



U.S. Department of Agriculture
Office of Inspector General
Southwest Region
Audit Report

**RURAL DEVELOPMENT
RURAL HOUSING SERVICE
USE OF RURAL HOUSING SERVICE LOAN
FUNDS AT THE LOCAL FIELD OFFICE IN
ANTLERS, OKLAHOMA**



Report No.
04005-1-Te
AUGUST 2000



UNITED STATES DEPARTMENT OF AGRICULTURE
OFFICE OF INSPECTOR GENERAL
Southwest Region
101 South Main
Temple, Texas 76501



DATE: August 9, 2000

REPLY TO

ATTN OF: 04005-1-Te

SUBJECT: Use of Rural Housing Service Loan Funds at the Local Field Office in
Antlers, Oklahoma

TO: Charles P. Rainbolt
State Director
United States Department of Agriculture
Rural Development
100 USDA, Suite 108
Stillwater, OK 74074

This report presents the results of our audit of the use of Rural Housing Service loan funds at the local field office in Antlers, Oklahoma. A written response to the draft report is included as exhibit C with excerpts and the Office of Inspector General's position incorporated into the relevant sections of the report. The response contained sufficient justification to reach a management decision on all recommendations. Please follow your internal agency procedures in forwarding final action correspondence to the Office of the Chief Financial Officer.

We appreciate the cooperation and courtesies extended to us by members of your staff.

/s/Les Koster
for
J. Wayne Bynum
Acting Regional Inspector General
for Audit

Attachment

EXECUTIVE SUMMARY

RURAL DEVELOPMENT RURAL HOUSING SERVICE USE OF RURAL HOUSING SERVICE LOAN FUNDS AT THE LOCAL FIELD OFFICE IN ANTLERS, OKLAHOMA REPORT NO. 04005-1-Te

RESULTS IN BRIEF

At the request of the State director for Rural Development we performed an audit of loan activity at the local field office in Antlers, Oklahoma. The objectives of our audit were to

determine whether loan funds were properly disbursed, construction defects were reported and corrected before final payments were made, and loan funds were used for authorized purposes.

We limited our review to Rural Housing Service (RHS) section 504 loan activity because of issues the State director requested that we review, such as questionable disbursements of funds from supervised bank accounts, inadequate inspections of repair work, and questionable uses of loan funds. We excluded section 502 loan activity because it was used to finance the purchase of existing dwellings or new construction under the self-help program, both of which did not involve repair work.

The Community Development Manager (CDM) in charge of operations at the Antlers office was assigned to that office in 1997. The universe for the audit included 34 loans and 19 grants for repair work financed under the section 504 program for years 1997 through 1999. From this universe, we selected for review 10 loans, 2 of which also received grant funds.

In 6 of the 10 cases we reviewed, loan and grant funds were released to contractors before work was completed or before releases were authorized under the terms of the construction contracts. In all but one case, the work was eventually completed, although in five cases, we found construction defects that should have been corrected before final payments were made.

The construction defects we found generally involved shoddy construction work, some of which may present safety problems such as unsecured flooring, steps, and other obstructions that could cause household members to trip or fall.

We also found that loan funds totaling \$6,814 were used to finance an outside storage building and to add a third bedroom with bath that did not appear needed or authorized under the program. The third bedroom was

added to an existing dwelling that already had adequate facilities for the two-member household.

KEY RECOMMENDATIONS

We recommend the Rural Development Manager (RDM) monitor future releases of loan funds under the section 504 program to insure sufficient materials are put in place and/or labor completed to justify fund releases. We also recommend that Rural Development determine if administrative action should be taken against the CDM for unauthorized releases of loan funds and inadequate inspections of repair work. We further recommend fast action to enclose the home of borrower E to prevent further deterioration from the weather. Finally, we recommend that Rural Development correct the cited construction defects or provide a justification for not doing so, and monitor future inspections of section 504 repair work to insure construction defects are reported and corrected, funds are used for authorized purposes, and that there is a need for the planned improvements.

AGENCY RESPONSE

The Rural Development State Director provided a written response to the draft report, copy attached as exhibit C, showing agreement with the findings and recommendations. Because of size, exhibits to the written response were not included.

OIG POSITION

We accept the management decisions on all recommendations.

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INTRODUCTION

BACKGROUND

The purpose of Rural Development's RHS direct single-family housing loan program is to provide low- and very-low-income people in rural areas with opportunities to own adequate but modest, decent, safe, and sanitary dwellings and related facilities. The section 502 program offers persons, who do not currently own adequate housing and who cannot obtain other credit, the opportunity to acquire, build, rehabilitate, improve, or relocate dwellings in rural areas. Section 504 rural housing loans are to give very low-income rural homeowners who cannot obtain other credit, an opportunity to make essential repairs to their homes to make them safe and to remove health hazards to the family or the community. The section 504 program also offers grants to homeowners, age 62 or older, who cannot obtain loans to correct health and safety hazards, to make their units accessible to household members with disabilities¹. The section 504 program was authorized by the Housing Act of 1949, Title V, section 504, as amended, Public Laws 89-117, 89-754, and 92-310, 42 U.S.C. 1474.

The following table shows the numbers of section 504 loan and grant obligations for the local field office in Antler, Oklahoma in years 1997, 1998, and 1999.

Year	Obligated Loans		Obligated Grants	
	Number	Amount	Number	Amount
1997	9	\$ 48,064	0	\$ 0
1998	15	122,454	15	56,059
1999	10	99,450	4	24,522
Totals	34	\$269,968	19	\$80,581

The local office does not have supervisory responsibility for delinquent borrower accounts, because the central servicing center in St. Louis, Missouri, is responsible for this activity.

The Antlers office was staffed with a CDM, community development assistant, and community development technician. All three were formerly

¹ Title 7, Code of Federal Regulations (CFR), part 1944.1, January 1996, edition. 7 CFR, part 3550.2, January 1, 1998, edition.

employed by the Farmers Home Administration in other locations in Oklahoma, and all three were transferred to the Antlers local area office in early 1997.

The Oklahoma State Rural Development Office asked that we review operations at this office because of numerous borrower complaints about shoddy repair work, financed by Rural Development, to their homes. The Antlers local area office has responsibility for making loans and grants in a four-county area that includes Pushmataha, McCurtain, Atoka, and Choctaw Counties.

OBJECTIVES

The objectives of our audit were to determine whether the loan funds were properly disbursed, construction defects were reported and corrected before final payments were made, and that loan and grant funds were used for authorized purposes.

SCOPE

Our review was limited to RHS section 504 loans and grants because most of the complaints involved repair and rehabilitation work financed under this program. The section 502 loans generally did not involve repair and rehabilitation work since most of the loans were for self-help construction of new homes. A community action organization, Little Dixie Community Action Agency, had responsibility for getting construction contracts and arranging self-help work contributions by borrowers to qualify for these loans. The section 502 loans that were not self-help were generally made to finance existing dwellings that did not involve repair and rehabilitation, and for this reason, we excluded them from our audit coverage.

As shown in the Background section of this report, there were 34 section 504 loans and 19 grants that were disbursed during the 3 years 1997 through 1999. From this universe, we judgmentally selected for review 10 loans, 2 of which included grants. Those selected included the largest loan from 1997, the two largest loans from 1998, and the six largest loans from 1999. The borrower selected for review with the 1997 loan also obtained a 1998 loan, which we also reviewed. The section 504 loans selected for review totaled \$118,669, which was 43 percent of the total section 504 loan obligations (\$269,968) during the 3 years covered by our review.

We reviewed all documents in the loan files, the computer database, and transactions posted to the supervised bank accounts. We also made site inspections to determine if all planned work was completed and whether

there were obvious construction defects that had not been reported and corrected before final loan funds were disbursed.

We conducted the fieldwork during the period of February through April 2000, at the local area field office in Antlers, Oklahoma. The Antlers local field office includes Pushmataha, McCurtain, Atoka, and Choctaw Counties in Oklahoma. The audit was performed in accordance with generally accepted Government auditing standards. Accordingly, the audit included such tests of program and accounting records as considered necessary to meet the audit objectives.

METHODOLOGY

We relied primarily on documentary evidence in the loan and computer files and physical evidence at the construction sites. Site visits were made to determine whether construction work had been properly completed before payments were made.

We obtained a report of loans and grants obligated at the Antlers local area office from the Rural Development State Office in Stillwater, Oklahoma. This was the basis of the judgmental selection of loans and grants that were reviewed.

We reviewed the supervised bank accounts associated with the loans selected to determine if payments to the contractors had been properly disbursed according to the terms of the construction contracts. We also reviewed inspection reports to determine whether construction defects were reported and that work was adequately inspected before funds were released.

FINDINGS AND RECOMMENDATIONS

CHAPTER 1	SECTION 504 – LOAN FUNDS IMPROPERLY DISBURSED, CONSTRUCTION DEFECTS NOT CORRECTED, AND FUNDS USED FOR QUESTIONABLE PURPOSES
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In the last 3 years, the county office disbursed 34 section 504 loans and 19 grants to borrowers for use in repairs of existing homes for low-income individuals or families. We selected 10 of these loans and 2 associated grants for review to determine if funds were properly disbursed and used for authorized purposes and that planned work was properly completed. In six of the cases reviewed, loan or grant funds were disbursed before sufficient work was completed or before authorized by the terms of the construction contracts. In five cases, we found that inspections were not sufficient to detect and correct construction defects. In two cases, we questioned the use of funds for construction of a new shed and a new bedroom with bath because these items were not needed or authorized under the program.

FINDING NO. 1

LOAN FUNDS IMPROPERLY DISBURSED

In 6 of 10 reviewed loans, the funds were disbursed to contractors before sufficient work was completed to justify payments. This occurred because the CDM advanced money to contractors if they asked for funding, even though it was not in compliance as specified in

the construction contracts. Therefore one contractor received payments of \$12,000 before little of the work was completed. Also, contractors received final payments when construction defects existed that should have been corrected.

7CFR part 1924.6(a)(12)(i) states that unless prohibited by State statute, payments for work performed will be made by one of the following methods.

One-lump-sum,

partial payments not to exceed 60 percent of the value of the work in place,

partial payments in the amount of 90 percent of the value of the work in place and of the value of the materials suitably stored at the site, or

partial payments that reflect the portions of the contract amount which is guaranteed².

For the sample cases reviewed, the construction contracts specified when payments were to be made. In one of the sample cases, work, which was to be completed by March 1, 2000, had not been started or funds released. The completion date has now been extended, which we considered justified, because the contractor was not available to do the work at the time specified in the contract. In all the other cases but one, final inspection reports were on file showing that all work was completed, and borrowers signed the inspection reports as acceptance of the work constructed under the conditions of their contracts. However, when we inspected the repairs, we found problems with inspections as discussed in Finding No. 2. Problems with disbursements of loan funds are discussed below.

BORROWER A

The borrower obtained two loans, one for \$15,800 in September 1997 and another for \$2,330 in October 1997. The purpose of the first loan was to repair the roof, replace flooring, and construct a third bedroom with a handicap accessible bathroom at a contracted cost of \$14,200. The second loan was for a heat pump costing \$1,535, for termite treatment costing \$525, and the balance of \$270 for underestimated closing costs on the first loan. The construction contract for the first loan showed a "one-lump-sum" (payment made when all construction was completed) method of loan disbursement. The contractor was paid \$8,000 in October 1997 that was not authorized because the final inspection was not made until January 22, 1998, when all work was shown to be completed. Our visual inspection disclosed that all planned work was completed. However, we question the use of loan funds used to finance a new bedroom with bath that did not appear needed because the borrower already had adequate housing. (See Finding No. 3.)

BORROWER B

The borrower obtained a \$12,240 loan in October 1998 to repair a modular home. Loan funds of \$9,981.11 were to be used for repairs specified in the construction contract, and the balance was used to pay for closing costs. The construction contract specified that payment would be made in "one lump sum."

The CDM did not follow payment terms in the contract during construction and released funds when the contractor requested funding. The contractor

² 7 CFR 1924.6(a)(12)(i), January 1, 1997, edition.

received a \$6,000 payment in October 1998, a \$3,000 payment in December 1998, and a final payment in April 1999. An inspection report dated January 13, 1999, showed the work was only 65-percent complete. As shown above, most of the loan funds were already disbursed when the inspection was made. A final inspection report dated March 3, 1999, showed all of the work was completed. Even though the work was shown as completed, we found construction and safety defects that needed correction. (See Finding No. 2.)

BORROWER C

Borrower C received a loan and grant of \$18,890. The construction contract was to build a new storage shed and a set of kitchen cabinets, replace the roof, install an air conditioner, and replace carpet and vinyl flooring, among other items. The contract payment method was "one lump sum." However, contrary to the contract, the CDM paid the contractor four payments of \$3,500, \$4,000, \$6,000, and \$3,560 in June, July, August, and September 1998, respectively, based on requests by the contractor. Only one inspection report was completed on September 28, 1998. Although we found no construction defects, we question the use of funds for construction of the new storage shed. (See Finding No. 3.)

BORROWER E

The borrower obtained a \$20,000 loan in July 1999 to repair a home. Loan funds of \$18,635 were to be used to pay for items specified in the construction contract, and the balance of \$1,365 was to be used for loan closing costs. According to the construction contract, the contractor was to be paid based on the percentage of work completed (partial payment limited to 60 percent of the value of work in place). The contractor received partial payments of \$6,000 on August 2, 1999, and a second partial payment of \$6,000 September 3, 1999. There were no inspections prior to issuance of the August 2 partial payment. An initial inspection was completed on August 20, 1999, which showed 30 percent of the work completed. An inspection report dated September 7, 1999, showed 40 percent of the work completed. When the borrower died in September 1999, the contractor stopped working on the home. We inspected the home on March 6, 2000, and found sheetrock damage from rain and one side of the house not enclosed, leaving a large area exposed to the elements. A large amount of work was not done including installation of the kitchen cabinets and completion of the bathroom. The contractor told us that he planned to complete the remaining work. However, the contractor may not have the funds necessary to pay for materials needed for completion. In any event, partial payment of \$12,000 was not justified as inspection reports showed that sufficient work had not been completed. In this case, the contractor was

not bonded, and Rural Development will incur financial loss if the work is not completed.

BORROWER I

The borrower received a loan and grant totaling \$11,981 to repair an existing home. The construction contract showed that three disbursements were to be made to the contractor. The first disbursement was to be based on invoiced materials. However, on May 6, 1999, the contractor was paid \$3,210.53 on a quote from a lumber company, not an invoice. The contractor received a second payment of \$5,000 on May 18, 1999. This payment should have been based on materials and labor; however, the files contained no evidence of such costs to support the disbursement. Even though the construction contract showed that three payments were to be made for completion of the work, five payments were actually made. In addition to the previous mentioned payments, three other payments of \$1,000, \$1,222, and \$500 were made on June 7, June 18, and July 1, 1999, respectively. A final inspection showed that all work had been completed; however, we found construction defects that should have been corrected before all funds were disbursed to the contractor as discussed in Finding No. 2.

Because bonding of contractors is generally not required for section 504 repairs, it is essential that loan funds not be disbursed until materials are put in place and sufficient work has been completed to justify the release of loan funds. Because of the unauthorized release of funds, the State office needs to determine administrative measures to be taken and if the CDM should be held accountable for any losses incurred by Rural Development. Also, fast action is needed to get borrower E's home enclosed and necessary repairs made to prevent future deterioration of the home.

RECOMMENDATION NO. 1

Require that the RDM monitor future releases of loan funds under the section 504 program to insure sufficient materials are put in place and/or labor completed to justify fund releases.

Rural Development Response

Rural Development concurs with the recommendation. The State director, in conjunction with the RDM and single family housing program director,

have detailed an experienced loan specialist to the CDM position in Antlers for a period of 30 days. The program director and RDM are working closely with the loan specialist to correct any deficiencies stated in the audit. The RDM will closely monitor the 504 loan program and will provide additional guidance and supervision in the 504 loan program to the detailed loan specialist and to the future CDM. The SFH program director will continue to emphasize the requirements of the 504 loan program at future training sessions for all employees.

OIG Position

We accept the management decision.

RECOMMENDATION NO. 2

Require fast action to get the home of borrower E enclosed to prevent further deterioration from the weather.

Rural Development Response

Rural Development concurs with the recommendation. Rural Development provided pictures showing the property is now secured and protected from weather hazards.

OIG Position

We accept the management decision.

FINDING NO. 2

CONSTRUCTION DEFECTS NOT DETECTED OR REPORTED BY INSPECTIONS

In 5 of 10 cases reviewed, we found construction defects were not disclosed or reported by CDM inspections and thus were not corrected before final payments were made. This happened because the CDM failed to disclose the defects or chose to ignore them when making his final inspections. In the cases

where we found construction defects, the borrowers signed the final inspection reports, which stated that they gave approval of acceptance of the work constructed under conditions of the contract and builder's warranty. In our opinion, the construction defects we identified existed at the time of final inspections and should have been corrected before final payments were made.

7CFR part 1924, subpart A, states inspections are for the dual purposes of determining that RHS has adequate security for its loan and is achieving the statutory goal of providing adequate housing.³ For rehabilitation of existing buildings, inspections will be made first when the building is enclosed, structural members are still exposed, roughing in for heating, plumbing, and electrical work is in place, and visible and wall insulation has been installed. Final inspection will be made when all development has been completed.⁴

The CDM should record the periodic and final inspections according to Form FmHA 1924-12, Inspection Report. Any deficiencies should be noted. The CDM is responsible for following up on the correction of deficiencies. No inspection should be noted as final until all deficiencies or nonconforming conditions have been corrected.⁵

Information about the construction defects disclosed in our review follows.

BORROWER B

The borrower received a \$12,240 loan in October 1998 to repair an existing home. Loan funds of \$9,981.11 were to be used to replace the kitchen floor, ceiling, kitchen cabinets, and roof; install two new commodes; install new front door and storm door; and replace the front porch.



Although three inspection reports had been completed, none indicated any problems with the construction work. Our inspection of the home disclosed that the vinyl flooring was not tacked down, door molding was not installed at the kitchen entrance, and the flooring for the front porch was higher than the front door stoop. These defects are safety hazards that should be corrected. The CDM told us he was unaware of these defects, and for this reason they were not listed on the inspection report.

³ 7 CFR 1924.9(a), January 1, 1997, edition.

⁴ 7 CFR 1924.9(b)(2), January 1, 1997, edition.

⁵ 7 CFR 1924.9(c), January 1, 1997, edition.



BORROWER D

Loan funds of \$17,910 were, in part, to be used for the replacement of damaged masonite siding. Two inspections were made by the CDM. On

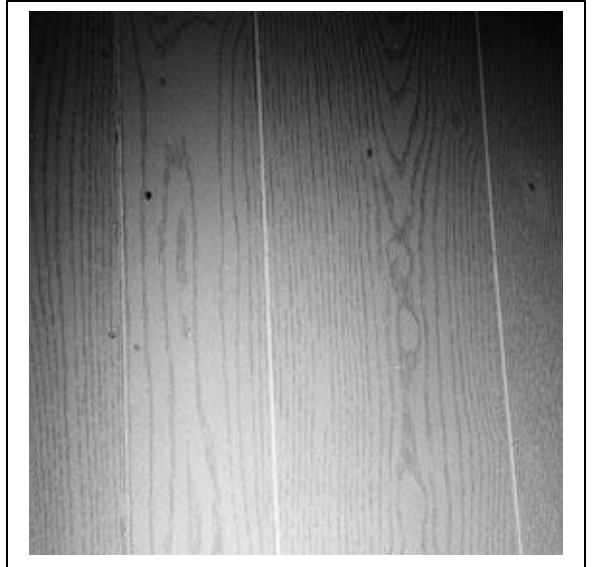


the first inspection, he reported, "there were questions on replacing the masonite, and the contractor needs to change out some masonite and window sills." His final inspection in November 1999 showed "all work is completed, changes were made as requested, and the work is satisfactory." Our inspection of the home disclosed the masonite siding was buckling in three places, two of which were under windows. The CDM, who was with us on

our inspection, said he could not tell whether the buckled masonite was caused by poor construction or whether the original masonite was not replaced. Problems relating to the buckled masonite siding were not reported on the final inspection.

BORROWER F

The borrower received a \$6,360 loan in November 1999 to install new faucets in the bathtub, install a new commode, and enclose the garage for a living area, among other repairs. Only one inspection was made, the final, and it listed no construction defects. On our visit, we found the newly installed bathtub faucets had little water pressure, the paneling in the garage area was bowed, and large nail heads were visible in the paneling. Although no serious construction defects, they should have been reported and corrected.



BORROWER G

The construction contract showed loan funds of \$10,057 were used to install two new commodes and three new doors (including a new metal door from the utility room to the garage), to replace the kitchen counter top, and to complete other listed repairs. No construction defects were reported on any of the four inspections made by the CDM. We found the cover top for one of the commodes did not fit. The door from the utility room to the garage would not close, and therefore, could not be locked because it was not installed properly. These defects were not disclosed by inspections and thus not corrected. The CDM told us he was not aware that these problems existed.

BORROWER I

The borrower obtained a loan and grant amount totaling \$11,981 that was, in part, for use in repairing the roof on a mobile home. A final inspection report dated August 1999 showed all repairs were 100-percent completed and listed no construction defects. We found the soffit and roof sagging and bowed. There was bare wood showing in places where two coats of exterior latex paint were to have been applied. The CDM said he was not aware of these defects. The following picture illustrates the sagging roof.



According to 7CFR part 1924.9 (c), no inspection will be recorded as a final inspection until all deficiencies or nonconforming conditions have been corrected. Because the CDM did not report the cited construction defects, they were not corrected. The CDM accompanied us on most of the inspections and generally agreed that the listed defects should have been corrected before final payments were made.

RECOMMENDATION NO. 3

Determine to what extent the cited defects need to be corrected for the protection of Rural Development's security interest. Monitor future CDM inspections of section 504 repair work to insure construction defects are being reported and corrected.

Rural Development Response

Rural Development generally concurs with this recommendation. Within 30 days, the acting CDM will have met with each individual borrower listed in the audit to resolve the rehabilitation of their homes, comparing work that was required in their original contracts and what was completed. In some instances, it will be difficult to have the previous contractor(s) come back and resolve those problems and satisfy the original contract. Of the

items listed, they do not believe the agency's security interest is adversely affected. Rural Development included a copy of a sample letter that will be provided to all borrowers identified in the audit.

OIG Position

We accept the management decision.

RECOMMENDATION NO. 4

Determine if administrative action should be taken against the CDM for the unauthorized release of loan funds and for inadequate inspection of repair work that allowed such work to go uncompleted or without construction defects being corrected.

Rural Development Response

The Rural Development will not take administrative action due to the CDM's retirement effective July 3, 2000.

OIG Position

We accept the management decision.

FINDING NO. 3

FUNDS USED FOR QUESTIONABLE PURPOSES

Loan funds were used for new construction that did not meet the objectives of the 504 program, i.e., repair and rehabilitation. In one case, funds were used to construct a storage shed, and in the other case, funds were used to add a new bedroom and a bathroom. As a result, we question the use

of \$6,814 in loan and grant funds for these purposes.

Section 504 program objectives are intended to help very-low-income owner-occupants in rural areas repair their properties. Loan funds may be used to make general repairs and improvements to properties or to remove health and safety hazards, as long as the dwelling remains modest in size and design.⁶

⁶ 7 CFR 1944.451, January 1, 1996, edition.

⁷ 7 CFR 3550.101, January 1, 1998, edition.

Details about the two cases follow.

BORROWER C

Loan funds were, in part, used to construct a new 10 foot by 12 foot insulated, sheetrock-finished storage building. The shed was included as part of the construction contract at a cost of \$1,830. We question whether the shed was an eligible use of section 504 loan funds.

BORROWER A

Loan funds were, in part, used to finance construction of a new bedroom and a bathroom in an area that was previously used as a carport. The third bedroom with bathroom were listed in the construction contract and built at a cost of \$4,983.54. The contract stated that the bathroom door and shower stall should be large enough to accommodate a wheelchair, however, provision relating to the construction for wheelchair accessibility were crossed out on the contract.

We question the need for a third bedroom because there were only two people in the household, the borrower and her mother. Also, the bathroom, as constructed, was not made handicap accessible, as there were steps in front to gain entry.

The CDM could not provide us with an explanation as to why this information was marked through and why the bathroom was not made wheelchair accessible. He also had no explanation as to why a third bedroom was considered necessary. At the time of our visit, the borrower did not appear to require the use of a wheelchair.

Rural Development, RHS, Single Family Housing, Senior Loan Specialist agreed that there was not an authorized purpose for construction of a shed, and there does not appear to be a need for a third bedroom and bath.

RECOMMENDATION NO. 5

Monitor construction contracts relating to work completed with section 504 program funding to ensure funds are used for authorized purposes, and there is a need for the planned improvements.

Rural Development Response

The Rural Development concurs with the recommendation. The CDM in this office retired July 3, 2000. Each section 504 loan and grant and the related construction contract will be monitored to ensure that funds are used for authorized purposes. Monthly oversight visits will be made to the Antlers office. Extra attention will be given to this office while there is an acting CDM and after the future CDM is in place. Per review of the identified files by the single family housing program director, the State director concurred with the monetary amounts as shown in exhibit A of the audit report.

OIG Position

We accept the management decision.

EXHIBIT A – SUMMARY OF MONETARY RESULTS

Finding Number	Description	Amount	Category
3	Unauthorized Use of Funds for Construction of Storage Shed	\$1,830	Questioned Costs, No Recovery
3	Constructed New Bedroom and Bathroom	4,984	Questioned Costs, No Recovery
Total Monetary Results		\$6,814	

EXHIBIT B – SUMMARY OF SECTION 504 FINDINGS

BORROWER LOAN	LOAN NUMBER	YEAR OBLIGATED	LOAN AMOUNT	GRANT AMOUNT	IMPROPERLY DISBURSED	CONSTRUCTION DEFECTS	USE OF FUNDS
A	1	1997	\$15,800				
A	2	1998	2,330				
B	3	1998	12,240				
C	4	1998	14,960	\$3,930			
D	5	1999	17,910				
E	6	1999	20,000				
F	7	1999	6,360				
G	8	1999	11,088				
<u>1/</u> H	9	1999	13,500				
I	10	1999	4,481	7,500			
TOTAL			\$118,669	\$11,430			

1/ Loan funds not disbursed, and construction work not started.

EXHIBIT C – RURAL DEVELOPMENT’S REPONSE TO DRAFT REPORT



United States
Department of
Agriculture

Rural
Development

100 USDA, Suite 108
Stillwater, OK 74074-2654
Phone: (405) 742-1000
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August 3, 2000

SUBJECT: Use of Rural Housing Service Loan Funds at the
Local Field Office in Antlers, Oklahoma

TO: Office of Inspector General
Southwest Region
101 South Main
Temple, TX 76501

ATTN: 04005-1-Te

As requested in the official draft dated May 16, 2000, concerning the above-referenced subject, we are providing you with our response regarding the audit findings and recommendations.

Recommendation No. 1: Require that the RDM monitor future releases of loan funds under the Section 504 program to insure sufficient materials are put in place and/or labor completed to justify fund releases.

Response: The State Director, in conjunction with the RDM and SFH Program Director, has detailed an experienced loan specialist to the CDM position in Antlers for a period of 30 days. The Program Director and RDM are working closely with the loan specialist to correct any deficiencies stated in the audit. The RDM will closely monitor the 504 loan program and will provide additional guidance and supervision in the 504 loan program to the detailed loan specialist and when a permanent CDM is placed in that position. The SFH Program Director will continue to emphasize the requirements of the 504 loan program at future training sessions for all employees.

Recommendation No. 2: Require fast action to get the home of borrower E enclosed to prevent further deterioration from the weather.

Response: The pictures, identified as Exhibit A, show that the property is now secured and protected from weather hazards. All loan funds have been used on the dwelling, but repairs per contract have not yet been completed. The Acting CDM and future CDM will meet with the heirs to discuss alternative solutions. There was talk within the heirs that a brother may

RURAL
DEVELOPMENT

USDA, Rural Development is an Equal Opportunity Lender, Provider and Employer.
Complaints of Discrimination should be sent to:

EXHIBIT C – RURAL DEVELOPMENT’S RESPONSE TO DRAFT REPORT

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assume their mother’s loan. If additional funds are needed to finish the dwelling, we will need a waiver from the Administrator for a grant, because the brother will not have repayment ability for an additional loan. The heirs need to prepare a development plan on what is needed to finish the dwelling. If the contractor refuses to complete the work, we will pursue debarment. A copy of the letter to the contractor has been included and is identified as Exhibit A-1.

Recommendation No. 3: Determine to what extent the cited defects need to be corrected for protection of Rural Development’s security interest. Monitor future CDM inspections of Section 504 repair work to insure construction defects are being reported and corrected.

Response: Within thirty (30) days, the Acting CDM will have met with each individual borrower listed in the audit to resolve the rehabilitation of their home, comparing work that was required in the original contract and what was completed. In some instances, it will be difficult to have the previous contractor(s) come back and resolve those problems and satisfy the original contract. Of the items listed, I do not believe the Agency’s security interest is anymore adversely affected. A copy of a sample letter that will be provided to all borrowers identified in the audit was sent to Borrower H (Hooper Scales). This letter has been included and is identified as Exhibit B.

Recommendation No. 4: Determine if administrative action should be taken against the CDM for the unauthorized release of loan funds and for inadequate inspection of repair work that allowed such work to go uncompleted or without construction defects being corrected.

Response: No administrative action will be taken due to the CDM’s retirement effective July 3, 2000.

Recommendation No. 5: Monitor construction contracts relating to work completed with Section 504 program funding to ensure funds are used for authorized purposes and there is a need for the planned improvements.

Response: The CDM in this office retired July 3, 2000. Each Section 504 loan and grant and the related construction contract will be monitored to ensure that funds are used for authorized purposes.

Oversight visits will made to the Antlers office monthly. Extra attention will be given to this office while there is an Acting CDM and after the future CDM is in place.

EXHIBIT C – RURAL DEVELOPMENT’S RESPONSE TO DRAFT REPORT

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Per review of the identified files by Single Family Housing Program Director, I concur with the monetary amounts as shown in Exhibit A of your audit report.

If you have any questions or need any additional information, you may contact Patsy Graumann or me at the above number.



CHARLES P. RAINBOLT
State Director

Attachments

cc: Financial Management Division, Washington, D. C., ATTN: Betty O’Laughlin
Assistant to the State Director, Stillwater, OK
Single Family Housing Program Director, Stillwater, OK
Rural Development Manager, Atoka, OK

ABBREVIATIONS

CDM	- Community Development Manager
CFR	- Code of Federal Regulations
OIG	- Office of Inspector General
RDM	- Rural Development Manager
RHS	- Rural Housing Service