



# P.K. Management Group, Inc. Doral, FL

## Single Family Real Estate-Owned Management and Marketing III Program

**Office of Audit, Region 5  
Chicago, IL**

**Audit Report Number: 2016-CH-1008  
September 29, 2016**



**To:** Robert Mulderig, Acting Deputy Assistant Secretary for Single Family Housing, HU

//signed//

**From:** Kelly Anderson, Regional Inspector General for Audit, Chicago Region, 5AGA

**Subject:** P.K. Management Group, Inc., Doral, FL, Did Not Always Provide Property Preservation and Protection Services in Accordance With Its Contract With HUD and Its Own Requirements

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of P.K. Management Group, Inc., field service manager, HUD's real estate-owned Management and Marketing III program.

HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation without a management decision, please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the audit.

The Inspector General Act, Title 5 United States Code, section 8M, requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at <http://www.hudoig.gov>.

If you have any questions or comments about this report, please do not hesitate to call me at (312) 353-7832.



**Audit Report Number: 2016-CH-1008**

**Date: September 29, 2016**

**P.K. Management Group, Inc., Doral, FL, Did Not Always Provide Property Preservation and Protection Services in Accordance With Its Contract With HUD and Its Own Requirements**

## Highlights

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### What We Audited and Why

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We audited P.K. Management Group, Inc. (PKMG), a contracted field service manager in HUD's real estate-owned Management and Marketing III program, as part of the activities included in our 2016 annual audit plan and because it was the sole contractor performing property preservation and protection services for U.S. Department of Housing and Urban Development (HUD)-acquired properties located in Illinois in Region's 5 jurisdiction. Our audit objective was to determine whether PKMG provided property preservation and protection services in accordance with its contract with HUD and its own requirements.

### What We Found

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PKMG did not always provide property preservation and protection services in accordance with its contract and its own requirements. Specifically, it did not ensure that (1) 82 HUD-owned vacant properties were in ready-to-show condition and (2) 23 custodial properties were free of health and safety hazards and the exteriors were clean, safe, sanitary, and secured. In addition, PKMG billed HUD for properties for which it had not provided property preservation and protection services. As a result, PKMG inappropriately received more than \$19,000 in property management fees for properties that were not adequately maintained. In addition, it inappropriately received more than \$2,300 in property management fees for properties that it had not serviced. If PKMG does not improve its process for performing property preservation and protection services, we estimate that HUD could inappropriately pay more than \$2.5 million in management fees for properties that are not maintained in accordance with its contract requirements over the next year.

### What We Recommend

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We recommend that HUD require PKMG to (1) certify that the applicable property and preservation deficiencies have been corrected for the 105 properties cited, (2) reimburse HUD more than \$19,000 for the 105 properties that were not adequately maintained, (3) implement adequate procedures and controls to ensure that all properties comply with its contract and its own requirements to prevent more than \$2.5 million in program funds from being spent for monthly ongoing property management fees for properties that do not comply with HUD's and its own requirements over the next year, and (4) reimburse HUD more than \$2,300 in property management fees received for services it had not performed.

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# Background and Objective

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The Federal Housing Administration (FHA) is an organizational unit within the U.S. Department of Housing and Urban Development (HUD) that administers the single-family mortgage insurance program. FHA insures approved lenders against the risk of loss on mortgages. In the event of a default on an FHA-insured loan, the lender acquires title to the property by foreclosure, a deed in lieu of foreclosure,<sup>1</sup> or other acquisition method; files a claim for insurance benefits; and conveys the property to HUD. As a result of acquisitions through the mortgage insurance program and other programs, HUD needs to manage and sell a sizable inventory of single-family homes in a manner that promotes home ownership, preserves communities, and maximizes the returns to the FHA insurance fund.

Since 1999, HUD has been outsourcing the disposition of its real estate-owned inventory to management and marketing contractors. This acquisition is part of the third generation of management and marketing services. On September 30, 2012, HUD entered into a management and marketing contract with P.K. Management Group, Inc. (PKMG), for field service management services<sup>2</sup> to successfully manage HUD-owned single-family properties and provide property preservation and protection services consisting of but not limited to inspecting, securing, performing cosmetic enhancements, repairing, and providing ongoing maintenance to the HUD-owned properties.

PKMG is a national real estate management company with experience in managing, preserving, and providing environmental services for residential and commercial properties. It is the sole prime contractor serving as the field service manager in six contract areas for HUD's management and marketing program, including Illinois. During the previous Management and Marketing III program, PKMG served as a prime field service manager contractor in nine States and territories and as a subcontractor providing quality control, property inspection, and environmental services to an additional portfolio of HUD homes across 38 States. PKMG was incorporated on May 7, 2005. Its corporate office is located in Doral, FL.

To implement its field service management contract with HUD, PKMG used subcontractors to complete the property preservation and protection services. According to the contract with HUD, PKMG should be liable for damages to all acquired properties due to failure to inspect or secure property or other act, neglect, failure, or misconduct of the contractor, a subcontractor, or

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<sup>1</sup> A deed in lieu of foreclosure is a transaction where the homeowner voluntarily transfers title to the property to the lender in exchange for a release from the mortgage obligation.

<sup>2</sup> Field service managers are companies that provide property preservation and protection services consisting of but not limited to inspecting and securing properties, performing cosmetic enhancements or repairs, and providing ongoing property maintenance.

any management official of any of the foregoing. The contractor must indemnify HUD for losses due to any act, neglect, failure, or misconduct of the contractor, a subcontractor, or any management official of any of the foregoing. Therefore, PKMG is ultimately responsible to ensure that the properties are maintained in accordance with the contract with HUD and its own requirements. PKMG reviews the subcontractors inspection reports and completes quality control inspections of the properties in its active inventory.

Region 5 includes the States of Illinois, Indiana, Michigan, Minnesota, Ohio, and Wisconsin.

Our audit objective was to determine whether PKMG provided property preservation and protection services for HUD-owned single-family properties in accordance with its contract with HUD's and its own requirements.

# Results of Audit

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## **Finding: PKMG Did Not Always Provide Property Preservation and Protection Services in Accordance With Its Contract With HUD and Its Own Requirements**

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PKMG did not always provide property preservation and protection services in accordance with its contract and its own requirements. Specifically, it did not ensure that (1) 82 HUD-owned vacant properties were in ready-to-show condition and (2) 23 custodial properties were free of health and safety hazards and the exteriors were clean, safe, sanitary, and secured. In addition, PKMG billed HUD for properties for which it had not provided property preservation and protection services. The deficiencies occurred because PKMG did not provide adequate oversight of its subcontractors to ensure that properties were maintained in accordance with its contract and its own requirements. As a result, PKMG inappropriately received more than \$19,000 in management fees for properties that were not adequately maintained. In addition, it inappropriately received more than \$2,300 in management fees for properties it had not serviced. Based on our statistical sample, we estimate that over the next year, HUD will inappropriately pay more than \$2.5 million in management fees for properties that are not maintained in accordance with its contract with PKMG.

### **Properties Were Not Adequately Maintained<sup>3</sup>**

From PKMG's active inventory, we statistically selected<sup>4</sup> 128 properties to observe<sup>5</sup> and determine whether PKMG ensured that the HUD-acquired properties were maintained in accordance with its contract and its own requirements. Of the 128 properties, 105 (82 percent) had 424 deficiencies. The 105 properties had interior, exterior, and health and safety hazard deficiencies or a combination of deficiencies. Specifically,

- 92 properties had 208 interior health and safety hazards,
- 51 properties had 68 exterior health and safety hazards,
- 60 properties had 77 other interior deficiencies,
- 68 properties had 71 other exterior deficiencies.

As a result, HUD disbursed \$19,425 in management fees for properties that were not properly maintained. The table below represents the type of deficiency observed and the location, either interior or exterior.

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<sup>3</sup>See appendix D for criteria.

<sup>4</sup> Our methodology for the statistical sample is explained in the Scope and Methodology section of this audit report.

<sup>5</sup> We observed the 128 properties between March 15 and June 14, 2016.

| Deficiency type  | Interior health and safety | Exterior health and safety | Other interior deficiencies | Other exterior deficiencies |
|--|----------------------------|----------------------------|-----------------------------|-----------------------------|
| Tripping hazard  | 43                         | 22                         | -                           | -                           |
| Safety hazards (missing or loose handrails, defective steps)               | 5                          | 9                          | -                           | -                           |
| Property not secured (includes sheds, garages, and outbuildings)           | 33                         | 13                         | -                           | -                           |
| Active roof leak or water leak (includes sheds, garages, and outbuildings) | 11                         | 2                          | -                           | -                           |
| Cutting hazard   | 38                         | 16                         | -                           | -                           |
| Electrical hazard  | 48                         | 6                          | -                           | -                           |
| Landscaping not maintained   | -                          | -                          | -                           | 66                          |
| Not broom swept (includes sheds, garages, and outbuildings)                | -                          | -                          | 55                          | 4                           |
| Moisture damage  | -                          | -                          | -                           | 1                           |
| Feces in the property  | 3                          | -                          | -                           | -                           |
| Inoperable interior doors  | 9                          | -                          | -                           | -                           |
| Excessive mold or mildew   | 2                          | -                          | -                           | -                           |
| Gas line, water line, or dryer vent not capped                             | 16                         | -                          | -                           | -                           |
| Property deterioration   | -                          | -                          | 19                          | -                           |
| Missing emergency contact notice   | -                          | -                          | 3                           | -                           |
| <b>Total deficiencies</b>  | <b>208</b>                 | <b>68</b>                  | <b>77</b>                   | <b>71</b>                   |



### **Ninety-Two Properties Had Two Hundred Eight Interior Health and Safety Hazards**

Contrary to sections C.5.2.3 and C.5.2.3.1<sup>6</sup> of its contract, the interiors for 92 of the 128 properties observed were not free of health and safety hazards. The 92 properties had 208 interior health and safety hazards. The following items are examples of interior health and safety hazards listed in the table: uncapped and exposed electrical wires, missing flooring, missing thresholds, broken glass, protruding nails, broken windows, unsecured attached garage doors, gas lines not capped, active water leaks, inoperable interior doors, mold or excessive mildew, defective stairs, missing handrails, and feces.

### **Sixty Properties Had Seventy-Seven Other Interior Deficiencies**

Contrary to section C.5.2.3.1<sup>7</sup> of its contract, 60 of the 128 properties observed were not in ready-to-show condition.<sup>8</sup> The 60 properties had 77 other interior deficiencies. The following items are examples of other interior deficiencies listed in the table: debris on the floor, dead insects on windowsills, cobwebs on vents, dirty carpets, and rotting basement wall. In addition, 24-hour emergency contact signs were missing for three properties at the time of our observations.

### **Fifty-One Properties Had Sixty-Eight Exterior Health and Safety Hazards**

Contrary to section C.5.1<sup>9</sup> of its contract, the exteriors for 51 of the 128 properties observed were not free of health and safety hazards. The 51 properties had 68 exterior health and safety hazards. The following items are examples of exterior health and safety hazards listed in the table: rippling exterior carpets, broken glass, large hole in yard, unsecured detached garage side door, exposed electrical wires, and missing midrails (balusters).

### **Sixty-Eight Properties Had Seventy-One Other Exterior Deficiencies**

Contrary to sections C.5.1 and C.1.6<sup>10</sup> of its contract, the exteriors for 68 of the 128 properties observed were not clean and sanitary and did not reflect a high standard of care. The 68 properties had 71 other exterior deficiencies. The following items are examples of the other exterior deficiencies listed in the table: landscaping not maintained, debris in a detached garage, abandoned vehicles in backyard, and detached garage wall damaged by water.

The following photographs illustrate examples of the deficiencies noted during the property observations of the 105 properties that were not maintained in accordance with PKMG's contract with HUD or its own requirements.

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<sup>6</sup> See appendix D for criteria.

<sup>7</sup> See appendix D for criteria.

<sup>8</sup> Ready-to-show condition is defined as a property free of debris, visible insect and rodent infestations, and health and safety hazards. All cabinets, refrigerators, freezers, counter tops, and windows must have been wiped clean, and the property must be free of bad smells. All floors and carpets must be clean. This requirement does not apply to custodial properties.

<sup>9</sup> See appendix D for criteria.

<sup>10</sup> See appendix D for criteria.

Property #A34: Feces on wall and floor



Property #A117:  
Deteriorated basement  
wall



Property #A119:  
Broken window



Property #A125:  
Property not secured;  
missing door and  
window





Property #A125:  
Exterior debris



Property #A49: Interior  
debris



Property #A122:  
Missing flooring  
covered up with carpet



Property #A114:  
Unsecured vents





Property #A59: Hole in backyard, creating tripping hazard



Property #A123:  
Missing midrails  
(balusters) on second  
floor



### **Inappropriate Property Management Fees Were Received for Services Not Provided**

For three properties (FHA case numbers 131-990458, 137-003836, and 137-311574), HUD asked PKMG to stop performing property preservation and protection services due to pending demolition or removal from HUD's inventory. For another property (FHA case number 137-352298), HUD asked PKMG to stop providing property preservation and protection services because the homeowner's association dues owed on the property exceeded the appraised value.

PKMG stated that if HUD asked that services not be provided for a particular property that was in its active inventory, it would stop servicing the property and then manually remove the property from its monthly field service manager batch billing transmittals to HUD. However, based on our review of monthly batch billing transmittals and payment receipts, we determined that PKMG did not always exclude these four properties from its monthly batch billing transmittals. Because the four properties were not always removed from the monthly batch billing transmittals, PKMG inappropriately received more than \$2,300 in property management fees.

### **PKMG Lacked Adequate Oversight of Its Subcontractors**

PKMG lacked adequate oversight of its subcontractors to ensure that property preservation and protection services were performed in accordance with its contract and its own requirements. According to PKMG, it regularly performed quality control inspections of the properties in its active inventory to ensure that its subcontractors properly maintained the properties. Additionally, PKMG stated that the percentage of its inventory that it inspected on a recurring basis had increased from 10 to 30 percent of its active inventory. However, based on our review of PKMG's quality control inspections, we determined that PKMG performed quality control reviews for less than 9 percent of its active inventory. For one month, it reviewed only 59 (3.7 percent) of the 1,594 properties in its active inventory. For the quality control reviews we reviewed, deficiencies were noted in every property PKMG reviewed. However, the quality control findings report did not contain the names or other identifiers to determine the subcontractors that had performed the preservation and protection services for the properties that were not maintained in accordance with PKMG's contract. PKMG acknowledged that its subcontractors' information was not in the report. However, it stated that it knew which subcontractors were responsible for the deficiencies based on the location of the properties and the work orders<sup>11</sup> issued.

We reviewed PKMG's compliance reports for the most recent 6 months and determined that the reports did not identify the individuals or subcontractors responsible for the deficiencies in accordance with PKMG's quality control plan. In addition, PKMG did not provide documentation (1) to show how its subcontractors had rated or (2) a list of its subcontractors that had received additional training or were terminated. Further, although PKMG required management to review the findings and implement the necessary steps to resolve exceptions to prevent a recurrence, similar deficiencies continued to be identified in later reviews.

### **Conclusion**

PKMG lacked adequate oversight of its subcontractors to ensure that properties were maintained in accordance with its contract and its own requirements. As a result, it inappropriately received more than \$19,000 in management fees for properties that were not adequately maintained. In addition, it inappropriately received more than \$2,300 in management fees for properties it had not serviced. Based on our statistical sample, we estimate that over the next year, HUD will pay

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<sup>11</sup> Work orders are requests that PKMG used to send subcontractors back to a property to complete work they failed to complete on a previous work order for no additional charge.

more than \$2.5 million in management fees for properties that are not maintained in accordance with its contract with PKMG.

### **Recommendations**

We recommend that the HUD's Acting Deputy Assistant Secretary for Single Family Housing require PKMG to

- 1A. Certify and provide supporting documentation showing that the applicable property preservation and protection deficiencies have been corrected for the 105 properties cited in this finding.
- 1B. Reimburse HUD \$19,425 in ineligible monthly ongoing property management fees for the 105 properties that contained property preservation and protection deficiencies.
- 1C. Reimburse HUD \$2,314 for the ineligible monthly ongoing property management fees received for services not performed.
- 1D. Improve its quality control procedures to ensure that all properties in its active inventory comply with its contract with HUD and its own requirements to prevent \$2,532,000 in monthly ongoing property management fees from being spent for properties that are not adequately maintained over the next year.
- 1E. Implement the improved quality control procedures<sup>12</sup> to ensure that property preservation and protection services are performed in accordance with its contract with HUD and its own requirements, including but not limited to ensuring that (1) it provides proper supervision and oversight of its subcontractors and (2) supervisory quality control inspections are completed and feedback is provided to the subcontractors to correct recurring deficiencies.
- 1F. Implement procedures and controls to ensure that it manually removes properties from its monthly field service manager batch billing transmittals to HUD, when HUD asks that services not be provided for a particular property that is in PKMG's active inventory.

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<sup>12</sup> Improved quality control procedures from recommendation 1D.



# Scope and Methodology

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We performed our audit work between February and July 2016 at the Chicago regional office, and we performed property observations in Illinois. The audit covered the period September 30, 2012, through February 2, 2016, and PKMG's active inventory in HUD's P260<sup>13</sup> system, but our scope was expanded as determined necessary.

To accomplish our review objective, we interviewed HUD's staff at the Atlanta Homeownership Center, the government technical representative for PKMG's contract, and PKMG's employees. In addition, we obtained and reviewed the following:

- PKMG's contract with HUD; internal policies and procedures; property management plan; quality control plan; HUD 3.6 property preservation contractor statement of work; the inspector and contractor training guides; quality control reviews; and monthly batch billing transmittals and receipts.
- Information contained in HUD's P260 system, including the active properties assigned to PKMG's inventory, routine inspection reports and photographs, property status, and other related communication records obtained from HUD's system.

From the 1,584 active properties in PKMG's inventory, we statistically selected 104 properties to observe. We completed observations of 24 properties during our survey. In the audit phase, we checked the status of the remaining 80 (104-24) properties in HUD's P260 system to determine whether the properties were still in PKMG's active inventory. After reviewing the data in P260, we determined that we did not have enough statistical replacement samples to replace the properties that had been sold or reconveyed to the lenders. Therefore, we did not complete the field observations of the remaining 80 properties statistically selected during the initial sample. Our survey review determined that 19 properties were not maintained in accordance with PKMG's contract with HUD and its own requirements. We included the results of our survey observations in the finding; however, the results from the survey were not included in our projection.

Because we did not have enough statistical replacement samples, we created an additional statistical sample. Therefore, from the 1,433 active properties in PKMG's inventory, we statistically selected a stratified, two-stage cluster sample of 104 properties to observe. We used a statistical sample so the audit results could be projected to the universe. Of the 104 selected properties, we found that 86 properties were not maintained in accordance with PKMG's

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<sup>13</sup> P260 is an Internet-based system that serves as the primary system of record for all HUD real estate-owned case management transactions. The system will assign each HUD-owned property for contractors to track the disposition activity from conveyance to sale.

contract with HUD or its own requirements. Projecting these results to the universe and deducting a statistical margin of error, we can say, with a one-sided confidence interval of 95 percent that this amounts to at least 1,140 properties that were not maintained in accordance with PKMG's contract with HUD or its own requirements. Similarly, we found that of the fees paid, an average of \$147.70 per property was spent on properties that were not maintained in accordance with PKMG's contract with HUD or its own requirements. Projecting this amount to the audit universe of 1,433 properties and deducting for a statistical margin of error, we can state, with a one-sided confidence interval of 95 percent that at least \$211,000 in ongoing monthly property management fees was paid for properties that were not maintained in accordance with PKMG's contract or its own requirements for 1 month. Over the next year, this is equivalent to an overpayment of \$2,532,000 (\$211,000 x 12 months) in property management fees paid for properties that are not maintained in accordance with PKMG's contract with HUD or its own requirements.

Calculations below:

$(83.62\% - 1.8331 \times 2.12\%) \times N = 79.7\% \times N \approx 1,140$  properties not adequately maintained

$(\$155 - 1.8331 \times \$4.01) \times N = \$147.70 \times N \approx \$211,000$  spent monthly for properties not adequately maintained

#### **Data, Review Results, and Generally Accepted Government Auditing Standards**

We relied in part on data maintained by PKMG and data entered into HUD's P260 system by PKMG and its subcontractors. Although we did not perform a detailed assessment of the reliability of the data, we performed a minimal level of testing and found the data to be adequately reliable for our purposes.

We provided our review results and supporting schedules to HUD's Acting Deputy Assistant Secretary for Single Family Housing; Chief of the Atlanta Home Ownership Center, Real Estate Owned Division; and PKMG's chief executive officer during the audit.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective(s). We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

# Internal Controls

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Internal control is a process adopted by those charged with governance and management, designed to provide reasonable assurance about the achievement of the organization's mission, goals, and objectives with regard to

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

Internal controls comprise the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

## **Relevant Internal Controls**

We determined that the following internal controls were relevant to our audit objective:

- Effectiveness and efficiency of operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Reliability of financial reporting – Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.
- Compliance with applicable laws and regulations – Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.

We assessed the relevant controls identified above.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations on a timely basis.

## **Significant Deficiency**

Based on our review, we believe that the following item is a significant deficiency:

- PKMG lacked adequate oversight of its subcontractors to ensure that properties were maintained in accordance with its contract and its own requirements (finding).

# Appendixes

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## Appendix A

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**Schedule of Questioned Costs and Funds To Be Put to Better Use**

| Recommendation number | Ineligible 1/        | Funds to be put to better use 2/ |
|-----------------------|----------------------|----------------------------------|
| 1B                    | \$19,425             |                                  |
| 1C                    | <u>2,314</u>         |                                  |
| 1D                    |                      | <u>\$2,532,000</u>               |
| <b>Total</b>          | <b><u>21,739</u></b> | <b><u>2,532,000</u></b>          |

- 1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or Federal, State, or local policies or regulations.
- 2/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified. In this instance, if PKMG implements our recommendations, HUD will stop incurring program costs for properties that are not in ready-to-show condition or free of health and safety hazards and, instead, will spend those funds for properties maintained in accordance with its contract. Once PKMG improves oversight of its subcontractors, this will be a recurring benefit. Our estimate reflects only the initial year of this benefit.

## Appendix B

### Schedule of OIG Property Observation Results

| Identification number | FHA case number | Results            |                    | Deficiency type   |                 |          |                 |       |                    |                 |          |                 |       | Total deficiencies |
|-----------------------|-----------------|--------------------|--------------------|-------------------|-----------------|----------|-----------------|-------|--------------------|-----------------|----------|-----------------|-------|--------------------|
|                       |                 |                    |                    | Health and safety |                 |          |                 |       | Other deficiencies |                 |          |                 |       |                    |
|                       |                 | Pass <sup>14</sup> | Fail <sup>15</sup> | Exterior          | Number exterior | Interior | Number interior | Total | Exterior           | Number exterior | Interior | Number interior | Total |                    |
| S1                    | 131-985663      |                    | X                  | X                 | 1               | X        | 3               | 4     | X                  | 1               | X        | 3               | 4     | 8                  |
| S2                    | 137-686966      |                    | X                  |                   |                 | X        | 4               | 4     | X                  | 1               | X        | 2               | 3     | 7                  |
| S3                    | 137-489893      |                    | X                  | X                 | 2               |          |                 | 2     | X                  | 1               |          |                 | 1     | 3                  |
| S4                    | 137-213648      |                    | X                  | X                 | 1               | X        | 3               | 4     | X                  | 1               |          |                 | 1     | 5                  |
| S5                    | 137-325834      |                    | X                  |                   |                 | X        | 1               | 1     | X                  | 1               |          |                 | 1     | 2                  |
| S6                    | 137-331725      |                    | X                  | X                 | 2               | X        | 3               | 5     | X                  | 1               | X        | 2               | 3     | 8                  |
| S7                    | 137-268143      |                    | X                  |                   |                 | X        | 2               | 2     | X                  | 1               | X        | 2               | 3     | 5                  |
| S8                    | 137-597898      | X                  |                    |                   |                 |          |                 |       |                    |                 |          |                 |       |                    |
| S9                    | 137-510834      | X                  |                    |                   |                 |          |                 |       |                    |                 |          |                 |       |                    |
| S10                   | 137-641711      |                    | X                  | X                 | 1               | X        | 4               | 5     |                    |                 | X        | 1               | 1     | 6                  |
| S11                   | 137-505799      |                    | X                  |                   |                 | X        | 3               | 3     | X                  | 1               | X        | 2               | 3     | 6                  |
| S12                   | 131-686559      |                    | X                  |                   |                 | X        | 1               | 1     | X                  | 1               |          |                 | 1     | 2                  |
| S13                   | 137-357996      |                    | X                  |                   |                 |          |                 |       | X                  | 1               |          |                 | 1     | 1                  |
| S14                   | 137-283417      |                    | X                  | X                 | 2               | X        | 2               | 4     | X                  | 1               |          |                 | 1     | 5                  |
| S15                   | 137-341857      |                    | X                  |                   |                 | X        | 1               | 1     |                    |                 |          |                 |       | 1                  |
| S16                   | 137-345341      |                    | X                  |                   |                 | X        | 1               | 1     | X                  | 1               |          |                 | 1     | 2                  |
| S17                   | 137-312086      |                    | X                  | X                 | 1               | X        | 1               | 2     | X                  | 1               | X        | 1               | 2     | 4                  |
| S18                   | 137-372795      |                    | X                  | X                 | 1               | X        | 1               | 2     | X                  | 1               | X        | 1               | 2     | 4                  |

<sup>14</sup> Pass is defined as property preservation and protection services that were in accordance with PKMG's contract with HUD and its own requirements.

<sup>15</sup> Fail is defined as property preservation and protection services that were not in accordance with PKMG's contract with HUD, its own requirements, or both.

| Identification Number | FHA case number | Results            |                    | Deficiency type   |                 |          |                 |       |                    |                 |          |                 |       | Total deficiencies |
|-----------------------|-----------------|--------------------|--------------------|-------------------|-----------------|----------|-----------------|-------|--------------------|-----------------|----------|-----------------|-------|--------------------|
|                       |                 |                    |                    | Health and safety |                 |          |                 |       | Other deficiencies |                 |          |                 |       |                    |
|                       |                 | Pass <sup>13</sup> | Fail <sup>14</sup> | Exterior          | Number exterior | Interior | Number interior | Total | Exterior           | Number exterior | Interior | Number interior | Total |                    |
| S19                   | 137-516750      |                    | X                  | X                 | 1               | X        | 1               | 2     |                    |                 | X        | 1               | 1     | 3                  |
| S20                   | 137-352760      |                    | X                  |                   |                 | X        | 2               | 2     | X                  | 2               | X        | 2               | 4     | 6                  |
| S21                   | 137-003836      | X                  |                    |                   |                 |          |                 |       |                    |                 |          |                 |       |                    |
| S22                   | 137-310214      | X                  |                    |                   |                 |          |                 |       |                    |                 |          |                 |       |                    |
| S23                   | 137-422937      | X                  |                    |                   |                 |          |                 |       |                    |                 |          |                 |       |                    |
| S24                   | 137-473116      |                    | X                  | X                 | 1               | X        | 3               | 4     |                    |                 | X        | 1               | 1     | 5                  |
| A25                   | 132-183817      |                    | X                  |                   |                 | X        | 1               | 1     | X                  | 1               |          |                 | 1     | 2                  |
| A26                   | 132-248687      |                    | X                  | X                 | 1               | X        | 2               | 3     | X                  | 1               | X        | 1               | 2     | 5                  |
| A27                   | 132-183222      |                    | X                  |                   |                 |          |                 |       | X                  | 1               |          |                 | 1     | 1                  |
| A28                   | 132-137243      |                    | X                  | X                 | 2               | X        | 2               | 4     | X                  | 1               | X        | 1               | 2     | 6                  |
| A29                   | 132-210339      |                    | X                  | X                 | 2               | X        | 2               | 4     | X                  | 1               |          |                 | 1     | 5                  |
| A30                   | 132-208981      |                    | X                  | X                 | 1               | X        | 2               | 3     |                    |                 | X        | 2               | 2     | 5                  |
| A31                   | 132-239110      |                    | X                  |                   |                 | X        | 3               | 3     | X                  | 1               | X        | 1               | 2     | 5                  |
| A32                   | 132-208622      |                    | X                  | X                 | 1               | X        | 4               | 5     | X                  | 1               | X        | 1               | 2     | 7                  |
| A33                   | 132-256078      |                    | X                  | X                 | 1               |          |                 | 1     | X                  | 1               |          |                 | 1     | 2                  |
| A34                   | 132-201054      |                    | X                  | X                 | 1               | X        | 6               | 7     | X                  | 1               | X        | 2               | 3     | 10                 |
| A35                   | 132-169804      |                    | X                  | X                 | 1               | X        | 6               | 7     | X                  | 1               | X        | 1               | 2     | 9                  |
| A36                   | 132-240521      |                    | X                  | X                 | 1               | X        | 4               | 5     | X                  | 1               |          |                 | 1     | 6                  |
| A37                   | 132-204493      |                    | X                  |                   |                 | X        | 1               | 1     |                    |                 |          |                 |       | 1                  |
| A38                   | 132-150096      |                    | X                  | X                 | 1               | X        | 1               | 2     | X                  | 1               | X        | 1               | 2     | 4                  |
| A39                   | 137-468303      |                    | X                  |                   |                 | X        | 2               | 2     | X                  | 1               | X        | 1               | 2     | 4                  |
| A40                   | 137-455521      |                    | X                  | X                 | 1               |          |                 | 1     |                    |                 |          |                 |       | 1                  |
| A41                   | 132-156775      |                    | X                  |                   |                 |          |                 |       | X                  | 1               |          |                 | 1     | 1                  |
| A42                   | 132-161794      |                    | X                  | X                 | 1               | X        | 4               | 5     | X                  | 1               |          |                 | 1     | 6                  |
| A43                   | 132-280796      |                    | X                  | X                 | 1               | X        | 2               | 3     | X                  | 1               |          |                 | 1     | 4                  |
| A44                   | 132-286484      |                    | X                  |                   |                 | X        | 1               | 1     | X                  | 1               | X        | 1               | 2     | 3                  |

| Identification<br>Number | FHA case number | Results            |                    | Deficiency type   |                    |          |                    |       |                    |                    |          |                    |       | Total deficiencies |
|--------------------------|-----------------|--------------------|--------------------|-------------------|--------------------|----------|--------------------|-------|--------------------|--------------------|----------|--------------------|-------|--------------------|
|                          |                 |                    |                    | Health and safety |                    |          |                    |       | Other deficiencies |                    |          |                    |       |                    |
|                          |                 | Pass <sup>13</sup> | Fail <sup>14</sup> | Exterior          | Number<br>exterior | Interior | Number<br>interior | Total | Exterior           | Number<br>exterior | Interior | Number<br>interior | Total |                    |
| A45                      | 132-223138      |                    | X                  |                   |                    | X        | 2                  | 2     | X                  | 1                  | X        | 1                  | 2     | 4                  |
| A46                      | 132-160338      |                    | X                  |                   |                    | X        | 1                  | 1     | X                  | 1                  | X        | 1                  | 2     | 3                  |
| A47                      | 132-221569      |                    | X                  |                   |                    | X        | 2                  | 2     |                    |                    | X        | 1                  | 1     | 3                  |
| A48                      | 132-201201      | X                  |                    |                   |                    |          |                    |       |                    |                    |          |                    |       |                    |
| A49                      | 137-283662      |                    | X                  |                   |                    | X        | 3                  | 3     | X                  | 1                  | X        | 1                  | 2     | 5                  |
| A50                      | 137-447131      |                    | X                  | X                 | 1                  | X        | 1                  | 2     | X                  | 1                  |          |                    | 1     | 3                  |
| A51                      | 137-426336      | X                  |                    |                   |                    |          |                    |       |                    |                    |          |                    |       |                    |
| A52                      | 137-415828      |                    | X                  | X                 | 1                  |          |                    | 1     | X                  | 1                  |          |                    | 1     | 2                  |
| A53                      | 131-803364      |                    | X                  | X                 | 1                  | X        | 1                  | 2     | X                  | 1                  |          |                    | 1     | 3                  |
| A54                      | 137-210541      |                    | X                  |                   |                    | X        | 1                  | 1     | X                  | 1                  |          |                    | 1     | 2                  |
| A55                      | 137-576768      |                    | X                  | X                 | 1                  |          |                    | 1     |                    |                    |          |                    |       | 1                  |
| A56                      | 137-234852      |                    | X                  |                   |                    | X        | 2                  | 2     |                    |                    |          |                    |       | 2                  |
| A57                      | 137-337969      |                    | X                  |                   |                    | X        | 4                  | 4     |                    |                    | X        | 1                  | 1     | 5                  |
| A58                      | 137-430391      |                    | X                  |                   |                    | X        | 1                  | 1     |                    |                    | X        | 1                  | 1     | 2                  |
| A59                      | 137-590717      |                    | X                  | X                 | 1                  | X        | 3                  | 4     |                    |                    | X        | 2                  | 2     | 6                  |
| A60                      | 137-463175      |                    | X                  |                   |                    | X        | 1                  | 1     |                    |                    | X        | 1                  | 1     | 2                  |
| A61                      | 137-334534      | X                  |                    |                   |                    |          |                    |       |                    |                    |          |                    |       |                    |
| A62                      | 137-651065      | X                  |                    |                   |                    |          |                    |       |                    |                    |          |                    |       |                    |
| A63                      | 137-709976      |                    | X                  | X                 | 1                  | X        | 1                  | 2     | X                  | 1                  | X        | 1                  | 2     | 4                  |
| A64                      | 137-467809      |                    | X                  |                   |                    | X        | 3                  | 3     | X                  | 1                  |          |                    | 1     | 4                  |
| A65                      | 137-332972      |                    | X                  |                   |                    | X        | 3                  | 3     |                    |                    | X        | 2                  | 2     | 5                  |
| A66                      | 137-376662      |                    | X                  |                   |                    | X        | 2                  | 2     | X                  | 1                  | X        | 1                  | 2     | 4                  |
| A67                      | 137-351702      |                    | X                  | X                 | 2                  | X        | 4                  | 6     | X                  | 1                  | X        | 2                  | 3     | 9                  |
| A68                      | 137-391816      |                    | X                  | X                 | 1                  |          |                    | 1     | X                  | 2                  |          |                    | 2     | 3                  |
| A69                      | 137-376499      |                    | X                  | X                 | 1                  | X        | 5                  | 6     | X                  | 1                  | X        | 1                  | 2     | 8                  |
| A70                      | 137-351397      |                    | X                  | X                 | 1                  | X        | 1                  | 2     | X                  | 1                  | X        | 1                  | 2     | 4                  |

| Identification Number | FHA case number | Results            |                    | Deficiency type   |                 |          |                 |       |                    |                 |          |                 |       | Total deficiencies |
|-----------------------|-----------------|--------------------|--------------------|-------------------|-----------------|----------|-----------------|-------|--------------------|-----------------|----------|-----------------|-------|--------------------|
|                       |                 |                    |                    | Health and safety |                 |          |                 |       | Other deficiencies |                 |          |                 |       |                    |
|                       |                 | Pass <sup>13</sup> | Fail <sup>14</sup> | Exterior          | Number exterior | Interior | Number interior | Total | Exterior           | Number exterior | Interior | Number interior | Total |                    |
| A71                   | 137-691393      |                    | X                  |                   |                 | X        | 2               | 2     | X                  | 1               | X        | 2               | 3     | 5                  |
| A72                   | 137-546029      |                    | X                  | X                 | 1               |          |                 | 1     |                    |                 | X        | 2               | 2     | 3                  |
| A73                   | 132-251209      | X                  |                    |                   |                 |          |                 |       |                    |                 |          |                 |       |                    |
| A74                   | 132-179529      |                    | X                  | X                 | 3               | X        | 1               | 4     | X                  | 1               | X        | 1               | 2     | 6                  |
| A75                   | 132-274617      |                    | X                  |                   |                 | X        | 1               | 1     | X                  | 1               | X        | 1               | 2     | 3                  |
| A76                   | 132-252141      |                    | X                  |                   |                 | X        | 1               | 1     | X                  | 1               | X        | 1               | 2     | 3                  |
| A77                   | 132-202870      |                    | X                  | X                 | 2               | X        | 3               | 5     | X                  | 1               | X        | 1               | 2     | 7                  |
| A78                   | 132-269848      |                    | X                  |                   |                 | X        | 1               | 1     |                    |                 |          |                 |       | 1                  |
| A79                   | 132-265446      |                    | X                  | X                 | 2               | X        | 2               | 4     | X                  | 1               | X        | 1               | 2     | 6                  |
| A80                   | 132-183178      |                    | X                  |                   |                 | X        | 1               | 1     | X                  | 1               |          |                 | 1     | 2                  |
| A81                   | 137-517783      |                    | X                  |                   |                 | X        | 2               | 2     |                    |                 | X        | 1               | 1     | 3                  |
| A82                   | 137-540757      |                    | X                  |                   |                 | X        | 1               | 1     | X                  | 1               |          |                 | 1     | 2                  |
| A83                   | 137-532521      |                    | X                  |                   |                 |          |                 |       | X                  | 1               | X        | 1               | 2     | 2                  |
| A84                   | 137-209879      |                    | X                  |                   |                 | X        | 1               | 1     |                    |                 | X        | 1               | 1     | 2                  |
| A85                   | 137-492843      | X                  |                    |                   |                 |          |                 |       |                    |                 |          |                 |       |                    |
| A86                   | 137-510637      |                    | X                  |                   |                 |          |                 |       |                    |                 | X        | 1               | 1     | 1                  |
| A87                   | 137-743340      | X                  |                    |                   |                 |          |                 |       |                    |                 |          |                 |       |                    |
| A88                   | 137-572438      |                    | X                  |                   |                 | X        | 2               | 2     |                    |                 | X        | 1               | 1     | 3                  |
| A89                   | 131-724704      |                    | X                  |                   |                 | X        | 2               | 2     |                    |                 |          |                 |       | 2                  |
| A90                   | 137-384507      |                    | X                  |                   |                 | X        | 1               | 1     | X                  | 1               |          |                 | 1     | 2                  |
| A91                   | 137-531695      | X                  |                    |                   |                 |          |                 |       |                    |                 |          |                 |       |                    |
| A92                   | 137-487290      |                    | X                  | X                 | 2               | X        | 1               | 3     | X                  | 1               | X        | 1               | 2     | 5                  |
| A93                   | 137-224604      |                    | X                  |                   |                 | X        | 1               | 1     |                    |                 |          |                 |       | 1                  |
| A94                   | 137-369902      |                    | X                  | X                 | 2               | X        | 2               | 4     | X                  | 1               |          |                 | 1     | 5                  |
| A95                   | 131-815376      | X                  |                    |                   |                 |          |                 |       |                    |                 |          |                 |       |                    |
| A96                   | 137-439021      |                    | X                  |                   |                 | X        | 2               | 2     |                    |                 |          |                 |       | 2                  |



| Identification Number | FHA case number | Results            |                    | Deficiency type   |                 |          |                 |       |                    |                 |          |                 |       | Total deficiencies |
|-----------------------|-----------------|--------------------|--------------------|-------------------|-----------------|----------|-----------------|-------|--------------------|-----------------|----------|-----------------|-------|--------------------|
|                       |                 |                    |                    | Health and safety |                 |          |                 |       | Other deficiencies |                 |          |                 |       |                    |
|                       |                 | Pass <sup>13</sup> | Fail <sup>14</sup> | Exterior          | Number exterior | Interior | Number interior | Total | Exterior           | Number exterior | Interior | Number interior | Total |                    |
| A97                   | 137-254648      | X                  |                    |                   |                 |          |                 |       |                    |                 |          |                 |       |                    |
| A98                   | 131-870142      |                    |                    |                   |                 | X        | 2               | 2     |                    |                 |          |                 |       | 2                  |
| A99                   | 137-297870      |                    | X                  |                   |                 | X        | 3               | 3     |                    |                 | X        | 1               | 1     | 4                  |
| A100                  | 137-342145      | X                  |                    |                   |                 |          |                 |       |                    |                 |          |                 |       |                    |
| A101                  | 137-336623      |                    | X                  |                   |                 | X        | 1               | 1     | X                  | 1               |          |                 | 1     | 2                  |
| A102                  | 137-312086      |                    | X                  |                   |                 | X        | 3               | 3     | X                  | 1               |          |                 | 1     | 4                  |
| A103                  | 137-550862      | X                  |                    |                   |                 |          |                 |       |                    |                 |          |                 |       |                    |
| A104                  | 137-325075      |                    | X                  |                   |                 | X        | 1               | 1     | X                  | 1               |          |                 | 1     | 2                  |
| A105                  | 137-462456      | X                  |                    |                   |                 |          |                 |       |                    |                 |          |                 |       |                    |
| A106                  | 137-428291      |                    | X                  | X                 | 2               | X        | 1               | 3     | X                  | 2               |          |                 | 2     | 5                  |
| A107                  | 137-352940      |                    | X                  |                   |                 | X        | 1               | 1     | X                  | 1               | X        | 1               | 2     | 3                  |
| A108                  | 137-549783      |                    | X                  | X                 | 1               | X        | 4               | 5     |                    |                 | X        | 1               | 1     | 6                  |
| A109                  | 137-260669      |                    | X                  |                   |                 | X        | 2               | 2     |                    |                 |          |                 |       | 2                  |
| A110                  | 137-484054      |                    | X                  | X                 | 1               | X        | 3               | 4     | X                  | 1               |          |                 | 1     | 5                  |
| A111                  | 137-484490      | X                  |                    |                   |                 |          |                 |       |                    |                 |          |                 |       |                    |
| A112                  | 131-751253      |                    | X                  | X                 | 1               |          |                 | 1     |                    |                 |          |                 |       | 1                  |
| A113                  | 137-582063      |                    | X                  |                   |                 | X        | 4               | 4     | X                  | 1               |          |                 | 1     | 5                  |
| A114                  | 137-548120      |                    | X                  |                   |                 | X        | 3               | 3     |                    |                 | X        | 1               | 1     | 4                  |
| A115                  | 137-343264      |                    | X                  | X                 | 1               | X        | 4               | 5     |                    |                 | X        | 2               | 2     | 7                  |
| A116                  | 137-539247      |                    | X                  |                   |                 | X        | 5               | 5     |                    |                 | X        | 1               | 1     | 6                  |
| A117                  | 137-429301      |                    | X                  | X                 | 2               | X        | 4               | 6     |                    |                 | X        | 1               | 1     | 7                  |
| A118                  | 137-590823      | X                  |                    |                   |                 |          |                 |       |                    |                 |          |                 |       |                    |
| A119                  | 137-282288      |                    | X                  | X                 | 1               | X        | 3               | 4     |                    |                 |          |                 |       | 4                  |
| A120                  | 137-443002      | X                  |                    |                   |                 |          |                 |       |                    |                 |          |                 |       |                    |

| Identification Number | FHA case number | Results            |                    | Deficiency type   |                  |                  |                   |                   |                    |                  |                  |                  |                   | Total deficiencies |
|-----------------------|-----------------|--------------------|--------------------|-------------------|------------------|------------------|-------------------|-------------------|--------------------|------------------|------------------|------------------|-------------------|--------------------|
|                       |                 |                    |                    | Health and safety |                  |                  |                   |                   | Other deficiencies |                  |                  |                  |                   |                    |
|                       |                 | Pass <sup>13</sup> | Fail <sup>14</sup> | Exterior          | Number exterior  | Interior         | Number interior   | Total             | Exterior           | Number exterior  | Interior         | Number interior  | Total             |                    |
| A121                  | 137-614827      |                    | X                  | X                 | 1                | X                | 4                 | 5                 |                    |                  | X                | 2                | 2                 | 7                  |
| A122                  | 137-415866      |                    | X                  | X                 | 1                | X                | 3                 | 4                 |                    |                  | X                | 1                | 1                 | 5                  |
| A123                  | 131-896274      |                    | X                  | X                 | 3                | X                | 1                 | 4                 | X                  | 1                |                  |                  | 1                 | 5                  |
| A124                  | 137-430834      | X                  |                    |                   |                  |                  |                   |                   |                    |                  |                  |                  |                   |                    |
| A125                  | 137-483342      |                    | X                  | X                 | 1                | X                | 3                 | 4                 | X                  | 1                | X                | 1                | 2                 | 6                  |
| A126                  | 137-353296      | X                  |                    |                   |                  |                  |                   |                   |                    |                  |                  |                  |                   |                    |
| A127                  | 137-463027      |                    | X                  | X                 | 2                | X                | 3                 | 5                 | X                  | 1                | X                | 1                | 2                 | 7                  |
| A128                  | 137-516228      |                    | X                  |                   |                  | X                | 3                 | 3                 |                    |                  | X                | 2                | 2                 | 5                  |
| <b><u>Totals</u></b>  |                 | <b><u>23</u></b>   | <b><u>105</u></b>  | <b><u>51</u></b>  | <b><u>68</u></b> | <b><u>92</u></b> | <b><u>208</u></b> | <b><u>276</u></b> | <b><u>68</u></b>   | <b><u>71</u></b> | <b><u>60</u></b> | <b><u>77</u></b> | <b><u>148</u></b> | <b><u>424</u></b>  |

## Appendix C

### Auditee Comments and OIG's Evaluation

#### Ref to OIG Evaluation

#### Auditee Comments

Comment 1

Comment 2

Comment 3

Draft OIG Audit Response  
Audited By: U.S. Department of Housing and Urban Development  
Office of Inspector General  
September 16, 2016

**OIG FINDING:** PKMG did not always provide property preservation and protection services in accordance with its contract with HUD and its own requirements

**Properties Were not Adequately Maintained**

Of the 128 properties observed, 105 (82 percent) had 424 deficiencies. The 105 properties had interior, exterior, health and safety hazard deficiencies or a combination of deficiencies. These deficiencies caused the 82 HUD-owned Vacant properties to not be in ready to show condition and the 23 Custodial properties to not be free of health and safety hazards, and the property exteriors to not be in clean, safe, sanitary and secure condition.

**PKMG Response:**

PKMG has reviewed all of the annotations and supporting photos from the OIG's field inspections. Our review included a comprehensive re-review of routine inspections previously conducted at each property, HUD field inspections, Quality Control Inspections, HUD's Asset Manager Inspections, as well as internal PKMG staff inspections. This analysis revealed that in over 68% of the reported OIG findings that there were no previous reports matching or mirroring OIG findings. PKMG submits that many of the issues noted by the OIG were for first time reported cases. This is not dissimilar to the many findings we are accustomed to seeing upon reviews of over 3,000 routine and quality control inspections completed each month.

PKMG submits that as the FSM it is not required by HUD to make improvements to properties nor perform repairs, other than as required to remediate safety hazards. Moreover, HUD-REO properties are marketed and sold in "AS-IS" condition. Minor defects, as are many which were reported by OIG, do not constitute nor meet the contract criteria for a Not-Ready-To-Show (NRTS) classification. PKMG calls OIG's attention to the fact that historically, the property stock in the State of Illinois is one of oldest, in terms of structural age, within the Atlanta HOC, and, accordingly, many are in some degree of disrepair.

In fact, for all of the properties in which OIG states that there were deficiencies, a review of HUD's system of record, P260, finds that for the period of time one month prior and to and including the date of OIG inspections that HUD's Asset Managers reported the following as Properties Not Maintained in Ready to Show Condition (NMRTS) and Properties in Not Ready to Show Condition (NRTS):

**SURVEY PROPERTIES:**

| Properties Not Maintained in<br>Ready to Show Condition<br>WONs | Properties in Not Ready<br>to Show Condition<br>WONs |
|---|--|
| 0   | 1  |

## Ref to OIG Evaluation

## Auditee Comments

Comment 3

### AUDIT PROPERTIES:

| Properties Not Maintained in<br>Ready to Show Condition<br>WONs | Properties in Not Ready<br>to Show Condition<br>WONs |
|---|--|
| 1   | 1  |

Comment 4

Comment 5

In addition to all requirements upon PKMG, the HUD Asset Manager is obligated to conduct routine inspections to monitor and assess if properties are being properly maintained by the FSM. The application of the Asset Manager's trained-eyes, influenced by their own contractual obligations, as well as a high degree of expertise form part and parcel of the checks and balances implemented by HUD to monitor property conditions.

Comment 6

In many cases, the bi-weekly routine inspections, required of the HUD contract, occur on a recurring cycle of every 14 days. During this 14-day period, many issues can and do arise at HUD properties, typically caused by weather, neighbors, vendors, buyer and broker showing activity, etc. PKMG acknowledges that many issues reported by OIG would have required attention, but by the time they were reported, 2 months post OIG inspection, many of the cases had closed prior to our opportunity to substantiate or correct such deficiencies, or the reported issues were found to have been corrected upon review of subsequent inspections.

Comment 7

Comment 8

Comment 9

The OIG is aware that HUD requires all Health and Safety issues to be abated within 24 hours of discovery. Therefore, PKMG surmises that the majority of the findings did not meet the intent of an imminent Health and Safety concern. Had they met that criteria OIG, clearly, would have submitted these findings much sooner in order for PKMG to remove all issues that could have negatively affected the property or the public. Some of these issues would include, but are not limited to, rebuilding of stairs and handrails, low voltage wire capping for analog antennas and cable boxes, and low step thresholds not intended for the home. It should also be noted that in only eight (8) of the properties in which issues were found by OIG was there a timely report to PKMG, and most of those issues were driven by heavy rains that occurred at or near to the date of the OIG visit to those properties. All such issues were timely abated and reported to the OIG as completed.

PKMG is utilizing all of the findings by the OIG to conduct additional training of PKMG employees and subcontracted vendors relative to the HUD required specifications, guided by findings of the OIG. It must be clearly noted and accepted that all properties that remained in active inventory have had all discovered and reported deficiencies resolved and that the HUD-owned properties are moving swiftly through the sales process. This undisputed fact clearly demonstrates that HUD has indeed received its expected full value relative to contract requirements. As such, imposition of any recommended claim or chargeback is improper and cannot be supported by the clear language of the contract. Further, OIG does not cite any contract provision which might require that at each and every moment in time in which a property is in inventory that it shall be free of deficiencies. Moreover there is no suggestion of any demonstrable impact upon HUD holding times or impact upon HUD marketability or sales pricing and value that can be documented from any of the OIG findings and attributable to PKMG.

## Auditee Comments and OIG's Evaluation

### Ref to OIG Evaluation

### Auditee Comments

#### Comment 10

**OIG Sub-Finding:** PKMG lacked adequate oversight of its subcontractors to ensure that property preservation and protection services were performed in accordance with its contract and its own requirements.

**PKMG Response:**

In support of this finding by the OIG it cites data regarding recurring quality control inspections and states that actual data contradicts PKMG's stated increase in its recurring quality control inspections. The construct being utilized by OIG is based upon a report submitted to OIG requesting information on the number of recurring quality control inspections actually performed by PKMG. PKMG did provide to OIG the data, as requested. However, OIG did not request information on all other QC type inspections performed by PKMG utilizing its internal field managers. These PKMG Field Inspections utilize the same parameters as that of those issued and designated QC-Recurring inspections performed by PKMG subcontractors. These PKMG Field Inspections are not related to bi-weekly routine inspections.

The chart below sets forth the number of QC Recurring Inspections as well as the number of PKMG Direct Field Inspections conducted by PKMG for the relevant months of March, April, and May, 2016 along with the respective percentages of active inventory. PKMG's statement that it had increased quality control inspections from 10 to 30 percent was, in fact, accurate and supported by actual data.

| MONTH       | QC Recurring Inspections | PKMG Direct Field Inspections | TOTAL Inspections | MONTHLY INVENTORY | Percentage of Inventory Inspected |
|-------------|--------------------------|-------------------------------|-------------------|-------------------|-----------------------------------|
| March, 2016 | 604                      | 0                             | 604               | 1618              | 37.3                              |
| April, 2016 | 98                       | 71                            | 169               | 1594              | 10.6%                             |
| May, 2016   | 0                        | 1183                          | 1183              | 1574              | 74.52                             |
|             |                          |                               | <b>1956</b>       | <b>4786</b>       | <b>40.8%</b>                      |

**OIG Sub-Finding:** Because PKMG did not adequately enforce its contract with HUD or its own requirements, it inappropriately earned more than \$19,000 in monthly on-going property management fees. If PKMG does not correct its property preservation and protection process, we estimate that HUD could overpay more than \$2.5 million in monthly on-going property management fees over the next year for HUD-owned vacant properties that are not maintained in ready to show condition, and custodial properties that are not (1) free of health and safety deficiencies and (2) in clean, safe, sanitary and secure exterior conditions.

**PKMG Response:**

PKMG fully understands and concurs with OIG's efforts to ensure that the government does not overpay for services and has taken all input and results of this evaluation into consideration towards process and quality improvement. However, PKMG disagrees with the accounting principles utilized to determine a loss to HUD of over \$19,000 in monthly on-going property management fees. This fee is clearly for all recurring services upon a property and is subject only to pro-rata deduction/reduction relative to the number of days that a property is in active

#### Comment 11

## Ref to OIG Evaluation

## Auditee Comments

Comment 5

Comment 11

Comment 11

Comment 11

Comment 11

inventory. The clear language of the PKMG contract does not contain any other provisions which would or could allow for deductions of any type, other than removal from inventory.

As stated earlier, most of the findings reported by the OIG, over two months after the completion of its inspections, were never found or reported previously by anyone to PKMG. To arbitrarily, and without logical rationale, simply label 100% of all OIG findings as “contractor deficiencies” and therefore suggest and conclude that HUD’s payment to PKMG was inappropriate is not justified or supportable. Furthermore, the OIG’s accounting calculations do not take into consideration the totality of all work performed by PKMG on behalf of HUD upon these particular properties on a monthly basis, including but not limited to:

- Bi-Weekly Routine Inspections
- Routine Maintenance
- Activation and deactivation of utilities
- Responding to WONS created by Asset Manager (AM) or Government Technical Representative (GTR)
- Processing payments on behalf of HUD
- Responding to buyers, brokers, municipalities, and AM contractor on behalf of HUD
- Environmental services including termite inspections and treatment, Lead Based Paint inspections, stabilization and clearance
- Attaining common door keys, ledgers, CCRs, and making payments to HOAs.
- Etc.

All of the above services are all included within and expected for payment of the Monthly PM Fee which OIG claims is subject to recapture for deficiencies found on a particular day, in a particular month, at a particular locale.

PKMG’s contractual obligations go well beyond the minimum of bi-weekly inspections. As a further example of this, it shall be noted that for those properties in which deficiencies were found, PKMG issued and completed, across all survey and audit cases, work orders upon those properties, as follows:

### OIG SURVEY PROPERTIES:

| MONTH COMPLETED | AVERAGE # of Work Orders Completed for OIG Survey Properties |
|-----------------|--|
| February, 2016  | 3.21   |
| March, 2016     | 5.94   |

### OIG AUDIT PROPERTIES:

| MONTH COMPLETED | AVERAGE # of Work Orders Completed for OIG Audit Properties |
|-----------------|---|
| March, 2016     | 5.27  |
| April, 2016     | 3.69  |
| May, 2016       | 5.69  |

These work orders, of varying types, are not only for the bi-weekly routine inspections, but include all aspects of property maintenance. It should be noted that these completed work orders do not include QC recurring inspections and PKMG Field Inspections and do not account for the other contractual duties required and which also comprise the monthly Property Maintenance Fee.

## Ref to OIG Evaluation

## Auditee Comments

Comment 11

Per the Performance Requirements Summary (PRS) in the contract:

1. 5.2.2.2/5.2.2.3 Initial Securing and Initial Clean-out Services are completed at a high standard and at a ready to list condition. Percentage of Asset Manager Initial Inspections reviewed where property met ready to list condition. GTR review of Initial services costs by Contractor within a contract area. Monthly requirement = 95%.
2. 5.2.3 Properties are free of health and safety hazards. Percentage of inspected properties where hazards are not observed. 100% of initial inspections completed by the AM and scored in P260. Monthly requirement = 95%.
3. 5.2.3 Identified imminent health and safety hazards are abated immediately. Percentage of hazards that are abated within 24 hours of discovery or notification. GTR comparison of 100% of AM reports with identified H&S hazards and work orders and photos on P260. Monthly requirement = 95%.

Comment 12

An in-depth review by PKMG of all cases reported by the OIG, compared with contract requirements finds that:

1. 96% were not issued Not Ready to Show (NRTS) WONS, and, accordingly, were determined by HUD, and its Asset Manager (AM) to be in Ready to List condition at the time PKMG promoted cases to Step 1C (Ready to Show).
2. 77% of OIG cases were not issued Health and Safety WONS, and determined to be free of health and safety hazards as determined by the AM's initial inspection, or throughout HUD's holding time.
3. 100% of all Not Ready to Show conditions reported by the OIG upon properties in active inventory were corrected by PKMG upon notification.
4. 100% of all Health and Safety hazards reported by the OIG upon properties in active inventory were successfully abated by PKMG upon notification, and at PKMG's expense.

Comment 11

Accordingly, PKMG's position regarding the methodology of taking what amounts to the monthly PM fee and multiplying it across the entire inventory, and then determining it to be a loss to the government based on a single point in time finding at a particular property, is simply not supported by the contract requirements or level of expectation of the Performance Requirements Summary.

Comment 13

PKMG notes that vacant properties are an on-going source of vandalism and blight for many cities and states across the country. HUD is the number one single owner of foreclosed homes in the United States. Illinois is the number one state for vandalism and blight of all of the 19 states which PKMG manages for HUD. The following sets forth the number of reported incidences on the properties inspected by the OIG, which were reported by the AM (a third party), and not necessarily for any of the findings reported by the OIG:

5. 4% of the properties received Not Ready to Show WONS from the AM, and were corrected by PKMG upon notification.
6. 23% of the properties received Health and Safety WONS from the AM, and were corrected by PKMG upon notification.
7. 67% of the properties received WONS other than NRTS or H&S, and were corrected by PKMG upon notification.

## Ref to OIG Evaluation

## Auditee Comments

Comment 14

While PKMG is responsible for the NRTS cases if it promotes a case and deficiencies were found by the AM which were not previously addressed; H&S and other WONS directly relate to the volume of cases, which are beyond PKMG control until such are discovered or until we receive notification. PKMG's contractual obligations have been and continue to be met. OIG does not present any case in which PKMG failed or refused to cure a deficiency in a timely manner.

Comment 15

OIG has not alleged that PKMG failed to perform any of the property management services that HUD ordered. It does not allege that PKMG only performed "part" of what HUD asked it to do. OIG appears to report that there was a "partial performance" of the services which HUD contracted for. Such a position is not supported contractually, or by regulation. The completeness of PKMG's performance depends on PKMG's actions in providing the services contained within our contract. PKMG did perform per the its own requirements and the requirements and obligations of its contract and is therefore entitled to payment for full delivery and full performance by abating issues as we find them during bi-weekly routine inspections or as reported by HUD or the AM. OIG fails to recite any basis to recommend any reduction or recapture of PKMG's PM fee payments based upon the speciousness of a possible "partial performance" of, or PKMG's' partial failure to perform, its obligations.

OIG Sub-Finding: Inappropriate Fees Received:

Comment 16

PKMG Response:

We agree with the OIG that PKMG owes HUD for fees for cases in which HUD had requested PKMG to stop providing preservation and protection services, in specific instances. PKMG has reversed the fees associated with these cases in accordance with the findings from the OIG and has transmitted that sum directly to HUD, as full resolution. PKMG will continue to subtract any fees related to these cases from monthly invoices until such time as the properties has been formally removed from inventory or advises otherwise by HUD.

Comment 17

PKMG objects to any references within the OIG final report that either directly identifies CLIN pricing and/or other sums, figures, and formulas that might be utilized to extrapolate CLIN pricing from the statements and findings and recommendations of OIG. This information is claimed to be confidential information and constitutes trade secrets. This information is exempt from release, in part, because PKMG does not customarily release this information to the public but, instead, treats it as proprietary and confidential, and takes commercially reasonable measures to ensure that the information is not publicly released. In addition, because the Confidential Information constitutes trade secrets and/or privileged commercial and financial information, the disclosure of which would cause substantial competitive harm to PKMG, agencies, including HUD, are prohibited from releasing the Confidential Information under the Trade Secrets Act, 18 U.S.C. section 1905. PKMG objects to the release of any unit pricing contained in the Contract. Courts have long held that a contractor's pricing data are commercial and financial information and are protected from release.

OIG Sub-Finding: Criteria utilized by OIG was comprised of PKMG's contract (performance work statement) with HUD, Section C.1.6 Purpose and Objectives:

PKMG Response:

PKMG agrees with the OIG's reference to the criteria of the HUD contract with PKMG.

Comment 18



## Ref to OIG Evaluation

## Auditee Comments

Comment 18

Comment 18

Comment 18

Comment 19

### PKMG's Property Management Plan:

#### PKMG Response:

PKMG agrees with the OIG's reference to the contents of our Property Management Plan submitted to HUD as a contract requirement. However, the OIG's publication of this plan violates the use of PKMG's proprietary information, which was acceptable to HUD and required of all Prime contractors prior to the implementation of any newly awarded contract. This information is confidential and PKMG objects to inclusion of all or any portion of its filed PMP. The Confidential Information is exempt from release under 5 U.S.C. section 552(b)(4), because PKMG does not customarily release this information to the public but, instead, treats it as proprietary and confidential, and takes commercially reasonable measures to ensure that the information is not publicly released. In addition, because the Confidential Information constitutes trade secrets and/or privileged commercial and financial information, the disclosure of which would cause substantial competitive harm to PKMG, HUD is prohibited from releasing the Confidential Information under the Trade Secrets Act, 18 U.S.C. section 1905.

This information, if released in whole or in part, would give all potential bidders, including those for HUD M&M 3.10 (which includes the state of Illinois, HUD Area 3A) which is expected to be released on a competitive basis nationwide in less than 30 days from the date of this response, insight into confidential and proprietary processes and procedures. As stated, 5 U.S.C. section 552(b)(4) prohibits the disclosure of agency records which are "trade secrets and commercial or financial information obtained from a person and privileged or confidential."

Accordingly, recitation of PKMG's proprietary PMP in the audit results is potentially damaging to PKMG and does not replace the contract requirements for which it addresses, nor needed to reinforce the OIG's findings.

### Causation:

#### PKMG Response:

PKMG reiterates that it does have adequate supervision and oversight of its subcontractors to ensure that property preservation and protection services were performed in accordance to its contract with HUD and its own requirements. We agree with the findings of the OIG, but again emphasize that many of the issues noted in the audit were not previously reported to PKMG. PKMG has addressed all deficiencies, upon notification by the OIG, for all active cases in our inventory. PKMG does maintain a level of quality control inspections that are designed to identify subcontractor errors and allow for targeted trainings and remediation. Furthermore, PKMG has utilized the information gained by the OIG in its initial review and formal audit to improve its services to HUD in the following manner:

- Key personnel changes accomplished for all three management positions.
  - While many of the findings were reported to PKMG for the first time, a review of these and other notifications by the AM, as stated earlier in this response, accounted for too many deficiencies by that management team.
  - HUD has been working with the new managers for this area and recently complimented the team on a Quarterly Call between PKMG and the GTR, GTM, Branch Chief and Contracting Officer.
- Subcontractor and Vendor performance remains the single most challenging element involved in managing inventories for HUD. Many of the same subcontractors in these

## Ref to OIG Evaluation

## Auditee Comments

Comment 19

locations have been performing work for HUD through the various M&M contractors over the past years. It is an industry standard to send vendors back to properties to cure deficient work discovered. Training, monitoring, and oversight of subcontractors by PKMG are, and continue to be, paramount. Reasonable recommendations to prevent similar deficiencies, which have been undertaken by PKMG include:

- More intense and more frequent on the ground one-on-one and group training, schedule previously provided to OIG
- Review of deficiencies by PKMG staff directly in the field, walking with the offending vendors and discussing each deficiency and acceptable remediation and recommendations for improvement and methods to prevent future deficiencies of the same or similar nature
- Further training and rotation of those vendors that continuously fail to meet work requirements, including suspension of or deactivation
- Increased PKMG internal staff training to better observe, in a timely fashion vendor deficiencies and respond to curing those deficiencies
- Improved management oversight of staff and vendors
- Increased evaluations, training, and realignment of QC inspection companies performing work for PKMG

Comment 19

### Impact:

#### PKMG Response:

We disagree that PKMG inappropriately earned \$19,425 in monthly on-going property management fees. PKMG further disputes that if PKMG does not correct its property preservation and protection processes, that HUD could overpay \$2,532,000 in monthly on-going management fees over the next year. As discussed above, the PM fee is clearly for all recurring services upon a property and is subject only to pro-rata deduction/reduction relative to the number of days that a property is in active inventory. The clear language of the PKMG contract does not contain any other provisions which would or could allow for deductions of any type, other than removal from inventory. Moreover, there is no logic behind the extrapolation suggested by OIG. It necessarily follows that if the basic variable being utilized by HUD is inappropriate and not contractually supported then the estimation of a future total simply has no validity.

Comments 8,  
11, 15, and  
17

Comment 20

Comments 8,  
11, 15, and  
17

Comment 21

Comment 5  
Comments 8,  
11, 15, and  
17

PKMG should not be held responsible for issues that occur beyond its control. This concept was not accorded any weight at all by the OIG when determining any perceived loss suffered by HUD or the potential for losses when management fees paid are multiplied against all cases managed by PKMG in a given 12-month period. As stated earlier in this response, many of the items reported by the OIG had not been previously reported by anyone. Furthermore, PKMG cured all findings reported by the OIG for all active cases in its inventory. Since many of the findings could have been the result of weather, inspectors, AM inspectors and appraisers, buyers and brokers, vandalism, etc., it is not possible to quantify from the OIG's report, which are deficiencies for which HUD should be reimbursed. As earlier stated, the undisputed fact that PKMG cured all deficiencies found clearly demonstrates that HUD has indeed received its expected full value relative to contract requirements. As such, imposition of any claim or chargeback is improper and cannot be supported by the clear language of the contract by and between HUD and PKMG. Indeed, OIG does not cite any contract provision requiring that at each and every moment in time that a property shall be free of deficiencies. HUD has not been aggrieved or suffered any loss, as portrayed by OIG.

## Ref to OIG Evaluation

## Auditee Comments

Comment 22

Comments 8,  
11, 15, and  
17

Comment 16

Comment 19

Comment 19

Comment 19

### PKMG RESPONSES to OIG RECOMMENDATIONS

*1A. Certify and provide supporting documentation that the applicable property preservation and protection deficiencies have been corrected for the 105 units cited in this finding.*

#### **PKMG Response:**

**PKMG Agrees with this recommendation. This information will be supplied to the HUD GTR responsible for the 3A contract area.**

*1B. Reimburse HUD \$19,425 in ineligible monthly ongoing property management fees for the 105 properties that contained property preservation and protection deficiencies.*

#### **PKMG Response:**

**PKMG Disagrees with this recommendation. This amount does not merely speak to deficiencies by PKMG or its subcontractors, but also includes acts of vandalism and issues potentially caused by weather, Asset Manager and appraiser inspections, and buyer and broker activity. There is no contractual provision allowing HUD to prorate any portion of the monthly PM fee except for proration of a monthly fee based upon removal from active inventory. Monthly fees cannot be parsed in the manner suggested by OIG.**

*1C. Reimburse HUD \$2,314 for the ineligible monthly ongoing property management fees received for services not performed.*

#### **PKMG Response:**

**PKMG Agrees with this recommendation. PKMG states that this has been previously done and payments has been sent to HUD.**

*1D. Improve its quality control procedures to ensure that all properties in its active inventory comply with its contract with HUD and its own requirements to prevent \$2,532,000 in monthly ongoing property management fees from being spent for properties that are not adequately maintained over the next year.*

#### **PKMG Response:**

**PKMG Agrees with this recommendation. PKMG has revised and implemented new and additional procedures and controls and this has been reported to OIG.**

*1E. Implement the improved quality control procedures (from 1D) to ensure that property preservation and protection services are performed in accordance with its contract with HUD and its own requirements, including but not limited to ensuring that (1) it provides proper supervision and oversight of its subcontractors and (2) supervisory quality control inspections are completed and feedback is provided to the subcontractors to correct recurring deficiencies.*

#### **PKMG Response:**

**PKMG Agrees with this recommendation. This has been accomplished by PKMG and reported to OIG.**

*1F. Implement procedures and controls to ensure that it manually removes properties from its monthly field service manager batch billing transmittals to HUD, when HUD asks that services not be provided for a particular property that is in PKMG's active inventory.*

#### **PKMG Response:**

**PKMG Agrees with this recommendation. Procedures and enhanced controls have been implemented to ensure that this type of situation does not arise again.**

## OIG Evaluation of Auditee Comments

- Comment 1 PKMG states that it had reviewed the information and supporting photos that we provided for each property that contained deficiencies. It contends that it re-reviewed the inspections that were previously conducted at each property and determined that there were no previous reports that matched 68 percent of the findings that we reported. Therefore, many of the issues we identified were first-time reported cases. It also contends that our findings were not dissimilar to the findings it was accustomed to seeing during its own reviews of routine inspections and quality control inspections.
- PKMG did not provide documentation of the various inspections referred to in its comments. We obtained the routine inspection reports for each property from HUD's P260 system and reviewed the inspections that occurred before and after our observations. We determined that the location of the deficiencies, such as kitchen, front lawn, etc., were not always captured in the inspection reports. Therefore, because the location of the deficiencies we cited were not always captured in PKMG's inspection reports, it is difficult to accurately compare the reports for corrections or recurring issues.
- Comment 2 PKMG contends that (1) it was not required to make improvements to the properties because the properties were sold in as-is condition and (2) the deficiencies we reported were minor defects. We agree that PKMG was not required to make improvements to the properties. However, we disagree that the reported deficiencies were minor. As stated in the report, 100 properties had 276 interior or exterior health and safety hazards, and 92 properties had 148 other interior and exterior deficiencies. According to PKMG's contract and its own internal policies, the identified deficiencies required corrective actions. Further, in a meeting with PKMG on April 29, 2016, it agreed that the deficiencies identified during the review related to its contract or its own internal policies and procedures.
- Comment 3 PKMG contends that it reviewed HUD's P260 system and determined that HUD's asset managers reported that one property observed during the survey was not in ready to show condition, and that two properties observed during the audit were not in ready to show condition. However, PKMG did not provide documentation to support its assertions. Additionally, this audit was not a review of HUD's asset managers.
- Comment 4 PKMG states that HUD's asset manager was obligated to conduct routine inspections and monitor and assess whether properties were being properly maintained by the field service manager. As mentioned in comment 3, this audit was not a review of HUD's asset manager; therefore, we did not review its role and responsibilities in the management and marketing process.

Comment 5 PKMG states that it was required to complete routine inspections every 14 days and that many issues (deficiencies) can arise from weather, neighbors, and vendors. PKMG also states that our observations were reported 2 months after the inspections were completed. We acknowledge that issues may occur between inspections. According to section C.5.2.3.2 of PKMG's contract, it was required perform routine inspections at a **minimum** of once every 2 weeks. However, based on geography, climate, age, and community needs, some properties may require more frequent inspections and a higher level of maintenance than others.

Further, in reviewing PKMG's routine inspection reports, we determined that 52 inspections were completed within 3 days before or after our property observations. However, we could not determine whether the deficiencies that we identified during our observations were also identified and corrected by PKMG. Specifically, the routine inspection reports and accompanying photographs generally did not include the areas or locations we cited as being deficient. For example, we observed the property associated with FHA case number 137-516228 on May 12, 2016. During the observation, we identified the following deficiencies: (1) water leaking in the kitchen, (2) debris, (3) exposed wiring, (4) missing basement flooring, and (5) water overflowing from the sump pump in the basement. When we reviewed the routine inspection report, we determined that PKMG's subcontractor had inspected the property after we left the property that same day. However, the subcontractor addressed only the overflowing water from the sump pump in the basement. The routine inspection report did not contain notes or supporting photographs showing that the subcontractor reported or addressed the (1) water leak in the kitchen, (2) debris, (3) exposed wiring, or (4) missing basement flooring. According to PKMG, all inspection reports should have been clear and legible and included date-stamped photographs of **all** deficiencies identified on **all** visits to the property. Further, if corrections were made, the reports should have been included before and after photographs.

Comment 6 PKMG contends that if the majority of the deficiencies we cited met the intent of imminent health and safety concerns, we would have notified PKMG of the deficiency within 24 hours. We acknowledge that not all of the deficiencies that we observed presented **imminent** health and safety concerns. However, as mentioned in the report, 100 properties contained 276 health and safety deficiencies. We reported our results to PKMG and HUD throughout the audit. See comment 5.

Comment 7 PKMG states that it was using the findings we cited to conduct additional training for its employees and subcontractors. We commend PKMG for taking necessary actions to improve its inspection process. PKMG should work with HUD to resolve the recommendations cited in this report.

Comment 8 PKMG contends that all of the deficiencies have been resolved and that HUD received its full expected value for the contract with PKMG. PKMG also states that its contract does not contain provisions that require properties in its active

inventory to be free of deficiencies at all times. We disagree. PKMG did not provide documentation to support its assertion that all of the deficiencies cited in the audit report had been resolved. In addition, section C.5.1 of PKMG's contract states that PKMG must maintain all properties in a manner that results in properties that are clean, safe, secure, and sanitary and preserve property value. Further, section C.5.2.3.1 of PKMG's contract states that the contractor must ensure that the properties remain in ready-to-show condition until sold.

Comment 9 PKMG states that there was no demonstrable impact on HUD holding times, marketability, or sales pricing and value based on our findings. PKMG did not provide documentation to support its assertions. Our review was not of HUD holding times, marketability, or sales pricing and value. Our review was of the property preservation and protection services provided by PKMG as part of its contract.

Comment 10 PKMG contends that we did not request information on all of its quality control inspections. We disagree. Our review was of the property preservation and protection services provided by PKMG as part of its contract. Section B.1 of PKMG's contract with HUD states that PKMG must provide Field Service Management services to successfully manage HUD-owned Single Family Properties and provide property maintenance and preservation services consisting of but not limited to inspecting the property, securing the property, performing cosmetic enhancements or repairs, and providing on-going maintenance. During the audit, we requested information and documentation regarding PKMG's quality control inspections. PKMG states that it does two types of quality control inspections, one for initial inspections, and one for recurring inspections. PKMG defined its initial quality control inspections as a review of 100 percent of the newly acquired HUD-vacant properties after the HUD Property Inspection Report and initial clean out were completed.

Section C.5.1 of PKMG's contract with HUD states that PKMG must maintain all properties in a manner that results in properties that are clean, safe, secure, and sanitary and preserve property value. Further, section C.5.2.3.1 of PKMG's contract with HUD states that the contractor must ensure that the property remains in ready to show condition until sold. Because (1) the initial quality control inspections are completed before the property moves to step 1C Ready to Show Condition, (2) PKMG reviews 100 percent of the initial inspections, and (3) PKMG uses subcontractors to complete the property preservation and protection services, we determined that the recurring quality control inspections of the subcontractors were more relevant to our review. PKMG did not mention or provide documentation to support that it performed more than one type of quality control inspection for its recurring inspection reviews. Further, its quality control plan did not include information regarding the various types of quality control inspections mentioned in its comments. PKMG also did not provide documentation to support its assertions that it completed the inspections in the

chart or that it increased its quality control reviews of recurring inspections from 10 to 30 percent.

- Comment 11 PKMG states that it disagrees with the accounting used to determine that the loss to HUD was more than \$19,000 and that the fee was for all recurring services to the properties cited in the audit report. PKMG also states that (1) we arbitrarily and without logical rationale labeled the findings as contractor deficiencies and (2) our conclusion that HUD's payments to PKMG were inappropriate was not justified. While we agree that the monthly ongoing property management fee was for more than biweekly inspections, we disagree that we arbitrarily concluded that the fee was inappropriately paid to PKMG.

PKMG did not provide a cost allocation plan to demonstrate the amount or percentage of the monthly property management fee that was attributable for preservation and protection services for HUD's vacant or custodial properties. Therefore, we questioned the entire fee it earned for the properties that were not appropriately maintained for the month in which our observation occurred. In addition, PKMG provided a chart showing work orders it had completed for deficiencies that were identified during the audit. However, it did not provide documentation of the work orders or property inspection reports that included before and after pictures in accordance with its policies. See comments 1 and 5.

- Comment 12 PKMG contends that HUD and the HUD asset manager determined that 96 percent of the properties we observed were in ready-to-show condition. Therefore, the properties were promoted to step 1C. It also contends that the asset manager's initial inspections determined that 77 percent of the properties we observed were free of health and safety hazards initially or throughout HUD's holding time. PKMG also states that 100 percent of all not-ready-to-show conditions and health and safety hazards we reported have been corrected.

Although the properties had been promoted to step 1C, according to section C.5.2.3.1 of PKMG's contract, the properties must remain in ready-to-show condition until sold. As mentioned in comment 3, the audit did not include a review of HUD's asset manager. In addition, PKMG did not provide documentation to support that all of the issues cited in the audit report had been corrected.

- Comment 13 PKMG states that vacant properties were an ongoing source of vandalism and blight for many cities across the country, especially Illinois, which was number one in all of the States that it manages for HUD. Further, included with its written comments was a list of incidents reported by the asset manager for the properties that we observed during the audit. However, the incident reports did not necessarily involve any of the findings we reported. PKMG also contends that it had corrected all of the deficiencies we reported.

Section C.5.2.3.2 of PKMG's contract states that based on geography, climate, age, and community needs, some properties may require more frequent



inspections and a higher level of maintenance than others. Further, PKMG did not provide documentation to support that all deficiencies cited in the report had been corrected.

- Comment 14 PKMG states that health and safety issues directly related to the volume of its cases were beyond its control until the issues were discovered or it was notified of such deficiencies. PKMG also states that we do not present any cases in which PKMG failed or refused to correct a deficiency in a timely manner. We partially agree. We acknowledge that PKMG generally corrected the deficiencies that we identified during the survey phase. However, it did not provide documentation to support that it had corrected the deficiencies observed during the audit phase. In addition, we commend PKMG for its willingness to correct the deficiencies cited during the audit. However, it needs to improve its oversight of its subcontractors to ensure that properties are maintained in accordance with its contract and its own requirements.
- Comment 15 PKMG contends that our review and findings were not supported contractually or by regulation and that we failed to cite any basis to recommend a reduction or recapture of PKMG's monthly ongoing property management fee. We disagree. Our property observations determined that 105 (82 percent) of the 128 properties observed were not maintained in accordance with PKMG's contract with HUD or its own requirements. We believe that this noncompliance is material enough to support the recapture of payments for services not performed or for subpar performance.
- Comment 16 PKMG agrees that it owed HUD the monthly ongoing property management fee for the properties for which HUD asked it to stop providing services. However, it contends that it had reimbursed HUD for the fees cited in this audit report. PKMG further states that it will continue to subtract fees related to these cases.
- PKMG did not provide documentation to support the reimbursement. However, we commend PKMG's commitment to ensure that it properly removes the fees from its monthly batch billing transmittals to HUD. It should work with HUD to ensure that it continues to remove the fees for these and other properties for which HUD requests the discontinuation of services.
- Comment 17 PKMG contends that we are not permitted to report information that identifies its pricing structure for services under its contract. We removed the information that we believe was proprietary from the audit report.
- Comment 18 PKMG agrees with our references to the contents of its property management plan submitted to HUD as a contract requirement. However, it does not agree that we should cite the requirements of its property management plan, in the audit report as it believes the information to be proprietary and confidential. PKMG also contends that if the excerpts of its property management plan were to be released, it would give potential bidders insight into PKMG's processes and procedures when the contract is released on a competitive basis less than 30 days after the



date of its response to us. We removed all references to PKMG's property management plan from the audit report.

- Comment 19 PKMG states that it agrees with our findings but emphasizes that issues noted in the audit report were not previously reported to PKMG. In addition, PKMG states that it has used the information we provided to improve its services to HUD by implementing key personnel changes for all three management positions; more intense and frequent one-on-one and group training; review of deficiencies directly in the field by walking with the subcontractors and discussing the deficiencies and acceptable corrections of deficiencies and recommendations for improvement; further training; increased internal training for PKMG staff; improved oversight of staff and subcontractors; and increased evaluations, training, and realignment of quality control inspection companies performing work for PKMG.

We commend PKMG on the steps it has taken to ensure that it has proper supervision and oversight of its subcontractors. PKMG should work with HUD to ensure that it has adequately improved its quality control procedures and that the improved quality control procedures have been fully implemented.

- Comment 20 PKMG contends that there was no logic to our extrapolation of its audit results to the universe and our estimation of future savings to HUD has no validity. We disagree. Our methodology for projecting the audit results to the universe, as detailed in the scope and methodology of this report, is a valid statistical estimate of future savings. Funds to be put to better use, as defined by the Inspector General Act of 1978, as amended, are estimates of amounts that could be used more efficiently if an OIG recommendation is implemented and authorized.
- Comment 21 PKMG contends that the deficiencies could have been the result of the weather, inspectors, asset managers, appraisers, buyers, brokers, or vandalism. Therefore, it was not possible to quantify which deficiencies HUD should be reimbursed for. We disagree. Section C.5.1 of PKMG's contract states that PKMG must maintain all properties in a manner that results in properties that are clean, safe, secure, and sanitary and preserves property value. In addition, section C.5.2.3.1 of PKMG's contract states that the contractor must ensure that the property remains in ready-to-show condition until sold. See also comments 5 and 6.
- Comment 22 PKMG states that it agrees with our recommendation 1A and that it will supply the certification and supporting documentation to its government technical representative. We commend PKMG for undertaking necessary actions to remediate the deficiencies identified in recommendation 1A. PKMG should work with HUD to resolve the recommendation.

## Appendix D

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### Contract Requirements

Section C.1.6 of PKMG's contract with HUD states that the purpose of this contract is to obtain property management services as detailed in section 5.2 field service managers are companies that provide property maintenance and preservation services consisting of but not limited to inspecting the property, securing the property, performing cosmetic enhancements/repairs, and providing on-going maintenance.

HUD has identified six primary objectives for its field services managers. They are to ensure that: (1) FHA insured properties are maintained in a manner that preserves communities, (2) HUD has real time access to all property related information, (3) properties are secured and safe from hazardous conditions, (4) property values are preserved, (5) properties are maintained in a manner that reflects a high standard of care, and (6) there is a high level of customer satisfaction with HUD's property disposition program.

Section C.2.2 of the contract defines HUD-owned properties as those properties that HUD owns by reason of payment of an insurance claim or another acquisition method. Unless otherwise indicated the term includes vacant land and occupied conveyed properties. HUD-owned properties are also referred to as HUD REO or HUD-homes.

Section C.2.2 of the contract states that secured properties was defined as a property where all windows, doors and openings are locked, boarded (where authorized), or otherwise secured to prevent unauthorized entrance by person or animal into any portion of the dwelling, including exterior entrances to crawl spaces, and any other structures on the property, e.g. garages and sheds. Broken window - A pane of glass that has a visible opening that permits entry or exposure to the elements or which is so badly cracked as to constitute a hazard, e.g. a window with a crack that divides a single pane into two or more pieces.

Section C.2.2 of the contract defines health and safety hazards as conditions or situations at the property that exposes the government to abnormal risk, which presents a source of danger, which could cause an accident, or poses the threat of injury, harm to the public or property, that must be corrected within 1 day of discovery or notification.

Section C.5.1 of the contract states that the purpose of this performance based contract is to obtain property management and preservation services to achieve the outcomes described in Section 1.6 (purpose and objectives). In general, the contractor must perform inspections, preservation, maintenance, and property management services for HUD-owned properties. Property management responsibilities under this performance work statement include:

- Initial inspections to confirm whether property meets conveyance conditions;
- Preservation of property from conveyance to sale;
- Maintenance and preparation of properties intended for sale;
- Management of rental properties;

- Management and maintenance of properties in the custody of, but not owned by HUD.

Regardless of the type of acquisition or the property management services required, the contractor must maintain all properties in a manner that results in properties that are clean, safe, secure and sanitary and preserves property value.

Section C.5.1.7.1 of contract states that the contractor should update, maintain, and implement a comprehensive quality control plan. The contractor's quality control plan will ensure that all aspects of this performance work statement, in accordance with the performance standards listed herein, are performed completely and appropriately, and will contain a plan for corrective action when deficiencies or insufficient performance are identified by either HUD or the contractor. The quality control plan will be designed and implemented to result in quality and timely contract performance. The quality control plan will, at a minimum, include: a detailed inspection oversight program covering all general and specific tasks; specify tasks or areas to be inspected on either a scheduled or unscheduled basis including the manner in which inspection is to be conducted; a description of the techniques to be employed for producing and validating services and deliverables that conform to the acceptable quality standards in the contract; a description of the "checks and balances" that will be used to ensure an acceptable level of quality; provisions for responding to technical directions and comments; and provisions that will be used to prevent and eliminate the potential for fraud, waste and abuse of HUD funds or other funds and resources received in the performance of this contract.

Section C.5.1.8 of the contract states that PKMG should develop and implement a comprehensive property management plan that fully describes how PKMG intends to meet or exceed its contract requirements. PKMG's contract with HUD, section C.5.2.3 states that the contractor must maintain properties in a manner that is clean, safe, sanitary, and secure.

Section C.5.2.2.1.2.1 of the contract states that if the inspection identifies any health and safety conditions, or there is a need for any emergency repairs, the contractor must remedy those conditions within 1 day of the inspection and update P260 with work orders and before and after photographs within (2) days of completion of the remedial action.

Section C.5.2.2.3.6 of the contract states that the contractor must stop active leaks that may cause deterioration of the property or pose an imminent health or safety hazard.

Section C.5.2.3 of the contract states that the contractor must maintain properties in a manner that is clean, safe, sanitary and secure. The contractor should be liable for damages to all acquired properties due to failure to inspect or secure property or other act, neglect, failure, or misconduct of the contractor, a subcontractor, or any management official of any of the foregoing. The contractor must indemnify HUD for losses due to any act, neglect, failure, or misconduct of the contractor, a subcontractor, or any management official of any of the foregoing. The contractor must not be held liable for casualty damage as long as, before and after such casualty, the contractor takes immediate and reasonable action to protect the property.

Section C.5.2.3.1 of the contract states that before the asset manager lists any HUD-owned property for sale, the contractor must ensure that it is in ready to show condition which means

the property is free of debris, visible insect/rodent infestations and health and safety hazards. All cabinets, refrigerators, freezers, counter tops, and windows must have been wiped clean and the house must be free of bad smells. All floors and carpets must be clean. All repairs required to correct safety hazards and any approved repairs to be done prior to listing the property must be completed in order for the house to be in ready to show condition. The yard must be free of trash and debris. The grass must be cut, bushes trimmed and holes patched, and or properly secured to protect the public. The contractor must also ensure that the property remains in ready to show condition until sold.

Section C.5.2.3.2 of the contract states that the contractor must routinely inspect and take all actions necessary to ensure that properties are free from health and safety hazards, free of debris, refuse, and personal property that corrective actions are taken on broken windows and doors, that properties are properly secured, that winterization is maintained, and active leaks are promptly addressed. At a minimum, the contractor should inspect the property once every 2 weeks and report data on field service manager property inspection form. Based on geography, climate, age, and community needs; some properties may require more frequent inspections and a higher level of maintenance than others. Upon HUD's request, the contractor must provide within 2 business days the routine inspection forms used by the contractor to perform the inspections.

Section C.5.2.8 of the contract states that vandalism may occur before or after the acceptance of a sales contract. In the event a property is vandalized prior to or after acceptance of a sales contract, the contractor should, once vandalism is discovered: (1) remove all graffiti from private and public surfaces on the property even if the graffiti was present at acquisition; (2) repair to its prior condition any damaged locks, doors or windows; and (3) immediately repair any health or safety hazard. These repairs will be completed at the contractor's expense.

Section C.5.2.10 of the contract states that custodial properties are vacant properties secured by a secretary-held mortgage, including a home equity conversion mortgage. By virtue of its security interest, HUD has certain rights and responsibilities to ensure that the property is preserved and protected. HUD does not hold title to custodial properties and therefore they are not offered for sale. Custodial properties will be assigned to the contractor through the government technical representative. Within two (2) calendar days of notification of assignment the contractor should complete the HUD Property Inspection Report, secure the property, and perform initial services in accordance with Section 5.2.2.2 to the extent that such requirements can be met without constituting an illegal trespass, and upload the HUD Property Inspection Report in P260. If the property is occupied, the contractor should immediately notify the government technical representative and await instructions prior to taking further action.

The contractor must maintain vacant custodial properties in accordance with the contractor's property management plan and at the direction of the government technical representative, subject to the following conditions:

- C.5.2.10.2 Ready to Show Condition – The contractor should not be required to keep the interior of the property clean and ready to show as described in Section C-5.2.3.1 (ready to show condition), unless the unclean condition constitutes a health or safety hazard.

- C.5.2.10.3 Personal Property – The contractor should not remove any personal property unless it constitutes an imminent health or safety hazard.

Section C.5.2.16 of the contract states that the financial control manual for HUD's Real Estate Owned Division provides instructions and guidance for processing and monitoring all financial transactions associated with the disposition of HUD-owned single family properties. This ensures that during HUD's ownership or custody, all Real Estate Owned Division disbursements are valid, reasonable, sufficiently documented, appropriately authorized, and comply with contracting and program guidelines, regulations, and or statutes as appropriate.

Section C.5.1.8 of the contract states that the contractor must develop and implement a comprehensive property management plan that fully describes how the contractor intends to meet or exceed the performance objectives of this performance work statement. The property management plan should address, at a minimum, the methodology and/or standards for:

- Maintenance and level of care;
- Conducting and uploading inspection data into P260;
- Validating work performed at a satisfactory level;
- Subcontracting control and oversight;
- Emergency response;
- Utilizing construction/improvement cost estimating application;
- Ensuring compliance with local and state laws and regulations regarding evictions; vacancies and any other property related compliance issues;
- Servicing properties across geographic areas and in varying ranges of property value.