



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

Rural Development
Rural Housing Service
Technical Assistance Grant
Peoples' Self-Help Housing Corporation
San Luis Obispo, California



Report No.
04099-3-SF
March 2001



UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Western Region - Audit

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DATE: March 29, 2001

REPLY TO

ATTN OF: 04099-3-SF

SUBJECT: Technical Assistance Grant, Peoples' Self-Help Housing Corporation

TO: Charles M. Clendenin
Acting State Director
California State Office
Rural Development

ATTN: Robert Anderson
Housing Program Director
Rural Housing Service

This report presents the results of our audit of Peoples' Self-Help Housing Corporation, an organization that provides technical assistance to low-income families who want to construct their own homes. Your written response to the draft report (excluding the attachment) is included as exhibit C to the report.

Based on your response, we have accepted your management decision on all recommendations in the report. The Office of the Chief Financial Officer (OCFO), U.S. Department of Agriculture, has responsibility for monitoring and tracking final action on the findings and recommendations. Please note that final action on the findings and recommendations should be completed within 1 year of each management decision. Follow your agency's internal procedures for forwarding final action correspondence to OCFO.

We appreciate the cooperation and assistance provided by your staff during the audit.

/s/

SAM W. CURRIE
Regional Inspector General
for Audit

EXECUTIVE SUMMARY

**RURAL DEVELOPMENT
RURAL HOUSING SERVICE
TECHNICAL ASSISTANCE GRANT
PEOPLES' SELF-HELP HOUSING CORPORATION
SAN LUIS OBISPO, CALIFORNIA
AUDIT REPORT NO. 04099-3-SF**

RESULTS IN BRIEF

Through the Mutual Self-Help Housing Program, the Rural Housing Service (RHS) awards grants to nonprofit organizations and government entities to provide technical assistance to low-income families who want to construct their own homes. This report presents the results of our audit of Peoples' Self-Help Housing Corporation (the grantee), an organization that participates in this program. During the scope period of our audit (fiscal years 1997 through 1999) the grantee received one grant totaling nearly \$1.4 million to administer the program. During this period, it also oversaw construction of three mutual self-help projects—Harvest Meadows, Spring Meadows, and Los Pinos—and supervised the use of RHS construction loans totaling more than \$15 million and non-RHS funds totaling over \$1.8 million. We performed the audit to (1) review the grant approval process and the grantee's compliance with the terms of the grant and other Federal regulations, and (2) determine if grant and construction expenditures were reasonable and allowable.

RHS requires grantees to apply consistent procedures in administering Federal funds to assure that all beneficiaries are treated equitably. We found that the grantee did not have sufficient controls or written procedures to assure compliance with this requirement. Failure to maintain these controls could subject RHS to complaints of unfair treatment. The grantee could not satisfactorily explain how the amount of benefits provided to recipients was determined. We question the: (1) amount of grants and other subsidies initially awarded to reduce the amount of the RHS loan and (2) differences in the value of lots assigned to borrowers at the same cost with no consideration for the significant variations in lot size.

As part of its duties, the grantee assisted low-income families in preparing applications for RHS' Single Family Housing Program, which provided loans to pay for construction materials and specialized contractors such as electricians and plumbers. To further assist the borrowers, the grantee

also applied for HOME Investment Partnerships (HOME) loans and Community Development Block Grants (CDBG), two programs sponsored through the U.S. Department of Housing and Urban Development (HUD). These non-RHS funds, totaling over \$1.8 million, were used to reduce most borrowers' RHS loans which, consequently, made more Single Family Housing funds available to other applicants.

While the additional assistance of the HOME loans and CDBG funds was beneficial to both RHS and the borrowers who received them, we found that the grantee did not establish procedures to equitably distribute the funds to the borrowers. Specifically,

- The grantee provided some borrowers with significantly more assistance than they needed to qualify for an RHS loan. We found that 9 of our 15 sample borrowers would have qualified for an RHS loan *without* the \$219,590 they received.
- Other borrowers in the projects with similar financial circumstances received no additional financing, which resulted in higher mortgage payments for these borrowers.
- In the worst cases, some applicants were denied housing. In the Los Pinos project, nearly one-third of the applicants were disapproved because they needed more assistance than the grantee was willing to give them.

Grantee officials informed us that they disbursed all HOME loans and CDBG funds to keep from returning unused funds to the State or local awarding agency. While this may explain why certain borrowers received excessive amounts of assistance, it does not explain why others received no assistance. The grantee told us that it was difficult to gauge how much to disburse to borrowers at the beginning of a project since the amount needed by borrowers in the last few groups is unknown. Grantee officials also said they tried to distribute funds so borrowers' mortgage payments would not exceed their previous rent payments. However, we found that although most mortgage payments exceeded their previous rent payments, there appeared to be no correlation to the amount of additional loans or grants they received. As a result, by not treating all applicants consistently and equitably, the grantee may be subjecting RHS to complaints of unfair treatment.

The grantee also charged some borrowers with smaller housing lots the same price or more than their neighbors with larger lots. We recognize that the RHS contract appraisers influenced the grantee's pricing policies, especially for two projects—Harvest Meadows and Spring Meadows—

where the appraisers gave little or no consideration to the differences between lots when valuing the property. Because RHS did not intercede at Harvest Meadows, the borrower assigned to the smallest lot paid \$45,000 (\$6.00 per square foot) while the borrower assigned to the largest lot also paid \$45,000 (\$2.78 per square foot). Such a disparity could have its greatest effect during resale of the properties. In Los Pinos, the most recently completed project, the appraiser *did* recognize the size differences in lots and adjusted prices accordingly. Nevertheless, we found that the grantee priced some lots inconsistently considering the values reported on the appraisals. For example, even though the lot owned by one borrower was more than 50 percent larger than his neighbor's and was appraised at \$3,000 more, the grantee charged the borrower the same amount.

In addition, we found that an RHS area office official approved excessive drawdowns from the borrowers' construction loan accounts. He was unaware that the average checking account balances for the sample groups increased significantly over the last 3 years. Although the State Office told us that month-end balances should not exceed \$28,000, we found that the balances ranged from \$35,598 in 1997 to \$83,484 in 1999—an increase of 135 percent. The area office official stated that he relied on the grantee to request the appropriate drawdown amount.

In reviewing the borrowers' loan files, we determined some contract appraisers prepared appraisals that contained inaccurate information, which may have affected the value of 34 out of 106 sampled properties. This occurred because the appraisers did not take due care in reporting lot sizes. RHS did not discover the errors because its reviewers did not check the site plans or preliminary title reports. As a result, some borrowers may have been overcharged for their self-help properties while others may have been undercharged.

Finally, we determined that the grantee did not maintain adequate documentation to support (1) its selection of contractors and purchases over \$25,000, and (2) expenses of \$5,364 charged to the grant for two company vehicles

KEY RECOMMENDATIONS

We recommend that the State office require the grantee to establish written procedures to equitably distribute non-RHS financial assistance and price housing lots in a manner consistent with the lot appraisals. The State office should also require the grantee (1) to improve its recordkeeping for certain expenses and purchases over \$25,000 and (2) return \$5,364 to USDA, if it cannot support its use of two vehicles charged to the grant.

We also recommend that the RHS area office more closely monitor the grantee to ensure that construction loan drawdowns do not become excessive. In addition, the State office should require either the State appraiser or area office official to compare the appraisals with the grantee's site plans or preliminary title reports to ensure that the appraisers are reporting the correct lot size.

AGENCY RESPONSE

In its March 14, 2001, written response to the draft report, RHS agreed with our audit results and recommendations.

TABLE OF CONTENTS

EXECUTIVE SUMMARY	i
INTRODUCTION	1
FINDINGS AND RECOMMENDATIONS.....	7
CHAPTER 1 –THE GRANTEE DID NOT APPLY CONSISTENT PROCEDURES TO ENSURE THAT ALL BORROWERS WERE TREATED EQUITABLY	7
FINDING NO. 1 – THE GRANTEE DID NOT ESTABLISH CONSISTENT PROCEDURES TO DISTRIBUTE NON-RHS FINANCIAL ASSISTANCE	8
Recommendation No. 1	13
FINDING NO. 2 – THE GRANTEE’S PROCESS FOR PRICING HOUSING LOTS PROVIDES INEQUITABLE FINANCIAL ADVANTAGES TO SOME BORROWERS....	14
Recommendation No. 2	17
CHAPTER 2 –RHS AREA OFFICE NEEDS TO IMPROVE CONTROLS OVER DRAWDOWNS OF FUNDS BY THE GRANTEE.....	18
FINDING NO. 3.....	18
Recommendation No. 3	20
CHAPTER 3 – SOME CONTRACT APPRAISERS PREPARED QUESTIONABLE APPRAISALS.....	21
FINDING NO. 4.....	21
Recommendation No. 4	23
CHAPTER 4 – THE GRANTEE NEEDS TO IMPROVE ITS RECORDKEEPING FOR CERTAIN EXPENSES AND PURCHASES.....	24
FINDING NO. 5.....	24
Recommendation No. 5	26
Recommendation No. 6	27
Recommendation No. 7	27

EXHIBITS

A – SUMMARY OF MONETARY RESULTS	28
B – SITES VISITED	29
C – RURAL DEVELOPMENT’S WRITTEN RESPONSE TO THE DRAFT REPORT	30

FIGURES

1 – A Typical Mutual Self-Help Home Constructed by the Grantee in Nipomo, CA.....	3
2 – Average Month-End Loan Account Balances	19

TABLES

1 – Non-RHS Funds Distributed to Borrowers (by Project)	9
2 – Borrowers Who Did Not Need Non-RHS Assistance.....	10
3 – Comparison of Previous Rents to Mortgage Payments	11
4 – Inequitable Pricing of Housing Lots	15
5 – Some Borrowers Paid More for Smaller Housing Lots	16
6 – Excessive Drawdowns from a Construction Loan.....	19

INTRODUCTION

BACKGROUND

The Rural Housing Service (RHS), a program area of Rural Development (RD), administers both the Mutual Self-Help and Single Family Housing Programs, authorized under Sections

523 and 502 respectively, of the Housing Act of 1949, as amended. Section 523 grants are awarded to nonprofit organizations and government entities that provide technical assistance to low-income families who want to construct their own homes. Section 502 loans provide financing to these families to pay for the building materials used to construct the homes.

Between fiscal years (FY's) 1997-1999, RHS awarded technical assistance grants totaling over \$79 million nationwide. The agency awarded more than one-third of that amount (about \$29 million) to 12 grantees in California during the same period. State offices are authorized to approve grants totaling \$300,000 or less; however, the RHS National Office must approve all grants in excess of this amount.

To qualify for a grant, RHS requires applicants to submit pre-applications that include information about the amount of funds requested, the areas to be served, the need for self-help housing in those areas, the proposed number of projects and homes to be constructed, etc. After a pre-application is approved, the grantee submits an application for funding and (in most cases) a 2-year grant is awarded.

Grantees use the funds to (1) locate eligible families, (2) assist RHS in the initial processing of the loan applications, and (3) provide technical assistance to families in constructing their homes. Grantees are allowed monthly grant withdrawals to cover salaries, office expenses, certain tools, and fees for training materials. Other authorized uses of grant funds are listed in Office of Management and Budget (OMB) Circulars and RHS Instruction 1944-I.

Prior to constructing the homes, RHS must obtain property appraisals for the proposed site. Property appraisals are completed by contract appraisers and serve to ensure that the quality and value of the property meet certain minimum thresholds. The appraisals also protect both the borrowers' and agency's interests in the event the homes are sold.

To qualify for a loan, families must meet certain criteria such as a good credit history, repayment ability, specific income requirements, etc. Once the loans are approved, family groups (generally 10 families) can begin construction of their mutual self-help homes. With technical assistance from the grantee's construction foremen, the families work together for about 10 months and their labor, commonly referred to as "sweat equity," reduces the price of the homes.

To further assist the families, grantees purchase building materials and hire contractors such as plumbers and electricians to perform the highly specialized jobs. Unlike administrative expenses that are paid with Section 523 grant funds, construction expenses are paid with Section 502 loan funds. The grantees submit invoices and other supporting documentation which RHS uses to approve drawdowns from the construction loans. After the homes are constructed, the loans are repaid by the families usually at subsidized interest rates.

RHS monitors project progress at the State, district, and area office levels. The State office compares grantee performance to grant expenditures. District offices monitor progress on the grants by reviewing and approving monthly grant expenditures and assessing grantee performance quarterly. Area offices monitor the borrowers' construction loans by reviewing property appraisals and approving individual loans.

Peoples' Self-Help Housing Corporation

In the late 1960's, a group of Quakers in Goshen, California, formed an alliance to improve housing conditions for the rural community. A nonprofit organization, Self-Help Enterprises, was formed to participate in the newly created Mutual Self-Help Housing Program by assisting families with the construction of their homes. Upon hearing of the Goshen organization's success, a group of San Luis Obispo County residents established Peoples' Self-Help Housing Corporation (the grantee) in 1968. Today, the grantee is affiliated with several nonprofit corporations that provide a variety of housing and community development programs, residential construction services, and the management of a large portfolio of affordable apartment complexes.

As of June 2000, the grantee had produced nearly 1,000 single family homes and developed in excess of 700 rental units for seniors, low-income families, and the physically challenged. It has also expanded its operations to other areas such as Santa Barbara and Ventura Counties.

Figure 1: A Typical Mutual Self-Help Home Constructed by the Grantee in Nipomo, CA (Los Pinos Project).



For its achievements in providing low-income housing, the grantee has twice received the Fannie Mae Foundation's Maxwell Award of Excellence and, in 1998, was one of 10 organizations in the nation selected to receive its highly distinguished Sustained Excellence Award.

OBJECTIVES

grant expenditures and reasonable and allowable.

Our objectives were to (1) review the grant approval process and the grantee's compliance with the terms of the grant and other Federal regulations, and (2) determine if Section 523 Section 502 construction expenditures were

SCOPE

In California, 11 nonprofit organizations and 1 government entity received technical assistance grants. We selected Peoples' Self-Help Housing Corporation for our review based on the (1) dollar value of the grants it received, (2) number of projects completed, (3) administrative cost per home, (4) grantee's involvement in multiple programs, and (5) grantee's inability to meet previous construction schedules. Our scope period was FY's 1997-1999.

On November 1, 1997, the grantee received a new 2-year grant totaling \$1,399,200. We judgmentally selected the months of June and December of each fiscal year and reviewed expenditures such as travel, salaries and

benefits, indirect costs, tools and supplies, unrestricted costs, etc. These expenditures represented 10.3 percent (or \$144,028) of the total grant.

During our scope period, the grantee oversaw construction of three projects: Harvest Meadows, Spring Meadows, and Los Pinos. We reviewed construction expenditures for the latest project, Los Pinos, to ensure that the (1) expenditures were valid and supported by invoices and (2) grantee followed Federal procurement standards in contracting with vendors. We also reviewed the grantee's method of allocating joint construction costs to borrowers. The expenditures represented 22.5 percent (or \$871,861) of construction costs totaling \$3,872,056.

We reviewed 100 percent of the non-RHS financial assistance¹ provided to the borrowers in the three projects. Of the 158 borrowers, 107 received \$1.8 million in either HOME loans or CDBG funds from the grantee. We judgmentally selected 15 of these borrowers (5 from each project) who received the largest amount of additional assistance to determine if they needed the funds to qualify for an RHS loan. We judgmentally selected another 10 borrowers, some from each project, to verify the grantee's claim that funds were disbursed so that mortgage payments would not exceed the previous rent payments. We also reviewed property appraisals for all borrowers who received non-RHS financial assistance.

We performed fieldwork from March through September 2000 at the California State RD Office in Davis; the RD area office in Santa Maria; the grantee and the County Assessor's Office in San Luis Obispo; the three projects in Templeton, Paso Robles, and Nipomo; an RHS contract appraiser in Arroyo Grande; etc. See exhibit B for a complete list of sites visited.

This audit was performed in accordance with generally accepted government auditing standards.

METHODOLOGY

To accomplish our objectives and support our findings, we performed the following steps:

- We obtained background information and reviewed pertinent OMB Circulars and RHS regulations, instructions, handbooks, and administrative notices.

¹ The grantee received additional funds from the HOME Investments Partnerships (HOME) and the Community Development Block Grants (CDBG) programs. Monies are provided by the U.S. Department of Housing and Urban Development (HUD) through State and local governments. We did not review the State farm worker grants because recipients must meet specific requirements to qualify, which is not the case with HOME loans or CDBG funds.

- At the California State RD Office, we interviewed officials about program benefits, funding levels, and participant interest in the program. We also determined how officials select grantees and evaluate grantee performance.
- We interviewed the district director about his responsibility for monitoring grant expenditures and construction progress.
- At the RD area office in Santa Maria, California, we interviewed officials about unused construction funds and grantee drawdowns from the borrowers' construction loans. We analyzed financial data contained in borrower loan files and collected information about project home prices and construction costs. We also reviewed borrowers' property appraisals for accuracy and completeness.
- At the grantee's office, we reviewed grant expenditures to determine if they were reasonable and allowable. We analyzed whether indirect costs claimed by the grantee met U.S. Department of Labor criteria. We obtained information about internal budgeting procedures and reporting to RHS. We traced selected costs to original source documentation and analyzed whether proper procedures were employed when contracting for construction materials and specialized labor. We also analyzed the grantee's methodology for pricing housing lots.
- Also at the grantee's office, we reviewed how officials recruited and qualified borrowers to participate in the program. We verified financial ratios for approved borrowers and calculated the ratios for some rejected borrowers. We reviewed the grantee's method of allocating joint construction costs among borrowers. In addition, we analyzed the grantee's drawdowns on construction loans to determine if they were reasonable.
- We interviewed an RHS contract appraiser to determine how he established property values as well as how he established his fees. We also contacted the California State Office of Real Estate Appraisers and the Appraisal Institute, a nationwide organization, to obtain appraisal standards and other professional criteria.
- We interviewed an official from one of the contractors' associations used by the grantee to determine how contractors become members and to obtain general information about the services they provide. We then interviewed 10 contractors who provided materials and services to the grantee to determine if the transactions were at arm's length.

- At the County Assessor's Office, we reviewed records to determine the frequency in which the homes in the grantee's older projects were sold.
- We interviewed city and county planning department officials to determine the location of comparable housing. We also obtained prices for comparable modest-priced homes offered by private developers to determine the reasonableness of prices for the self-help homes.
- We interviewed seven developers to determine how lot size affected the price of newly constructed homes.
- We interviewed borrowers in the three projects regarding the adequacy of technical assistance they received and obtained their thoughts about strengths and weaknesses of the program. We also visited five previously constructed projects to determine the current condition of the homes.

FINDINGS AND RECOMMENDATIONS

CHAPTER 1	THE GRANTEE DID NOT APPLY CONSISTENT PROCEDURES TO ENSURE THAT ALL BORROWERS WERE TREATED EQUITABLY
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The grantee distributed over \$1.8 million in non-RHS financial assistance to RHS borrowers; however, it had no procedures to provide for an equitable distribution of this assistance. The grantee provided some borrowers with significantly more non-RHS assistance than they needed to qualify for a loan. Other borrowers who were not offered the same assistance had higher mortgage payments. In the worst cases, applicants were denied housing because they needed more assistance than the grantee was willing to give them.

The grantee also charged some borrowers inequitable prices for their housing lots. Although the grantee adjusted costs for lot size in some cases, the adjustments were minimal and appeared to be indiscriminately made. As a result, some borrowers with smaller lots paid the same as their neighbors with larger lots. In one project, the borrower assigned to the smallest lot paid \$45,000 (\$6.00 per square foot), while the borrower assigned to the largest lot also paid \$45,000 (\$2.78 per square foot), a financial advantage that could be realized at the time of resale.

By not treating all applicants consistently and equitably, the grantee may be subjecting RHS to complaints of unfair treatment. RHS instructions² state "consistent procedures...ensure that all applicants are treated fairly. Poor program implementation, whether or not discrimination is intended, has possible civil rights consequences." Although the \$1.8 million is not RHS funding, it is provided in conjunction with RHS' Mutual Self-Help Housing Program, whose grantees receive Federal financial assistance.

² Handbook 1-3550, Chapter 1.8, dated May 28, 1998.

FINDING NO. 1

The Grantee Did Not Establish Consistent Procedures to Distribute Non-RHS Financial Assistance

During the RHS loan approval process, the grantee did not establish consistent procedures to compute the amount of additional assistance (non-RHS funds) that could be awarded to the borrowers to make them eligible to participate in the Mutual Self-Help Housing Program. The non-RHS funds, totaling over \$1.8 million, were used to reduce the amount of the RHS loans needed by most borrowers. However, the grantee

provided some borrowers with significantly more assistance than they needed to qualify for a loan; other borrowers who were not offered the same assistance had higher mortgage payments. In some cases, applicants who were denied housing may have qualified if they had received more assistance than the grantee gave them. As a result, by not treating all applicants consistently and equitably, the grantee may be subjecting RHS to complaints of unfair treatment.

RHS instructions³ state, “In the loan origination process, attention to consistent procedures is especially important in several key areas...[such as] opportunities for subsidies and favorable loan terms.”

As part of its technical assistance duties, the grantee functioned as a loan originator who worked directly with applicants and conducted the basic underwriting analysis. The grantee recruited families who were interested in the program and then checked credit references, calculated financial ratios, and assisted the borrowers in preparing RHS loan applications.

To further assist the borrowers, the grantee received HOME Investment Partnerships (HOME) loans and Community Development Block Grants (CDBG) from the State and local governments.⁴ The loans and grants were used to reduce the borrowers’ mortgage payments and loan balances which, consequently, made more Single Family Housing funds available to other applicants.

For the three projects we reviewed, Table 1 shows the grantee received more than \$1.8 million in loans and grants through these programs:

³ Handbook 1-3550, Chapter 1.8, dated May 28, 1998.

⁴ Although funds are disbursed through State and local governments, the two programs are funded by the U.S. Department of Housing and Urban Development (HUD).

Table 1: Non-RHS Funds Distributed to Borrowers (by Project)

LOAN/GRANT	HARVEST MEADOWS	SPRING MEADOWS	LOS PINOS	TOTAL
HOME Program				
State	---	\$949,900	---	\$949,900
County	\$450,000	---	\$262,300	\$712,300
City	---	---	---	---
CDBG Program				
State	---	---	---	---
County	---	\$40,000	---	\$40,000
City	---	\$140,000	---	\$140,000
Total	\$450,000	1,129,900	\$262,300	\$1,842,200

While the non-RHS funds were beneficial to both RHS and most borrowers, the grantee did not establish consistent procedures to ensure that the funds were distributed equitably.

Grantee Did Not Equitably Distribute Non-RHS Financial Assistance

Of the 158 borrowers in the three projects, 107 received either HOME loans or CDBG funds from the grantee. Since HUD, the California Department of Housing and Community Development, and local governments provided minimal guidance to the grantee, we asked the grantee to explain its methodology in distributing the funds among the borrowers. Over the course of the audit, we were offered several explanations. Most prominently, the grantee claimed to disburse funds according to the borrowers' needs. Subsequently, the grantee claimed to disburse the funds to ensure that the borrowers' mortgage payments would not exceed their previous rent.

- The grantee claimed to disburse funds according to borrowers' needs.

For each of the three projects we reviewed, we selected five borrowers (15 in total) who received the largest amount of additional financial assistance. We recalculated their financial ratios and found that 9 of the 15 borrowers would have qualified for an RHS loan *without* the assistance. Table 2 shows that the nine borrowers received \$219,590,⁵ even though their ability to afford self-help housing, as

⁵ Our sample size was 15 borrowers; the total amount of funding that was unnecessarily distributed to borrowers in all three projects could be significant.

expressed in PITI⁶ (principal, interest, taxes, and insurance) and TD⁷ (total debt) ratios, was generally within the established limits of RHS eligibility. We calculated the ratios using the most current information available in RHS files at the time of loan approval.

Table 2: Borrowers Who Did Not Need Non-RHS Assistance

ID NO.	PROJECT	RATIOS ¹		HOME PRICE	ADD'L LOANS/ GRANTS	RHS LOAN
		WITHOUT ADD'L LOANS/GRANTS				
		PITI	TD			
Very low-income:		29% MAX	41% MAX			
112	Spring Meadows	25.3%	41.0%	\$121,970	\$32,620	\$89,350
41	Harvest Meadows	25.5%	28.4%	\$105,000	\$24,500	\$80,500
39	Harvest Meadows	25.8%	25.8%	\$105,000	\$30,000 ²	\$60,000
53	Harvest Meadows	29.3%	33.5%	\$109,370	\$24,870	\$84,500
37	Harvest Meadows	29.6%	32.7%	\$105,000	\$25,000	\$80,000
Low-income:		33% MAX	41% MAX			
79	Spring Meadows	22.4%	27.7%	\$121,970	\$30,000	\$91,970
14	Los Pinos	23.8%	32.5%	\$117,200	\$17,200	\$100,000
17	Los Pinos	27.6%	33.6%	\$118,200	\$18,200	\$100,000
23	Los Pinos	29.9%	29.9%	\$117,200	\$17,200	\$100,000
Total					\$219,590	
¹ Exceptions to the maximum percentages may be made if there is information – called compensating factors – that indicates the prospective borrower may be able to make larger loan payments than the ratio analysis suggests. Compensating factors include payment history, savings history, future job prospects, etc. ² Borrower also received a State farm worker grant for \$15,000.						

As the chart shows, borrowers 112, 39, and 79 received at least \$30,000 each from the grantee even though they did not need the funds to qualify for an RHS loan. Two of the three borrowers had very low PITI and TD ratios without the assistance. Other borrowers in the projects (51 in total) with similar financial circumstances did not receive additional funds through either of these programs.

As an explanation, officials informed us that they disbursed all HOME loans and CDBG funds to keep from returning unused funds to the State or local awarding agency. While this may explain why certain borrowers received excessive amounts of assistance, it does not explain why others received no assistance.

⁶ The PITI ratio compares the amount the applicant must spend on housing costs to the applicant's repayment income. The formula is: $\text{PITI} \div \text{monthly repayment income} = \text{PITI ratio}$. Very low-income applicants are considered to have repayment ability if their PITI ratio does not exceed 29 percent; low-income applicants are considered to have repayment ability if their PITI ratio does not exceed 33 percent.

⁷ The TD ratio compares applicant debt to repayment income. The formula is: $\text{PITI} + \text{other debt} \div \text{monthly repayment income} = \text{TD ratio}$. All applicants are considered to have repayment ability if their TD ratio does not exceed 41 percent.

The grantee also told us that it was difficult to gauge how much to disburse to borrowers at the beginning of a project since the amount needed by borrowers in the last few groups is unknown. At the beginning of a project, the grantee decides upon a maximum that it will disburse to the borrowers to ensure that funds will still be available for the last groups.

- The grantee claimed to disburse funds so borrowers' mortgage payments would not exceed their previous rent payments.

The grantee established this policy to keep the borrowers' disposable income at its previous level, thereby ensuring that the borrowers would be able to meet their mortgage payments.

To confirm this statement, we judgmentally selected a sample of 10 borrowers (some from each project) and found that although most mortgage payments exceeded their previous rent payments, there appeared to be no correlation to the amount of additional loans or grants they received. Table 3 illustrates the inconsistencies:

Table 3: Comparison of Previous Rents to Mortgage Payments

ID NO.	PREVIOUS RENT	MORTGAGE PAYMENT	DIFFERENCE	ADDITIONAL LOANS/GRANTS
121	\$525	\$390	(\$135)	\$19,450
122	\$547	\$541	(\$6)	0
4	\$550	\$569	\$19	\$15,000
64	\$373	\$420	\$47	\$23,030
34	\$300	\$421	\$121	\$16,000
31	\$500	\$688	\$188	\$17,200
123	\$302	\$524	\$222	0
14	\$450	\$680	\$230	\$17,200
63	\$131	\$417	\$286	\$17,560
33	0	\$574	\$574	\$17,200

Looking at the "difference" column, borrower 121's housing costs decreased but he still received \$19,450 in additional loans. Conversely, although borrower 33's housing costs increased significantly, he received less additional assistance than borrower 121. In comparing borrowers 14 and 123, we noticed that housing costs increased for both borrowers by a similar amount, yet borrower 14 received additional assistance totaling \$17,200 and borrower 123 received no assistance.

In response, the grantee told us that the borrowers' financial ratios were also considered in determining how much assistance to provide. However, we noted that borrower 14 listed in Table 2 did not appear to need the additional assistance because his financial ratios (23.8

percent PITI and 32.5 percent TD) were well within the established limit.

The grantee also stated that it had to consider “floor payments”⁸ in determining the amount of additional assistance the borrower should receive. However, after completing payment assistance calculations, a RHS State office official determined that the floor payment should not have been a factor because the borrowers’ original financial ratios were adequate to qualify for an RHS loan. We concluded that without consistent procedures the grantee appeared to be arbitrary, whether or not it intended to be, in disbursing the additional assistance.

Applicants on Wait List Denied Housing

When the grantee advertised its plans to construct a self-help project, it accepted applications from interested families. Using a lottery method, the families were placed on a wait list in consecutive order. We felt this method was fair and impartial, providing all applicants an equal opportunity to participate in the program. The grantee then screened 10 families at a time to determine if they qualified for an RHS loan. After the families qualified, RHS processed the loans and the families began construction of their homes.

For the most recent project, Los Pinos, the grantee provided us with a copy of the original wait list, which included 494 families. The grantee processed 176 applications before finding 40 families who qualified for an RHS loan. We found that 33 applicants were eliminated from further processing because their PITI ratios were too high, while another 19 were eliminated because their TD ratios were too high. This represents nearly one-third ($52 \div 176$) of the applicants.⁹ We reviewed 10 of the 52 denied applications and found that some families may have qualified for an RHS loan if they had received more non-RHS assistance than the grantee offered them.

An RHS area office official told us that the grantee was responsible for disbursing the additional financial assistance. Although he was aware of the amounts received by each borrower, the official did not perform any analysis regarding the equitability of the distribution and assumed that the grantee distributed funds according to HUD guidelines.

⁸ The floor payment is the minimum percentage of adjusted income that the borrower must pay for PITI.

⁹ Grantee records were not available for earlier projects.

HUD regulations¹⁰ specifically prohibit “treat[ing] a person differently from others in determining whether he satisfies any...eligibility...condition which persons must meet in order to be provided any financial aid...[or] deny[ing] a person opportunity to participate in the program...or afford[ing] him an opportunity to do so which is different from that afforded others...”

Not all applicants were given additional assistance. As a result, some borrowers had higher mortgage payments. Other applicants who were denied housing may have qualified if they had received more assistance than the grantee was willing to give them. Whether or not discrimination was intended, poor program implementation may lead to complaints of unfair treatment.

RHS needs to require that the grantee establish written procedures to ensure that all applicants are treated equitably. Consistent procedures are vital in affording the same opportunities to the borrowers for subsidies and favorable loan terms.

RECOMMENDATION NO. 1

Require the grantee to establish written procedures to consistently distribute non-RHS financial assistance ensuring that all applicants are treated equitably.

Agency Response

RHS has requested the grantee to establish a written procedure to consistently distribute non-RHS financial assistance to ensure that all applicants are treated equitably. A copy of the written procedure will be provided to OIG by April 20, 2001.

OIG Position

We accept RHS’ management decision on this recommendation.

¹⁰ Title 24 CFR 1.4 (b)(v-vi), dated April 1, 1998.

FINDING NO. 2

**The Grantee's Process for
Pricing Housing Lots Provides
Inequitable Financial
Advantages to Some
Borrowers**

We question the grantee's process of determining the price of housing lots without regard to the size of the lots because this can produce significant financial advantage to the borrowers who are assigned the larger lots. Lots were assigned prices between \$41,500 and \$55,000 but there was no correlation between the price of a lot and its size. Since the sizes of the lots varied by as much as 100 percent and the borrowers had no choice in the lots they were assigned, material

inequities resulted. Since all borrowers were not treated equitably, the grantee may be subjecting RHS to complaints of unfair treatment.

As family groups start construction, the lots are usually adjacent to each other to facilitate the "mutual" part of self-help, i.e., borrowers working together to build their homes. To ensure that borrowers were not paying more than the appraised value of the property, we reviewed the site plans for the three projects and compared the lot prices charged by the grantee. We found that although the lot sizes varied significantly, the prices remained generally the same.

- Harvest Meadows Project. Lots varied in size from 7,500 to 16,215 square feet. All lots were priced at \$45,000, regardless of lot size.
- Spring Meadows Project. Lots varied in size from 6,117 to 15,422 square feet. Prices were based on family groups, regardless of lot size. Groups 1-4 paid \$41,500; groups 5-7 paid \$42,000.
- Los Pinos Project. It appears the grantee priced lots at \$53,500, \$54,000, and \$55,000 based on square footage. However, the adjustments were minimal and appeared to be indiscriminately made.

Table 4 shows examples of some borrowers with smaller lots paying the same as their neighbors with larger lots:

Table 4: Inequitable Pricing of Housing Lots

PROJECT	ID NO.	MODEL/ BEDRMS	LOT SQ. FT.	DIFF.	APPRAISED VALUE	GRANTEE LOT PRICE	SQ. FT. PRICE
Los Pinos Group 1	1	A/3	6,002		\$54,000	\$53,500	\$8.91
	4	A/3	8,171	2,169	\$56,000	\$53,500	\$6.55
	29	C/4	6,017		\$54,000	\$54,000	\$8.98
	32	C/4	9,130	3,113	\$57,000	\$54,000	\$5.92
	18	A/3	7,459		\$55,000	\$55,000	\$7.37
Group 3	2	A/3	9,613	2,154	\$56,000	\$55,000	\$5.72
Spring Meadows Group 6	106	A/3	6,938		\$42,500	\$42,000	\$6.05
	108	A/3	10,477	3,539	\$42,500	\$42,000	\$4.01
	100	A/3	6,329		\$42,500	\$42,000	\$6.64
	99	A/3	12,039	5,710	\$42,500	\$42,000	\$3.49
	56	O/3	7,500		\$45,000	\$45,000	\$6.00
Harvest Meadows Group 4	140	O/3	16,215	8,715	\$45,000	\$45,000	\$2.78
	136	O/5	7,500		\$45,000	\$45,000	\$6.00
	4	O/5	13,106	5,606	\$45,000	\$45,000	\$3.43

In Harvest Meadows, although the lot owned by Borrower 140 is 8,715 square feet larger than his neighbor's lot, he paid the same price. Similarly in Spring Meadows, the lot owned by Borrower 99 is 5,710 square feet larger than Borrower 100's lot at the same price. We recognize that the RHS contract appraisers influenced the grantee's pricing policies, especially for Harvest Meadows and Spring Meadows where the appraisers gave little or no consideration to the differences between lots when valuing the property. Since most lots were valued the same, the grantee generally priced them the same. Because RHS did not intercede at that time,¹¹ borrower 56 paid \$6.00 per square foot, while borrower 140 paid \$2.78 per square foot, a financial advantage that could be realized at the time of resale.

The grantee's pricing policies also affected Los Pinos, the most recently completed project, where the appraiser *did* recognize the differences in lot sizes and adjusted prices accordingly. Although this enabled the grantee to charge more realistic prices, we found that the grantee nevertheless priced some lots inconsistently considering the values reported on the appraisals. For example, even though the lot owned by Borrower 32 is more than 50 percent larger than his neighbor's and was appraised at \$3,000 more in value, the grantee charged the borrowers the same amount.

¹¹ On February 15, 2000, RD issued Administrative Notice No. 3521 which now requires appraisers to establish separate values for the lots.

Also in Los Pinos, we found other examples where borrowers with smaller lots actually paid *more* than borrowers with larger lots:

Table 5: Some Borrowers Paid More for Smaller Housing Lots

GROUP	ID NO.	LOT SQ. FT.	GRANTEE LOT PRICE	SQ. FT. PRICE
1	125	7,013	\$54,000	\$7.70
	4	8,171	\$53,500	\$6.55
4	33	8,404	\$55,000	\$6.54
	32	9,130	\$54,000	\$5.91

We judgmentally selected seven other developers in California to determine how they priced their lots and the impact of the lot sizes on the price of the homes. We only considered homes priced less than \$130,000. In all cases, we found that the developers made significantly higher price adjustments for lot size than the grantee did. For example, one developer sold his 8,000 square-foot lots for an additional \$3,000-\$5,000 more than the 6,000 square-foot lots. Another developer sold his 9,500 square-foot lots for an additional \$4,000-\$9,000 more than the 4,500 square-foot lots.

A grantee official explained that borrowers did not have a choice regarding which lot they received because the grantee made all lot assignments. The grantee also quoted the value of the borrowers' lots before receiving the appraisals; although the appraisals later showed a higher value, the grantee decided not to raise the lot prices. If an additional \$3,000 to \$5,000 were added to the mortgage for a larger lot, grantee officials feared that some borrowers may not qualify for the RHS loan. Therefore, the grantee made only minor adjustments to the value of the lots. We believe that a borrower who cannot afford a larger lot should be placed on a smaller lot, even if that means waiting for the next family group to start construction of his home.

Considering the high value of real estate in San Luis Obispo County, the State appraiser and area office official agreed that borrowers with larger lots should pay a premium if a higher value is reflected in the appraisal. By not charging higher prices for larger lots, the grantee provided some borrowers with a significant advantage over their neighbors, especially if the borrowers sell their homes.¹² To ensure that all borrowers are treated fairly, the State office should require that the grantee develop procedures that price the lots equitably and in a manner consistent with the lot appraisals.

¹² We sampled five other projects constructed by the grantee in the last 17 years and found that titles had transferred for 31 percent of the homes, indicating that the homes were sold.

RECOMMENDATION NO. 2

Require the grantee to develop procedures that price the lots equitably and in a manner consistent with the lot appraisals.

Agency Response

RHS has requested that the grantee establish a written procedure to ensure equitable pricing of lots in accordance with appraised values. A copy of the written procedure will be provided to OIG by April 20, 2001.

OIG Position

We accept RHS' management decision on this recommendation.

CHAPTER 2

RHS AREA OFFICE NEEDS TO IMPROVE CONTROLS OVER DRAWDOWNS OF FUNDS BY THE GRANTEE

FINDING NO. 3

An RHS area office official approved excessive drawdowns from the borrowers' construction loans. The official stated that he relied on the grantee to request the appropriate amount. As a result, the U.S. Treasury released funds prematurely, and borrowers paid additional interest on their loans.

RHS instructions state "grantees will be required to administer borrower loan funds during the construction phases."¹³ However, we determined there are no criteria that limit amounts grantees may drawdown from construction loan accounts or how often they may submit a request for a drawdown. The California RHS Housing Program Director told us that in his opinion (1) month-end loan account balances should not exceed \$2,000 per borrower, and (2) grantees should request monthly drawdowns to prevent excessive balances yet still be able to pay vendors on time.

Grantees must submit invoices and other supporting documentation with their requests for drawdowns from the borrowers' construction loans. Once the area office approves the drawdowns, the grantees deposit the loan funds in bank accounts—one account for each group of 10 borrowers.

To analyze the reasonableness of the drawdowns, we judgmentally selected a family group (10 borrowers) from each of the three projects and compared the amount of the drawdowns to actual expenditures. We found that the drawdowns had increased significantly over the last 3 years and, in some cases, may have been unnecessary. As a result, borrowers' loan account balances at the end of each month (i.e., unused funds) were excessive.

Table 6 shows an example of excessive drawdowns from one borrower's construction loan during a 2-month period in 1998:

¹³ RHS Instruction 1944-I, section 1944.425, dated November 15, 1990.

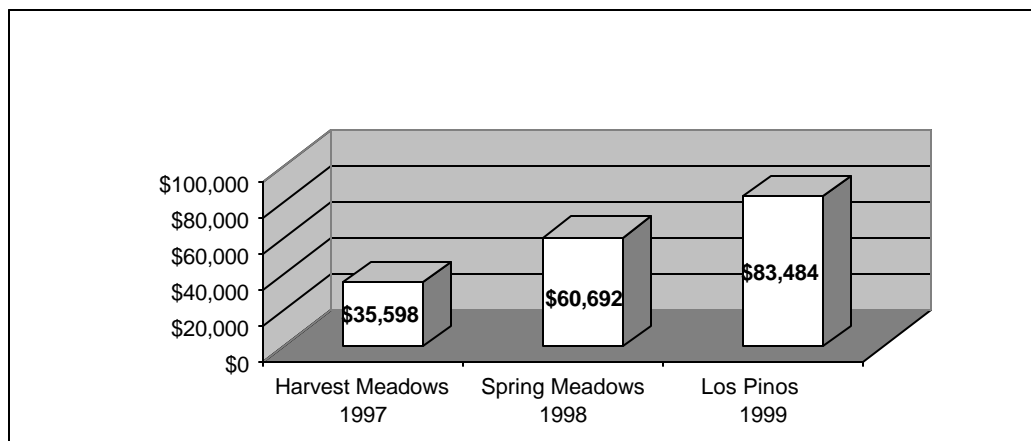
Table 6: Excessive Drawdowns from a Construction Loan

	MONTHLY ACTIVITY	LOAN ACCOUNT BALANCE
OCTOBER 1998		
Ending balance		\$5,088
NOVEMBER 1998		
Add: loan drawdown	\$5,000	
Less: expenditures	\$2,811	
Ending balance		\$7,277
DECEMBER 1998		
Add: loan drawdown	\$3,000	
Less: expenditures	\$1,903	
Ending balance		\$8,374

In this case, expenditures for the 2-month period totaled \$4,714 (\$2,811+\$1,903). Since the loan account balance at the end of October was \$5,088, it is questionable whether two additional drawdowns totaling \$8,000 were necessary. While this example only represents a 2-month period for one borrower, the total unused funds for all borrowers in the three projects were significant. For Los Pinos, the most recent project, the unused balance for the four groups reached nearly \$487,000 during 1 month.

Figure 2 shows that average month-end loan account balances for our sample groups increased significantly over the last 3 years—from \$35,598 in 1997 to \$83,484 in 1999—an increase of 135 percent:

Figure 2: Average Month-End Loan Account Balances



Borrowers incur interest as soon as funds are drawn down by the grantee. Consequently, an excessive drawdown increases the interest the borrower must pay.

The area office official did not realize the drawdowns had become excessive because he did not require the grantee to submit invoices and other supporting documentation with its requests for drawdowns. Although grantee personnel provided monthly summary statements of expenditures, they did not reconcile the statements to the requests for drawdowns. In effect, the area office official approved the drawdowns without knowing exactly how much had been expended.

The official stated that he relied on the grantee "as a partner" to request the appropriate amount because it was too time-consuming for him to review the invoices. He believed that the expenses were reasonable and accurate because the grantee maintained a record-keeping system that allocated the expenses to each borrower. He also stated that the loan accounts should have some balances because at times drawdowns were slow to be processed and the vendors complained to the grantees if payment was not prompt.

While we agree that vendors should be paid promptly, the unused funds accumulating in the loan accounts were nonetheless excessive. We also concluded that the State office should issue guidelines as to what constitutes excessive drawdowns.

RECOMMENDATION NO. 3

Issue a California Administrative Notice that requires RHS area offices to limit grantee drawdowns of construction loan funds so that bank account balances do not become excessive.

Agency Response

RHS will issue a California Administrative Notice (AN) by May 20, 2001, that will require Rural Development area offices to limit grantee drawdowns of construction loan funds.

OIG Position

We accept RHS' management decision on this recommendation.

FINDING NO. 4

Some contract appraisers prepared appraisals which contained inaccurate information that may have affected the value of 34 out of 106 sampled properties. This occurred because the appraisers did not take due care in reporting lot sizes. In addition, RHS did not discover the errors because its reviewers did not check the site plans. As a result, some borrowers may have been overcharged for their self-help properties while others may have been undercharged.

The Uniform Standards of Professional Appraisal Practice (USPAP) states that an appraiser must “not render appraisal services in a careless or negligent manner...”¹⁴

RHS contracts with licensed appraisers to prepare appraisals for the self-help homes. The appraisals are reviewed for accuracy through a combination of administrative and technical reviews. The administrative reviews, performed by an area office official, determine whether the appraisals are complete, mathematically correct, use the proper number of current comparables, etc. Technical reviews, performed by the State appraiser through random spot checks, determine whether the appraisals are complete, clearly reasoned, and adequately support the value of the property.

We reviewed 106¹⁵ of 158 appraisals prepared for the three projects to determine if (1) appraisal review controls were functioning, (2) the appraisals were accurate, complete, and adjusted consistently, and (3) RHS had adequate security for its loans.

Inaccurate Information on Appraisals

Despite the administrative and technical reviews conducted by RHS, we found that 34 of 106 appraisals (32 percent) contained inaccurate information that may have affected the value of the property. We found 32 examples where the appraisers misstated lot sizes and 2 examples where they misstated home measurements and number of bedrooms:

¹⁴ Standards Rule 1-1 (c), 1995 Edition.

¹⁵ These appraisals were prepared for the same borrowers who received either HOME loans or CDBG funds from the grantee; however, one appraisal could not be located in area office files.

- Harvest Meadows Project. We found 16 examples of incorrect lot sizes¹⁶ and no adjustments for lot sizes between the self-help homes and the comparables. Lot sizes were either overstated or understated by as much as 3,215 square feet.
- Spring Meadows Project. We found 16 examples of incorrect lot sizes and one example of an incorrect home measurement.¹⁷ Lot sizes were either overstated or understated by as much as 3,122 square feet; the size of the home was understated by 140 square feet.
- Los Pinos Project. We found one example where the appraisal misstated the property as being a larger home than construction records indicated. A three-bedroom home was appraised as a four-bedroom home with corresponding greater square footage.

For Harvest Meadows and Spring Meadows, it appears that the appraisers were careless in preparing the “Sales Comparison Analysis” section of the appraisals where lot sizes and home measurements are reported. However, we interviewed one appraiser who told us that discrepancies in lot sizes made no difference since he valued all lots the same, regardless of any differences in size.

To determine why RHS did not discover the errors, we interviewed both the State appraiser and an area office official. The State appraiser stated that he randomly selected about 10 percent of appraisals to review as they were forwarded to his office. If the appraiser was a new contractor, he may review more; if the appraiser previously contracted with RHS, he may review less.

The area office official stated that if the State appraiser’s technical review did not detect errors, he would conduct a cursory administrative review. During such a review, he would look for obvious errors only. Normally, he reviews for mathematical errors, lot location, model and number of bedrooms, etc.

The State appraiser told us that, as a practice, he does not receive a copy of the site plans that show the square footage of the lots. He relied on the appraisers to accurately report the lot size. Although the area office official

¹⁶ The State appraiser told us that errors of less than 500 square feet were within an acceptable range. Therefore, for the three projects, we did not include 49 other examples where the lot sizes were incorrectly reported since they fell within this margin of error.

¹⁷ The State appraiser told us that errors of less than 20 square feet were within an acceptable range. Therefore, for the Spring Meadows Project, we did not include 57 other examples where the home measurements were incorrectly reported since they fell within this margin of error.

did receive a copy of the site plans and was responsible for verifying the lot location, he did not verify the lot size.

We concluded that either the State appraiser or area office official should compare the appraisals with the site plans or preliminary title report¹⁸ to ensure that the appraisers are reporting the correct lot size. By not detecting the errors, some borrowers may have been overcharged for their self-help properties while others may have been undercharged.

RECOMMENDATION NO. 4

Require either the State appraiser or area office official to compare the appraisals with the site plans or preliminary title report to ensure that the appraisers are reporting the correct lot size.

Agency Response

RHS will issue a California Administrative Notice by May 20, 2001, that will require Rural Development area office employees to compare the appraisals with the site plans or preliminary title report.

OIG Position

We accept RHS' management decision on this recommendation.

¹⁸ A preliminary title report is a public record that identifies all matters (e.g., lot size) affecting a property.

CHAPTER 4	THE GRANTEE NEEDS TO IMPROVE ITS RECORD-KEEPING FOR CERTAIN EXPENSES AND PURCHASES
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FINDING NO. 5

The grantee did not maintain adequate documentation to support expenses charged to the grant for two company vehicles. Also, the grantee did not retain procurement records supporting its selection of contractors. The

grantee believed it was in compliance with the grant agreement; however, it was unaware of requirements in OMB Circulars and other Federal regulations. As a result, the grantee could not provide reasonable assurance that vehicle costs were appropriately charged to the grant or that the borrowers paid the lowest price available for construction materials and services.

OMB Circular A-133¹⁹ requires that grantees “manag[e] Federal [grants] in compliance with laws, regulations, and the provisions of contracts or grant agreements...”

To determine if grant expenditures were reasonable and allowable, we judgmentally selected the months of June and December for FY’s 1997-1999 and reviewed the following expenditures: travel, salaries and benefits, indirect costs, tools and supplies, unrestricted costs, etc. These expenditures represented 10.3 percent of the 1997 grant.

We also reviewed purchases of construction materials to determine if they were valid, transacted at arm’s length, and purchased in accordance with Federal guidelines. We judgmentally selected a family group from each project and reviewed invoices for materials and services purchased to construct the borrowers’ homes. We also reviewed the grantee’s system of prorating these costs to each borrower’s account.

Based on our review, we found that the grantee needed to improve its recordkeeping for the two company vehicles as well as procurement records to support its selection of contractors.

¹⁹ Audits of States, Local Government, and Non-Profit Organizations, Subpart C, Section .300(b), dated June 30, 1997.

Grantee Did Not Maintain Vehicle Logs

The grantee purchased a 1992 Honda Accord from its Executive Director for \$17,887 in June 1993 and a 1999 Honda Accord for \$28,008 in October 1998. Both vehicles were used primarily by the Executive Director for business purposes as well as to commute to and from work. The grantee charged USDA for vehicle depreciation based on employee timesheets, not actual vehicle usage. The grantee did not maintain adequate documentation, such as a vehicle log, to support the charges.

OMB Circular A-122²⁰ requires “that portion of the cost of organization-furnished automobiles that relates to personal use by employees (including transportation to and from work) is unallowable...regardless of whether the cost is reported as taxable income of the employees.” It also states “to be allowable under an award, costs must...be adequately documented.”²¹

The Executive Director said that, among other trips, she used the vehicle from 1996 through 1998 to conduct daily inspections of the construction sites in northern San Luis Obispo County before continuing her commute to work. We question whether the Executive Director needed to perform personal checks every day for 3 years. The construction director and several foremen oversee each project site and report regularly on construction progress. In addition, the construction director and foremen estimated that the borrowers complete 75 to 90 percent of their work on weekends. Most borrowers had full-time weekday jobs and little progress would have been evident during this time.

Without a daily vehicle log or other comparable records, we cannot be assured that all vehicle costs were reasonable or appropriately charged to the grant. Therefore, until the grantee can provide us with vehicle logs or other similar records, we take exception to both vehicles for \$5,364—\$4,293 for the 1992 Honda and \$1,071 for the 1999 Honda.

Grantee Did Not Retain Procurement Files

We reviewed invoices for construction materials and services purchased for the borrowers by the grantee. Some of the materials such as drywall, cabinets, and plastering, exceeded the \$25,000 small purchase threshold. To determine if the grantee followed Federal procurement regulations for a sample of purchases, we asked for the invitations for bids and documentation to support the contractor selection and award price. The

²⁰ Cost Principles for Non-Profit Organizations, Attachment B, dated June 1, 1998.

²¹ Cost Principles for Non-Profit Organizations, Attachment A, dated June 1, 1998.

construction director informed us that he discarded the records because he did not realize that he was required to retain them for 3 years.

For purchases in excess of \$25,000, procurement regulations²² state “recipients shall, on request, make available for the Federal awarding agency, pre-award review and procurement documents, such as requests for proposals or invitations for bids.... Procurement records and files...shall include the following at a minimum: (a) basis for contractor selection, (b) justification for lack of competition [where] bids of offers are not obtained, and (c) basis for award cost or price.” They also state “financial records, supporting documents, statistical records, and all other records pertinent to an award shall be retained for a period of three years.”

To select contractors for the self-help projects, the construction director informed us that he submitted plans and specifications for project homes to the San Luis Obispo Builders Exchange and the Santa Maria Valley Contractors Association, Inc. He stated that he received at least three bids for each bid solicitation. He selected the lowest bid and then confirmed that the contractor had a history of acceptable performance. While this process appeared to be consistent with Federal guidelines, without reviewing the actual documentation we were unable to confirm that the prices charged by the contractors were the lowest available or that the prices charged were the amounts that were actually bid.

The State office should require the grantee to retain its pre-award review and procurement documents for a period of 3 years.

RECOMMENDATION NO. 5

Require the grantee to maintain vehicle logs or similar records which identify business travel and mileage.

Agency Response

RHS has requested that the grantee establish written procedure to maintain vehicle log(s) or similar records that identify business travel and record appropriate mileage. A copy of the written procedure will be provided to OIG by April 20, 2001.

²² Title 7 CFR 3019.44, 3019.46, 3019.53, dated January 1, 1997.

OIG Position

We accept RHS' management decision on this recommendation.

RECOMMENDATION NO. 6

Require the grantee to reconstruct vehicle logs for FY's 1997-1999 for the two vehicles in question or, if it fails to do so, ensure the grantee returns the \$5,364 to USDA.

Agency Response

Due to the burdensome nature of having the grantee reconstruct its vehicle logs for FY's 1997-1998, RHS requested the grantee to reconstruct the vehicle log for the 1999 Honda for 1 year. RHS feels that this is a typical usage pattern of the vehicles made in prior years.

OIG Position

We accept RHS' management decision that the 1-year vehicle log for the 1999 Honda is a typical usage pattern. Based on the information provided, we will not require that the grantee reconstruct the logs for FY's 1997-1998.

RECOMMENDATION NO. 7

Require the grantee to retain its pre-award review and procurement documents for construction materials and services over \$25,000 for a period of 3 years.

Agency Response

RHS is requiring that the grantee retain its pre-award review and procurement documents for construction materials and services over \$25,000, for a period of 3 years. A copy of this requirement will be provided to OIG by April 20, 2001.

OIG Position

We accept RHS' management decision on this recommendation.

EXHIBIT A – SUMMARY OF MONETARY RESULTS

RECOMMENDATION NUMBER	DESCRIPTION	AMOUNT	CATEGORY
6	Cost of Vehicles: 1992 Honda Accord 1999 Honda Accord	\$4,293 \$1,071	Unsupported Costs – Recovery Recommended
TOTAL MONETARY RESULTS		\$5,364	

EXHIBIT B – SITES VISITED

ORGANIZATION	LOCATION
RD/RHS Offices California State Office Santa Maria Area Office	Davis, CA Santa Maria, CA
Grantee Peoples Self-Help Housing Corp.	San Luis Obispo, CA
Mutual Self-Help Housing Projects Los Pinos Spring Meadows Harvest Meadows	Nipomo, CA Paso Robles, CA Templeton, CA
County/City Planning Departments Santa Barbara County Ventura County San Luis Obispo County Santa Maria City	Santa Barbara, CA Ventura, CA San Luis Obispo, CA Santa Maria, CA
County Assessor San Luis Obispo County	San Luis Obispo, CA
Appraiser Lenders Choice Network, Inc.	Arroyo Grande, CA
Contractor Consortium Santa Maria Valley Contractors' Association, Inc.	Santa Maria, CA

EXHIBIT C – RURAL DEVELOPMENT’S WRITTEN RESPONSE TO THE DRAFT REPORT




Rural Development Business . Housing . Utilities

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March 14, 2001

To: Sam W. Currie, Regional Inspector General, Office of Inspector General – Audit
San Francisco, CA


From: Charles M. Clendenin, Acting State Director, Davis, CA

RE: Official Draft – Report No. 04099-3-SF
Rural Development, Rural Housing Service - Technical Assistance Grant
Peoples’ Self-Help Housing Corporation - San Luis Obispo, California

Chapter 1 – The Grantee did not apply consistent procedures to ensure that all borrowers were treated equitably

Recommendation 1

The Agency has requested the grantee to establish a written procedure to consistently distribute non-RHS financial assistance to ensure that all applicants are treated equitably. A copy of the written procedure will be provided to OIG by COB April 20, 2001.

Recommendation 2

The Agency has requested that the grantee establish written procedure to ensure equitable pricing of lots in accordance with appraised values. A copy of the written procedure will be provided to OIG by COB April 20, 2001.

Chapter 2 – RHS Area Office needs to improve controls over drawdowns of funds by the grantee

Recommendation 3

The Agency will issue a California Administrative Notice (AN) by COB May 20, 2001, that will require Rural Development area offices to limit grantee drawdowns of construction loan funds. This will ensure that bank account balances do not become excessive.

*“The People’s Department”
USDA Rural Development is an equal opportunity Lender, Provider and Employer.
Complaints of discrimination should be sent to:
USDA Director, Office of Civil Rights, Washington, D.C. 20250*

EXHIBIT C – RURAL DEVELOPMENT’S WRITTEN RESPONSE TO THE DRAFT REPORT

Page 2

Chapter 3 – Some Contract Appraisers prepared questionable appraisals

Recommendation 4

The Agency will issue a California Administrative Notice (AN) by COB May 20, 2001, that will require Rural Development area office employees to compare the appraisals with the site plans or preliminary title report to ensure appraisers are reporting correct lot sizes.

Chapter 4 – The grantee needs to improve its record keeping for certain expenses and purchases

Recommendation 5

The Agency has requested that the grantee establish written procedure to maintain vehicle log(s) or similar records that identify business travel and record appropriate mileage. A copy of the written procedure will be provided to OIG by COB April 20, 2001.

Recommendation 6

Due to the burdensome nature of having the grantee reconstruct its vehicle logs for fiscal years 1997-1998, the Agency requested the grantee to reconstruct the vehicle log for the 1999 Honda for one year. The agency feels that this is a typical usage pattern of the vehicles made in prior years. Attached is a copy of the log for your review and concurrence.

Recommendation 7

The Agency is requiring that the grantee retain its pre-award review and procurement documents for construction materials and services over \$25,000, for a period of 3 years. A copy of this requirement will be provided to OIG by COB April 20, 2001.

Attachment
Vehicle Log