HUD programs.

Before January 1973, one of the offices had no method of documenting price agreements or determining fair prices. Thereafter, it prepared in-house estimates of repair costs to assist in determining the reasonableness of the price. The selected contractor was furnished a copy of the HUD estimate and instructed to perform the work only if its price did not exceed the HUD estimate. Obviously there was no incentive for it to offer a lower price.

The other office, which also selected contractors without obtaining competitive bids, prepared and retained in-house cost estimates. The selected contractor furnished a price and was then authorized to make the repairs only if this price was equal to or lower than the in-house estimate.

Failure to incorporate labor standards provisions

The Davis-Bacon Act (40 U.S.C. 276a) provides that certain Government contracts over \$2,000 for construction, alteration, or repair contain a provision that project laborers or mechanics shall be paid according to the wage rates prevailing in their geographic area. The Davis-Bacon Act provisions do not apply to the 518(b) program, but HUD has determined that these provisions will be required

for repairs under the 518(b) program. HUD's contracting handbook prohibits the breakdown of a large job into several individual awards to avoid the \$2,000 contact wage provisions.

Three field offices contracted for repairs to be made on eight houses without incorporating the labor standards provisions required by the HUD guidelines. HUD officials said contracts for repairing two of the eight houses were awarded to six different contractors to keep the contracts under \$2,000, thus avoiding the requirement for the labor standards provisions. A HUD field office official also said the field office had no Department of Labor schedule of wages at the time and did not want to delay the work until a schedule could be obtained.

For each of the six other houses, HUD did award repair contracts for over \$2,000 to single contractors. Of these, two executed no contract in which the required provisions could be incorporated. The four others received written contracts for amounts between \$2,000 and \$2,500. Even so, HUD omitted the provisions because the 518(b) program guidelines erroneously stated that the provisions were applicable to only contracts in excess of \$2,500 rather than those in excess of \$2,000 as set forth in the Davis-Bacon Act and in HUD's contracting guidelines. Program guidelines were subsequently changed to make provisions applicable to contracts which exceeded \$2,000.

FAILURE TO SETTLE ALL CLAIMS AGAINST SELLERS

The initial HUD guidelines dated April 9, 1971, required all sellers of existing houses insured under section 235 to sign an agreement to reimburse HUD for any expenses incurred for defects corrected under section 518(b). Further, an escrow deposit of 5 percent of the sales price was required from sellers who had not occupied the property. The guidelines were revised on August 29, 1972, to require only profit motivated nonoccupant owners to sign the reimbursement agreement and make a deposit in escrow.

The guidelines also provided that, when eligible defects were identified, the field offices were to notify by registered mail the sellers who had signed reimbursement agreements. In cases where the sellers failed to respond

within a reasonable time,¹ the field office was to go ahead with repairs. After the work was completed, the field office was to advise the mortgagee holding escrow funds of the repairs and of the payment due from the escrow account. When the cost of the repairs exceeded the funds held in escrow, or when there was no money in escrow, the field offices were to submit a voucher to the HUD Comptroller for payment. In such cases a claim accrued against the seller.

In three field offices we identified unsettled claims of about \$25,700 against 35 sellers. We found that 17 of the sellers had been notified by the field office of the amount due but refused either to pay or to respond. The field office failed even to notify the remaining 18 sellers that a reimbursement was due.

None of the 35 unsettled claims had been forwarded by the field offices to HUD's General Counsel or the Department's Claims Officer for collection, although required by the guidelines and by HUD regulations (24 CFR 17.20) issued to implement the Federal Claims Collection Act of 1966 (31 U.S.C. 951-953). Further, the HUD Comptroller had not maintained records of the total claims receivable or the amounts due from individual sellers. HUD was unable to furnish us a reliable accounting of the total 518(b) claims outstanding, collected, suspended, terminated, or referred to other agencies for collection. Accordingly, HUD has not properly settled claims against all sellers.

CONCLUSIONS

Sound contracting practices are necessary to protect the Government's interests. HUD did not always employ sound contracting practices either because HUD guidelines were inadequate or because they were not followed. For example, contract specifications were not always prepared or, if prepared, were not always complete; written contracts to show work to be performed and price to be paid were not always prepared; procedures were not always employed to help insure that the lowest contract price was obtained; and required labor standards provisions were not always incorporated in contracts.

HUD has not established controls for the proper settlement of claims against sellers. For example, HUD headquarters failed to maintain records of amounts due and collected

¹The April 9, 1971, guidelines did not define a "reasonable time"; however, when the guidelines were revised on April 27, 1972, the language was changed to show "10 days."

from sellers. Field offices often failed to notify sellers of the amount due or to refer unsettled claims to HUD's General Counsel or to the Department's Claims Officer although they are required to do so.

RECOMMENDATIONS

We recommend that the Secretary of HUD

- revise HUD instructions to emphasize the need to comply with Federal Procurement Regulations so that required contracting practices--such as obtaining competitive bids on repair work, executing written agreements evidencing work to be performed and prices to be paid, and incorporating labor standards provisions in contracts--are followed,
- strengthen controls over claims collections to insure that claims are collected or referred to HUD's General Counsel or the Department's Claims Officer for proper resolution, and
- require the recording of reliable data on the total claims against sellers, including information on those outstanding, collected, suspended, terminated, or referred to other agencies for collection.

AGENCY COMMENTS AND OUR EVALUATION

In its January 1975 comments on our report, HUD said it would revise both its handbook and processing instructions to reflect compliance with the Federal Procurement Regulations and to strengthen controls over claim collections so that claims would be collected or referred to HUD's General Counsel for action.

HUD stated it had maintained information on the number of homeowner claims for assistance received, found ineligible, processed, and paid. Our recommendation was directed to requiring the recording of reliable data on claims against sellers. This includes information on claims outstanding, collected, suspended, terminated, or referred to other agencies for collection. The data HUD states it maintains is useful in administering the 518(b) program but it does not provide the specific information needed to pursue claims against sellers for funds due the United States Government.

APPENDIX I



DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
FEDERAL HOUSING ADMINISTRATION
WASHINGTON, D. C. 20411

ASSISTANT SECRETARY-COMMISSIONER

HUD LETTER FOR NOTIFYING HOMEOWNERS OF THE
FINANCIAL ASSISTANCE AVAILABLE UNDER SECTION 518(b)

Dear Homeowner:

You financed the purchase of your house with a mortgage insured under Section 235 of the National Housing Act.

This is now your property, and you should want to keep it in good condition. You are responsible for the repair and upkeep of your home.

If your house was more than one year old when you bought it, and a serious defect appears within one year after you signed your final papers, the FHA may be able to help you pay for the repairs. The defect must be a serious one, and it must be one which should have been noticed by FHA before you moved in.

The following are examples of defects which may be eligible for assistance:

- a. Termite infestation with evidence of damage to structural members or to exposed finish woodwork sufficient to require replacement.
- b. Inoperative, defective or inadequate plumbing, heating or electrical systems.
- c. Rotted or worn-out counter tops or floors. (Worn-out carpeting is not eligible unless it is the only finish floor. Defects such as burns, gouges, loosened hardware or doors on kitchen cabinets are not eligible.)
- d. Any structural failure in framing members or foundations visibly evident in an accessible attic or basement area is eligible.
- e. A leaking or worn-out roof.
- f. Drainage problems existing at time of purchase such as surface water in the crawl space or running against the house.

- g. Rotted siding, window frames or other seriously deteriorated exterior surfaces are eligible.

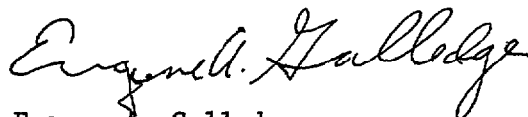
Items which are not eligible include:

- a. Exterior paint failure.
- b. Finish worn-off wood floors or other finish woodwork.
- c. Cracked plaster or sheetrock, unless caused by structural failure eligible as described in (d) above.
- d. Interior paint wear.
- e. Dead grass and shrubs.
- f. Inoperative dishwasher, disposal, exhaust fans, window air-conditioners, or other mechanical equipment not essential to the use and livability of the property, unless the complaint is received immediately after occupancy or evidence is furnished indicating that the condition existed at time of occupancy.
- g. Broken glass and broken counterweight cords are not eligible. Inoperable windows are not eligible if one sash is operable in each room.
- h. Defects in detached garages and other outbuildings are not eligible unless such buildings constitute a hazard in which case they are eligible for demolition and removal.

Even if there is something wrong with your house, you must continue to make your mortgage payments. If you cannot make the full payment for any reason, you should let your lender know before the payment is due. He will try to help you.

If a serious defect appears, as described above, you should call or write the nearest HUD-FHA office listed on the enclosure of this letter. The Director of that office, or someone on his staff, will help you make a formal application for assistance. If you are eligible, your formal application must be received by the local HUD-FHA office within one year after you signed the final papers to buy your house or, if that was before January 1 of this year, by December 31, 1971.

Sincerely yours,



Eugene A. Gullledge
Assistant Secretary-Commissioner

Enclosure

HUD PROGRAM STATISTICS
FOR FIELD OFFICES REVIEWED BY GAO

<u>Time frame</u>	<u>Washington, D.C. area office</u>	<u>Cincinnati insuring office</u>	<u>Cleveland insuring office</u>	<u>Columbus area office</u>	<u>Detroit area office</u>	<u>Seattle area office</u>
Inception of the program through	February 28, 1973	March 31, 1973	June 30, 1973	June 30, 1973	June 30, 1973	June 30, 1973
Section 235:						
Number of existing housing units insured	783	1,039	1,064	1,367	2,485	2,506
Section 518(b):						
Number of requests for financial assistance received	447	293	193	165	428	791
Number of requests determined eligible for 518(b) assistance	317	246	81	141	278	439
Number of requests determined ineligible for 518(b) assistance	130	47	36	24	150	352
Number of requests awaiting an eligibility determination	-	-	76	-	-	-
Number of eligible requests with repairs or other action completed	72	220	57	115	277	421
Number of eligible requests with repairs uncompleted	245	26	24	26	1	18
HUD's cost of completed repairs	\$354,797	\$666,819	\$112,798	\$82,008	\$632,851	\$667,184
HUD's estimated cost to complete unfinished repairs	undeterminable	\$ 7,185	\$ 55,600	\$20,353	\$ 600	\$ 23,500



DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
FEDERAL HOUSING ADMINISTRATION
WASHINGTON, D. C. 20411

ASSISTANT SECRETARY-COMMISSIONER

January 9, 1975

Mr. Henry Eschwege
Director
Resources and Economic Development Division
United States General Accounting Office
Washington, D. C. 20548

Dear Mr. Eschwege:

This is in reply to your letter of September 12, 1974 concerning your report to the Congress on weaknesses in administration of the program to correct defects in housing insured under the Section 235 program administered by this Department.

The draft GAO report identifies some valid problem areas in the Section 518(b) program which have been matters of concern to this Department and which, we believe, will be corrected under new administrative procedures to be implemented shortly. These procedures will be contained in a revised Chapter III, Correction of Defects in Existing Homes, to HUD Handbook 4070.1 (the Section 518(b) Construction Complaints Handbook). This handbook revision, now being cleared within HUD, will also incorporate the changes in Section 518(b) adopted by the Housing and Community Development Act of 1974.

Specifically, the corrective actions already implemented by HUD or planned for incorporation in the handbook revision are listed below, with citations to corresponding recommendations at page 5 of your report.

Recommendation 2:

- 1) The handbook revision will emphasize the need for timely processing of Section 518(b) claims. For example, the final handbook may set forth processing time guidelines which would establish target goals for expeditious completion of each processing step.

APPENDIX III

2) Proper identification of defects continues to be a basic element of the Section 518(b) instructions.

3) While our processing instructions have always required a final inspection, it was not mandatory that the inspection be made by HPMC personnel. We are reviewing the impact of requiring that a final inspection be performed by qualified HPMC technical personnel of all repairs made under Section 518(b).

Recommendation 3: The processing time on requests for assistance is being included in the information from ADP management. The request for this information has been required for approximately one year and will continue to be so required. The non-acceptance of repair work is an item that should be added to this report.

Recommendation 4: Following our review of Section 518(b) procedures, HUD has delegated the Section 518(b) contracting authority to all Field Office Directors, as of October 15, 1974. We are reviewing the use of small purchase procurement procedures to be used for Section 518(b). The Directors now have full responsibility for utilizing Field Office staff so that timely processing of Section 518(b) claims can be accomplished. The Handbook and revised processing instructions will reflect compliance with the Federal Procurement Regulations including the use of small purchase procurement procedures for claims under \$2,000. The Handbook will clearly set forth assignments of responsibility.

Recommendation 5: A revision to the Handbook is presently being made to implement this suggestion. When attempts to contact the seller result in negative response, the case with the necessary documentation will be referred to the General Counsel for action.

Recommendation 6: Since April of 1972 the outstanding instructions have required the complaints officer to maintain complete records of Section 518(b) claims. These records include:

- a) Volume of claims received to date and monthly.
- b) Number of claims in process (by case number).
- c) Number of claims (by case number) received but not yet in process.
- d) Number of claims paid and files closed.

- e) Number of claims found ineligible.
- f) A record of any false or misleading claims, certifications, inspections or statements by anyone within or doing business with the Department with respect to any phase of Section 518(b).

With respect to your Recommendation 1 concerning correction of defects identified in the GAO report, we must point out that the HUD General Counsel has advised that defects not identified by the mortgagor or by the initial 518(b) inspection are not eligible when subsequently reported after the lapse of the statutory time limit.

If, on the other hand, the defect was reported by the homeowner and the claim denied by the field office and the defect is, in fact, eligible for 518(b) assistance, we agree that compensation or repair should be made. The FHA case numbers of all such claims found in your review should be submitted to the Director, Single Family Underwriting Division, Office of Underwriting Standards for appropriate action.

As the above indicates, I believe that we are in general agreement on the actions which need to be taken by HUD to assure efficient administration of the Section 518(b) authority. The remaining comments below are, for the most part, technical in nature and are offered for your assistance in preparing the final report.

[See GAO note 2, p. 37.]

[See GAO note 2, p. 37.]

Page [7], Paragraph[2], Lines [13 - 17], and Page [7], Paragraph[3]

As mentioned above, the new Handbook will contain target date recommendations for determining eligibility, contracting, and completion of repairs. It has been our experience that it is more difficult to obtain bids on miscellaneous repairs than it is to obtain bids for a complete rehabilitation job, and that contractors are much slower in completing such miscellaneous repairs. This is one of the practical difficulties in Section 518(b) operations.

[See GAO note 2.]

Page [19]

The reference to the 157 defects should be backed up by case numbers. The provision of the specific case numbers would allow the verification by my staff of the items included in the audit report. The possibility of needed training or procedural changes would be enhanced by the results of such a review.

Sincerely,



David M. deWilde
Acting Assistant Secretary-
Commissioner

GAO notes:

1. The numbers in brackets refer to pages in this report.
2. Material has been deleted because it was primarily of a minor, technical nature. The comments were considered and, where appropriate, changes were made to the report.

APPENDIX IV

PRINCIPAL OFFICIALS OF THE
 DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
 RESPONSIBLE FOR ADMINISTERING ACTIVITIES
 DISCUSSED IN THIS REPORT

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
SECRETARY OF HOUSING AND URBAN DEVELOPMENT:		
George W. Romney	Jan. 1969	Feb. 1973
James T. Lynn	Feb. 1973	Feb. 1975
Carla A. Hills	Mar. 1975	Present
ASSISTANT SECRETARY FOR HOUSING PRODUCTION AND MORTGAGE CREDIT-- FHA COMMISSIONER:		
Eugene A. Gulledge	Oct. 1969	Jan. 1973
Woodward Kingman (acting)	Jan. 1973	July 1973
Sheldon B. Lubar	July 1973	Nov. 1974
David de Wilde (acting)	Nov. 1974	Present
ASSISTANT SECRETARY FOR HOUSING MANAGEMENT:		
Norman V. Watson	July 1970	Jan. 1973
Abner D. Silverman (acting)	Jan. 1973	Mar. 1973
H. R. Crawford	Apr. 1973	Present

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