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Audit Case Number	97-AT-241-1002

TO: Jeanie E. Smith, Director, Community Planning and Development Division, 4GD

FROM: Nancy H. Cooper
District Inspector General for Audit-Southeast/Caribbean, 4AGA

SUBJECT: City of Gulfport, Mississippi (Grantee)¹
Community Development Block Grant (CDBG) Program

As you requested, we completed an audit of the City of Gulfport, Mississippi's CDBG Program. The report presents the focus of our review along with findings that detail significant program deficiencies and recommended corrective actions.

Within 60 days, please give us a status report for each recommendation made in the report on: (1) the corrective action taken; (2) the proposed corrective action and date to be completed; or (3) why action is considered unnecessary. Also, please furnish us with copies of any correspondence or directives issued because of the audit.

We have provided a copy of the report to the Grantee.

Should you or your staff have any questions, please contact me or Dennis Durick, Senior Auditor, at (404) 331-3369.

¹ This version of the Gulfport audit does not contain any graphics, photos or Appendices A and F. To obtain a complete copy of this audit, please request one from the Office of Inspector General in Atlanta.

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Executive Summary

Our primary audit objectives were to determine whether the Grantee carried out its CDBG program in an economical, efficient and effective manner; complied with CDBG Program requirements, laws, and regulations; and had adequate controls to ensure compliance with HUD regulations. Generally, the Grantee was ineffective in carrying out its program, as noted in this report.

Operating problems requiring correction

Although the current CDBG administration had identified most of its operating problems, the Grantee had not implemented necessary procedures and controls to remedy these problems. Therefore, the Grantee must make substantial improvements to its program in order to demonstrate its ability to continue the CDBG Program, especially its Housing Rehabilitation Program.

Grantee's CDBG Program was ineffective

The Grantee did not establish and maintain basic operating systems to assure its major activities were performed in accordance with program regulations and in a timely manner. The Grantee was unsuccessful in its attempt to administer its Housing Rehabilitation Program and was at least 2 years behind in spending its Federal grant funds. The Grantee did not have procedures to collect and administer its rehabilitation loans and had weaknesses in file maintenance, accounting, and internal controls. The Grantee did not maintain a system to document its selection of homeowners participating in the Housing Rehabilitation Program.

Homes did not meet standards

We inspected 11 houses that were recently rehabilitated to determine if they met local, national, and HUD building standards. None of the houses passed our inspections. We identified payments for work that was not completed or completed in an unacceptable manner. We also identified violations of local, national, or HUD standards that were not corrected because the Grantee did not identify them during its initial and final inspections of the houses.

These deficiencies occurred because the Grantee's inspectors were not specifically trained to perform initial inspections and prepare adequate work write-ups and were pressured to perform cursory inspections in order to meet production goals. The unacceptable work continued because the Grantee did not take action against the contractors who performed poorly.

Instead, the Grantee indirectly rewarded the contractors by paying them over \$38,500 for the inferior or incomplete work.

By not bringing these properties up to the housing standards, the Grantee did not meet its program objective of improving housing conditions for low and moderate-income families and had not demonstrated it could effectively manage this type of program. We believe similar conditions exist in the other rehabilitated houses we did not inspect.

As part of its Housing Rehabilitation Program, the Grantee constructed five new homes costing \$150,234. Under rehabilitation, new construction is allowed only when the actual physical conditions of a house are not known until rehabilitation work begins. These houses are ineligible because the grantee knew in advance the existing structures could not be rehabilitated.

Spending of grant funds
needs to be improved

The Grantee had not established a system to monitor its spending of grant funds. As a result, the Grantee had over \$2 million in funds available for project activities and was over 2 years behind in its spending of these funds. Failure to spend grant funds timely not only results in needed projects not being completed, it could also result in a loss of grant funds.

Collection procedures
need to be improved

The Grantee did not maintain rehabilitation loan collection procedures for its staff to follow. At October 4, 1996, delinquent balances totaled \$103,979.46 and included loans delinquent from 1 month to over 8 years. The delinquent balances included principle, interest, and escrow payments. Because the Grantee had not collected escrows, the Grantee used CDBG funds of \$7,693.74 to pay for taxes and insurance for four of its delinquent borrowers. Failure to collect the loans also reduced the amount of program income the Grantee had available to carry out its CDBG activities and resulted in premature draws of CDBG funds.

Grantee did not comply with procurement requirements

The Grantee did not comply with Federal procurement requirements in obtaining professional legal and accounting services on behalf of its CDBG Program. Grantee staff had awarded open ended contracts without competition or justification. One contract had been in effect for over 15 years. As a result, the grantee had no assurance that its professional services contracts were the most advantageous to the program.

Grantee comments

We discussed the draft findings with Grantee staff and HUD during the audit and at a conference held on November 24, 1996. The Grantee generally agreed with the findings, and in some cases, had begun corrective actions prior to the conference. The Grantee provided written responses to the draft findings on November 25, 1996. We have included the comments in Appendix A. We have also summarized them within each finding. The Grantee's comments demonstrate its willingness to take appropriate action to correct the identified problems and to get its program on track.

We recommend

The Grantee needs to make corrections and implement controls to improve its CDBG Program. Such action should include improvements in: file maintenance, selection of loan recipients, loan collection and monitoring, spending of grant funds, internal controls, housing inspector training, and procurement.

The Grantee should not begin any new housing rehabilitation until it has corrected identified deficiencies and has procedures in place that will assure its housing rehabilitation program will result in homes that meet local, national and HUD building standards and exhibit quality construction.

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Abbreviations

CD	Community Development
CDBG	Community Development Block Grant
CDC	Community Development Commission
CDD	Community Development Division
CFR	Code of Federal Regulations
GFCI	Ground Fault Circuit Interrupter
HQS	Housing Quality Standards
HUD	U.S. Department of Housing and Urban Development
IPA	Independent Public Accountant
MSO	HUD Mississippi State Office
OIG	Office of Inspector General
RFP	Request for Proposal

Introduction

Background

The City of Gulfport, Mississippi (Grantee), was incorporated in 1898 and currently operates under a Mayor-Council form of government. The Grantee's Community Development Block Grant (CDBG) Program is administered by the Community Development Division (CDD), a division of the Department of Urban Development. The CDD is located at 1410 24th Avenue, Gulfport, Mississippi. The CDD became a division of the City on October 1, 1992.

Although the CDD is part of City Government, it also answers to the Community Development Commission (CDC), a holdover from when the CDD operated separate and apart from the City. The CDC consists of five members appointed by the Mayor. Since becoming a division of the City, the CDC's activity has been limited to reviewing housing rehabilitation loans. This additional level of review is no longer necessary, since all decisions made by the CDC have to have City Council approval also. The Mayor and City Council are considering dissolving the CDC.

During our audit period the Department of Urban Development had two directors. The first director, Marcia Miller, resigned March 31, 1995 and the Grantee hired the current director, Glenn H. Robinson on April 13, 1995.

Grantee requested audit

Shortly after the current Director was employed, concerns were raised about accounting inaccuracies and unethical behavior. His staff found unreported loan delinquencies; inaccuracy of computerized data; poor documentation regarding escrows and loan extensions; and, failure to monitor deferred rehabilitation loans. The Director requested an internal audit be performed.

The Grantee hired the independent public accountant (IPA) that performed its annual audit to evaluate the CDC accounting system. The IPA provided its results in an October 27, 1995, report to the Director. The report included accounting system recommendations regarding cash receipts/disbursements and the General Ledger and cited the rehabilitation loan program as the biggest problem area. Loan program deficiencies were cited in underwriting guidelines and

collection policies, staff training, loan monitoring, and loan documentation. The IPA discussed multiple problems in each area and expressed concerns as to the status of loans issued prior to the current administration.

The Grantee furnished the IPA report to HUD. On December 8, 1995, HUD advised the Grantee to immediately suspend all actions related to the delivery of the housing rehabilitation program until such time as appropriate administrative procedures could be established and past deficiencies corrected and documented.

On December 12, 1995, the Grantee's Mayor, Ken Combs, requested the HUD Mississippi State Office to have the HUD Office of Inspector General initiate an audit of the rehabilitation program. The Mayor's request cited program mismanagement, a lack of administrative oversight, and possible suffering by program beneficiaries as reasons for the audit.

Active HUD grants

At October 31, 1996 the Grantee was administering the following HUD grants:

<u>TYPE</u>	<u>NUMBER</u>	<u>AMOUNT</u>
UDAG	B-85-AA-28-0014	\$ 1,958,100
CDBG	B-93-MC-28-0002	666,000
CDBG	B-94-MC-28-0002	724,000
CDBG	B-95-MC-28-0002	783,000
CDBG	B-96-MC-28-0002	1,058,000

Audit objectives

Our primary audit objectives were to determine whether the Grantee carried out its CDBG Program in an economical, efficient, and effective manner; complied with CDBG Program requirements, laws, and regulations; and had adequate controls to ensure compliance with HUD regulations.

Specifically, we determined whether the Grantee:

- used funds for eligible types of buildings and improvements, particularly involving new construction;
- determined that homeowners receiving rehabilitation assistance were eligible;
- assured that rehabilitation work was completed in accordance with its specifications and work write-ups;
- had included all code violations in its work write-ups;
- verified that rehabilitated properties met HUD housing quality standards, national, and local building codes;
- assured that rehabilitation costs were fully supported and reasonable;
- complied with applicable procurement requirements;
- properly handled program income;
- carried out other phases of its CDBG Program in a timely manner; and
- had an effective financial management system.

Audit scope and methodology

Our audit covered the period from January 1, 1993 through May 31, 1996. Where appropriate, we expanded the review to include prior and subsequent periods.

Rehabilitation Program

We reviewed 20 loan files to determine the adequacy of loan processing, including documentation. We interviewed homeowners, Grantee staff, contractors, and a building supplier.

We judgmentally selected and inspected 11 properties. Inspections were made by an OIG Appraiser to determine compliance with HUD Housing Quality Standards (HQS), and national and local building codes and to evaluate the Grantee's administration of the program.

Other CDBG Activities

We tested 2 months (March 1995 and June 1996) of CDBG expenditures to assure that costs were fully supported and reasonable. We also conducted a limited review of the Grantee's internal controls over cash receipts, purchasing, accounts payable, cash disbursements, payroll, and property and equipment. Our limited review also included the Grantee's general controls, including lines of responsibility, duties, accounting system and procedures, and required audits.

We performed the on-site audit from June 12, 1996 through October 11, 1996 in accordance with generally accepted government auditing standards.

We have provided a copy of the report to the Grantee.

Grantee's CDBG Program Was Ineffective

The Grantee was ineffective in carrying out its CDBG Program. The Grantee did not establish and maintain basic operating systems to assure its major activities were performed in accordance with program regulations and in a timely manner. The Grantee was unsuccessful in its attempt to administer its Housing Rehabilitation Program and was at least 2 years behind in spending its Federal grant funds. The Grantee did not have procedures to collect and administer its rehabilitation loans and had weaknesses in accounting and internal controls. As a result, the MSO recommended temporary termination of the Grantee's rehabilitation program and requested the Grantee to provide monthly projections of its expenditure of Federal funds. The MSO expressed concerns over the Grantee's capacity to continue to administer its program.

Housing rehabilitation was the Grantee's major activity

The housing rehabilitation program was the Grantee's largest and most important activity with about 30 percent of its annual budgets allocated for this activity. The Grantee, however, lacked the basic operating procedures to assure its program was effective and could meet production goals. As discussed in Finding 2, the Grantee did not have a system to assure that all the houses it rehabilitated were eligible and met HUD and local building code requirements.

Basic records were not maintained

The Grantee did not maintain basic records to identify program participants and could not readily determine the number and location of the houses it rehabilitated. The Grantee's rehabilitation files were not orderly and were missing an excessive number of original documents.

Loans were not being collected

The Grantee did not have a written collection policy for the collection of its rehabilitation loans. At October 4, 1996, past due balances totaled \$103,979. As discussed in Finding 4, the loans were delinquent from 1 month to over 8 years, and there was little evidence the Grantee aggressively pursued collection. The Grantee revised its housing rehabilitation guidelines on October 1, 1989 and deleted the collection procedures. The current administration had developed an adequate policy, but it had not been fully implemented.

Selection of recipients was not documented

The Grantee did not maintain a system to document its selection of homeowners to participate in the program. Although the files evidenced an application and loan review process, there was no record to show that the most deserving homeowners were selected.

Five homes are ineligible

Title 24, Code of Federal Regulations (CFR), 570.207 (b)(3) states in part that CDBG funds may not be used for the construction of new permanent residential structures or for any program to subsidize or assist such new construction, except for three specific circumstances, which did not involve the Grantee. The regulations, however, allow grantees to reconstruct, on the same site, housing which was owned and occupied by low and moderate income persons where the need for the reconstruction was not determinable until after CDBG assisted rehabilitation began.

The Grantee's rehabilitation program included the construction of at least 10 new homes. There were documents in the files to show, in five cases, the Grantee knew or should have known in advance the homes would have to be demolished and reconstructed, thus making the houses ineligible. The cost to construct the 5 homes was \$150,234 (see Appendix C). In one case, the Grantee solicited two simultaneous bids from its contractors, one for rehabilitation and one for new construction.

The houses would have been eligible under an acquisition and relocation program, but the records show the Grantee decided the program was more costly and, therefore, would treat the houses as part of its rehabilitation program. Acquisition and relocation is a grant program instead of a loan program and the Grantee would have lost program income. The Grantee instructed its inspectors to treat all houses they inspected as structures to be rehabilitated, even if rehabilitation was not feasible.

Personal debt included in rehabilitation loans

The Grantee did not have a system to assure that only existing loans that encumbered the property would be included in the rehabilitation loan.

Title 24 CFR 570.202 (b)(3), Types of Assistance, provides that funds may be used to refinance existing indebtedness secured by a property rehabilitated with CDBG funds if such financing is necessary or appropriate to achieve the recipient's community development objectives.

We noted two loans where the Grantee used CDBG funds to refinance personal debt.

<u>Loan No.</u>	<u>Amount</u>	<u>Type of Loan</u>
0829	\$ 3,184.87	Consumer loans
0840	1,207.51 <u>747.65</u>	Furniture Automobile
Total	<u>\$ 5,140.03</u>	

The personal debt did not encumber the property. Therefore, the payments were ineligible.

Homes were being rented or occupied by unqualified individuals

The Grantee did not monitor its deferred loan program. In six instances, the last surviving borrower had died. The Grantee, however, had not ensured that the current occupant had either settled the estate and paid the loan in full or determined if the heirs qualified for a new loan. This is required by Section IX. D. of the Grantee's housing rehabilitation guidelines. The current CD administration visited the properties and determined that three of the homes were being occupied by heirs of the borrowers and three were being rented. None of the occupants had been qualified for the program.

Funds were not spent timely

The Grantee did not have a system in place to monitor its spending of grant funds. As discussed in Finding 3, the Grantee's program was running nearly 2 years behind and funds of over \$2 million remained unspent. Most of the unspent funds resulted from an unproductive rehabilitation program and small public improvement projects that the Grantee never started. Many of the projects had been budgeted since 1993.

Basic internal controls were weak

We noted weaknesses in the Grantee's internal controls.

- A. General Controls - The Grantee did not have: (1) a functional organization chart setting forth the lines of responsibilities for its Department of Urban Development; (2) employee duties clearly defined; (3) written procedures covering the grantee's accounting system, including a chart of accounts; (4) accounting procedures covering who is authorized to approve financial transactions; (5) accounting procedures requiring periodic reconciliations of accounts receivable and accounts payable with control accounts; (6) journal entries approved by supervisory personnel and entries properly explained and supported; (7) written accounting procedures providing for adequate segregation of duties; (8) fidelity bond coverage for certain employee responsible for cash related transactions; and (9) adequate controls over the use of computer systems.
- B. Controls Over Cash Receipts - We found that: (1) employees responsible for the cash receipt function were not prohibited from reconciling the bank accounts; (2) checks were not restrictively endorsed upon receipt; (3) cash was accepted for loan payments.
- C. Controls Over Purchasing - The Grantee did not have a written procurement policy covering competitive bidding and procedures to obtain the best possible price for items or services not subject to competitive bidding (i.e. competitive negotiation, small purchases).

The Grantee has hired an accounting firm to assist in improving the controls.

Current staff lacks CDBG experience

The Grantee's current CD administration consists of four employees: a director, who also directs the Grantee's Urban Development Division, a part-time secretary, a compliance coordinator, and a statistician. The City's housing inspectors are available to assist the CD administration when needed. Only one employee has worked more than 2 years with the

CDBG Program, and this has been in a limited role. None of the staff currently have the working or "day to day" type of experience needed to administer a CDBG Program given the current situation. The Grantee has recognized the need to hire a full time experienced CD coordinator and plans to advertise for this position in the near future.

* * * * *

At the recommendation of the MSO, the grantee suspended its housing rehabilitation program and rebudgeted the funds to large capitol projects. Although, this will help the Grantee to deal with its current problems, the housing rehabilitation program is too important to be set aside. The Grantee needs to take positive action to get the program up and running again. This would include the hiring of an experienced CD coordinator, subsequent hiring or training of staff to perform the rehabilitation functions, and correction of the identified rehabilitation problems.

Based on the deficiencies discussed in this Finding, we do not believe the Grantee has the current capacity to effectively administer its CDBG Program, especially its housing rehabilitation program.

Grantee comments

The Grantee generally agreed with the finding and acknowledged that it had been ineffective in administering the CDBG Program in the past.

The Grantee stated that it has now created new payment files, developed collection policies and procedures, made plans to document formal selection criteria, reprogrammed or rebudgeted funds to other areas in order to expedite spending, and developed a new accounting policies and procedures manual. The Grantee is currently seeking a CDBG director and will hire additional technical staff as needed.

Recommendations

We recommend that you:

- 1A. Monitor the Grantee's hiring of a CD coordinator who has the skills and experience to turn the program around. If the Grantee does not fill this position or does not show positive progress within 6 months, we recommend you consider termination of the grant.
- 1B. Require the Grantee to provide its plans to restart the housing rehabilitation program. The plans should address the correction of existing problems, before starting any new housing rehabilitation.
- 1C. Ensure that the Grantee revises its housing rehabilitation guidelines to include new collection procedures developed by the current administration.
- 1D. Declare the five houses ineligible and require the Grantee to repay \$150,234 to the CDBG Program.
- 1E. Require the Grantee to take appropriate corrective action in the six instances where new occupants had not been qualified for the rehabilitation program. Ensure the Grantee establishes procedures to monitor its deferred loans.
- 1F. Declare the \$5,140 paid for personal debts ineligible and require the Grantee to repay the CDBG Program. Ensure procedures are established to prevent the refinancing of personal loans.
- 1G. Assure the Grantee has improved its internal controls.

Homes Did Not Meet Standards

We inspected 11 houses to determine if the contractors completed the houses in accordance with the rehabilitation contract and in a workmanlike manner and if the houses complied with HUD and local health, safety, and building standards. For the 11 houses inspected, we identified 67 work items that the contractors did not complete and 63 work items that the contractors completed, but did so in an unacceptable manner. We also identified 31 code or HUD Housing Quality Standards (HQS) violations that the Grantee did not include in its rehabilitation contracts to be corrected or did not identify during its interim property inspections. Of the 11 houses inspected, five were new construction.

We believe these deficiencies occurred because the Grantee, in its efforts to increase rehabilitation productivity, performed inadequate inspections and accepted inferior or incomplete work. We believe the Grantee did not include the HQS or code violations in its rehabilitation contracts because its inspectors were not specifically trained to perform initial inspections and prepare adequate work write-ups. These deficiencies continued to occur because, instead of taking action against the contractors who performed poorly, the Grantee rewarded the contractors by paying them over \$38,500 for the inferior or incomplete work.

By not bringing these properties up to the housing standards, the Grantee did not meet its program objective of improving housing conditions for low and moderate-income families and had not demonstrated it could effectively manage this type of program. We believe similar conditions exist in the other rehabilitated houses we did not inspect.

Repair work must be completed in an acceptable manner

Title 24 CFR 85.36 (b)(2) requires that "grantees and subgrantees will maintain a contract administration system which ensures that contractors perform in accordance with the terms, conditions, and specification of their contracts or purchase orders."

The Grantee's Revised Housing Rehabilitation Guidelines, effective October 1, 1989, provided specific procedures for initial inspections to complete work write-ups and subsequent quality control inspections to assure work was completed in an acceptable manner. Work write-ups for each property provided specific details and instructions on the work to be done.

Rehabilitated properties must meet HQS and/or local codes

The Guidelines specified that in the event of conflict, Federal rule would prevail. Title 24 CFR 570.208 (b)(1)(iv) states that "... At a minimum, the local definition for this purpose must be such that buildings that it would render substandard would also fail to meet the housing quality standards for the Section 8 Housing Assistance Payments Program-Existing Housing." In addition, the Grantee's Guidelines required that each structure meet the requirements of the Standard Housing Code, Standard Building Code, Standard Plumbing Code, Standard Mechanical Code, Standard Gas Code, and the National Electric Code.

OIG inspections

We inspected 11 properties where the Grantee had or should have performed final inspections. We selected 10 properties that recently had or were due to have follow-up 90 day and/or 365 day inspections. The remaining property had been completed in 1989 and was selected because it was an example of new construction versus rehabilitation. All inspections of this house had been completed. We inspected the properties using HUD HQS manual and local building codes and standards.

Due to time elapsed and normal wear and tear, we did not attempt to determine the quality of workmanship for the property completed in 1989. However, we did note that the foundation had not been constructed per the specification.

Contract work not completed

We identified 67 work items included in the rehabilitation contracts that the contractors did not complete. The contractors did not include direct air vents when they installed new furnaces or water heaters; did not install GFCI outlets and door peepholes; did not replace all rotted wood; installed used appliances when the contract called for new; and did not prime before painting. In one case, the contract called for adding a covered patio; the contractor, however, added a room. The room, which the contractor did not finish, had exposed electrical wiring, no drywall, no floor covering, no trim work, no insulation, and no concrete stoop and step.

Repairs completed in unacceptable manner

Appendix E lists the above and other deficiencies for each property.

We identified 63 work items where the contractor used sloppy or inappropriate installation techniques, or shoddy materials. The contractors installed vinyl tile that did not cover the floors, did not level a ceiling before installing sheetrock, did not adequately seal new toilets, and did not seal the ceilings above furnaces and water heaters after installation. The contractors did not install or improperly installed termite shields.

Appendix E lists the above and other deficiencies for each property.

Code/HQS violations not identified by Grantee

We identified 31 code or HQS violations that the grantee did not identify during its initial and final inspections of the houses. Since the Grantee did not identify the violations, the Grantee did not include them in the contracts and the contractors did not correct them. These deficiencies included no GFCI outlets in kitchen and bath areas, inadequate or no foundation vents, improper landscaping, exposed electrical wiring, damaged kitchen cabinets, and unlevel floors.

Two of the houses we inspected

The following provides examples of the deficiencies we found at two of the houses we inspected.

Loan Number 0836

The homeowner received a \$37,300 rehabilitation loan including a construction contract for \$28,490.

The contract included repairs to the foundation; plumbing; termite protection; framing of the floors, walls, roof and overhang; roofing; sheetrock, painting of interior and exterior; concrete steps; and vinyl floor covering for the bath. The Grantee made an inspection of the property on October 17, 1995, a subsequent 90 day inspection on February 9, 1996, and a 365 day inspection on June 28, 1996. However, our August 29, 1996 inspection found four instances where contract work had not been completed and two contract items where work was unacceptable. We also noted nine substandard conditions that had not been included in the contract.

Figure 1

The existing water heater (Figure 1-see Footnote 1) was in poor condition and had the exhaust vent pipe end at the kitchen window. This condition could result in exhaust fumes entering the house. The kitchen cabinets, sink, and faucets were deteriorated and floor covering was not properly installed (Figure 2-see footnote 1). The front exterior door had hazardously splintered veneer and the door could not be secured (Appendix F-see footnote 1). Termite shields were not installed or improperly installed. None of these code/HQS violations were identified during Grantee inspections.

Figure 2

Loan Number 0789

Another home we inspected involved new construction. Yet, we found nine instances of work not completed and nine other instances of unacceptable workmanship. The homeowner received a \$32,600 rehabilitation loan including a construction contract for \$30,301.

The contract included construction of a new house and a treated deck. The deck was a general property improvement which was not allowable unless all substandard conditions were corrected and funds were available. The Grantee made a final inspection of the property on July 20, 1995. The new construction took almost 1 year to complete. Loan files did not document a 90 day inspection.

The water heater flue pipe was not sealed at the ceiling (Figure 3-see footnote 1). GFCI outlets were not installed in the kitchen or bath. Poor workmanship was evident for the deck installation, including protruding nail points, split wood, and contractor debris which was not removed (Appendix F-see footnote 1). Kitchen cabinets were improperly installed, including a drawer that would not open (Figure 4-see footnote 1). Additional selected photographs are included in Appendix F.

Figure 3

Figure 4

Various loans

Other examples of poor workmanship included used appliances when the contract called for new appliances; a porch that was not primed before painting (Figure 5-see footnote 1); the ceiling above the furnace was not sealed resulting in a hole in the roof and leakage; and, rotten and/or termite damaged sills and unstable foundations with bricks and block not mortared (Figure 6-see footnote 1).

Figure 5

Inspections were inadequate

Figure 6

We interviewed two former housing inspectors who worked directly for the CD Department and had performed inspections of the houses we inspected. The inspectors generally agreed that the items we identified were deficiencies and should have been corrected. They stated the Grantee did not enforce the code requirements, and to keep the program running smoothly, they would not report them. One inspector said that, when he attempted to enforce the code on one house he was particularly concerned about, he was reassigned to another department. Both inspectors stated that they had little formal training to perform their jobs. One inspector said although he was responsible for preparing work write-ups, he had not had any training in this area. He also stated he had never heard of HUD's HQS. We noted that the work write-ups lacked clarity.

Code requirements were not enforced

We believe the Grantee's laxity in enforcing the code requirements was an attempt to increase its productivity. The grantee was averaging 6 housing loans per year prior to 1995 which was short of its goal of 12 loans per year. Based on the Grantee's budget, HUD expected 11 loans per year. The Grantee did increase its productivity in 1995 to 11 loans, however, based on our inspections, quality was sacrificed.

Contractors did poor work

Based on our inspections, the contractors performing the rehabilitation work did not do quality work and lacked a working knowledge of the code requirements. Although the Grantee had experienced problems with the contractors' work, the Grantee took no action to remove them from the rehabilitation program and paid them the full amount of their contracts which included \$38,596 for incomplete and unacceptable work (Appendix D). The Grantee's October 1, 1989 Revised Housing Rehabilitation Guidelines required contractors to be removed from the program if they did not perform satisfactorily.

Grantee comments

The Grantee generally agreed with the finding, but stated that it believed the amount of ineligible costs might be less depending on how the deficiencies are corrected. The Grantee stated that Building Inspectors would be used for inspections. They will be trained in all areas regarding write-ups and rehabilitation of existing structures.

The Grantee stated that previous staff did not adequately ensure quality workmanship. The Grantee stated that in the future, there would be strict code enforcement and removal of contractors who performed substandard work.

The Grantee stated that all houses completed since 1993 will be reinspected and necessary corrections made.

OIG evaluation

OIG agrees that the \$38,596 is an estimate and may be adjusted as the Grantee corrects the deficiencies.

Recommendations

We recommend you direct the Grantee to:

- 2A. Develop a plan to assure that deficient and incomplete work and code/HQS violations noted during our inspections are corrected. Reinspect all houses completed since January 1993 that we did not inspect.
- 2B. Remove any contractor unwilling to correct the deficiencies identified during the inspections or incapable of performing quality work.
- 2C. Improve the system for performing inspections by providing appropriate staff training for assigned responsibilities.
- 2D. Ensure local codes are enforced and communicate such enforcement to participating contractors. When HUD approves future rehabilitation funding, the Grantee should re-establish its list of licensed contractors.

Grant Funds Need To Be Spent More Timely

The grantee needs to improve its spending of grant funds. At October 31, 1996, the Grantee had over \$2 million in funds available for project activities and was over 2 years behind in its spending of these funds. The Grantee had not established a system to monitor its spending. Failure to spend grant funds timely not only results in needed projects not being completed, it could also result in a loss of grant funds.

Spending requirement

Title 24 CFR 570.902, provides that HUD will consider the recipient to be carrying out its activities in a timely manner if 60 days prior to the end of its current program year, it has less than 1.5 times its current entitlement grant undisbursed. At August 23, 1996, the Grantee's undisbursed balance was 1.85 times its current grant.

Funds available

At October 31, 1996, the Grantee had \$2,054,122 in funds available for project activities as follows:

1994 unspent grant funds	\$ 10,362
1995 unspent grant funds	783,000
1996 unspent grant funds	1,058,000
Unspent program income	<u>202,760</u>
Total available	<u>\$ 2,054,122</u>

The Grantee is due to receive grant funds of \$1,200,000 for its 1997 program and expects to earn program income of \$140,000 during 1997. Total funds available for the Grantee's 1997 program year, which begins January 1, 1997, are expected to be \$3,394,122.

MSO spending notifications

On August 23, 1996, the HUD MSO notified the Grantee that it had 1.85 times its current entitlement grant amount in its letter of credit account. The MSO informed the Grantee that it must spend \$374,357 by October 31, 1996 to be in compliance with 24 CFR 570.902. In this letter, the MSO reminded the Grantee that this was a concern voiced in a December 15, 1995 letter. In that letter, MSO had requested the Grantee to prepare monthly projections of expenditures to

bring the Grantee into compliance by the next review period. Although, the Grantee did not comply with the MSO 1995 request, the MSO encouraged the Grantee again to prepare this type of schedule during the current program year to help it monitor its spending. The current administration was in the process of preparing a timetable projecting monthly project spending through the end of its 1997 program year.

Consultant hired

The current Community Development (CD) administration recognized the need to increase its spending of grant funds and hired a consultant to prepare a new spending strategy and revised its budgets to conform with the strategy. According to the CD Director the slow spending rate was due to the excessive time it took to rehabilitate a house and a lack of coordination between the CD Division and other divisions assigned to carry out physical improvement projects. According to the Director, he and the consultant met with the various other division directors and discussed the need to assure the projects are started and completed timely. The Director said the other division directors agreed to cooperate.

Spending strategy

The new spending strategy includes the reprogramming of funds from the suspended rehabilitation program and smaller inactive projects to larger public improvement projects that will be let out for contract. The revised budget reflecting this new strategy includes the purchase of a \$1 million water system, a \$400,000 drainage project, a \$358,000 sewer project, and a \$200,000 sidewalk project. Although the implementation and completion of these projects would bring the Grantee into compliance with 24 CFR 570.902, failure to implement and complete the other budgeted projects would make the program ineffective.

The CD Board approved the revised budget. The City Council approved the budget for public comment by November 11, 1996. The City Council was expected to approve the budget to be sent to HUD for review.

Requirement not met

The Grantee had not prepared the monthly projections of expenditures as requested by the MSO. Nor was the Grantee expected to spend the \$374,357 by October 31, 1996, required by the MSO, to bring the Grantee into compliance with 24 CFR 570.902. The MSO has been notified of this by

the Grantee and the Grantee is currently preparing a workout plan to resolve this shortfall in the spending.

Grantee comments

The Grantee agreed with the finding.

Recommendations

We recommend you:

- 3A. Require the Grantee to provide your office with a monthly projection of how it plans to spend its grant funds. The projection should include a specific timetable for each project with a start and completion date and a narrative when the goals are not met.

- 3B. Take appropriate sanctions provided in 24 CFR 570.910 if the Grantee does not provide the monthly projection or does not maintain a spend rate to assure timely completion of its projects.

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Collection Procedures Need To Be Improved

The Grantee did not maintain rehabilitation loan collection procedures for its staff to follow. At October 4, 1996, delinquent balances totaled \$103,979.46 and included loans delinquent from 1 month to over 8 years. The delinquent balances included principle, interest and escrow payments. Because the Grantee had not collected escrows, the Grantee used CDBG funds of \$7,693.74 to pay for taxes and insurance for four of its delinquent borrowers. Failure to collect the loans also reduced the amount of program income the Grantee had available to carry out its CDBG activities and resulted in premature draw downs of CDBG funds.

Collection procedures
were deleted

The Grantee's Housing Rehabilitation Guidelines dated May 14, 1985, included specific procedures involving the collection of rehabilitation loans. The procedures included providing the CD Commission with a list of delinquent accounts each month and sending notices to delinquent borrowers. The procedures included a bi-weekly review of the delinquent accounts by a loan specialist and meetings with the executive director when accounts became 2 months past due. The Grantee revised its Housing Rehabilitation Guidelines on October 1, 1989 but failed to include any collection procedures. We were unable to determine why the Grantee deleted the collection procedures.

No systematic attempt to
collect loans

We selected 7 delinquent loans for review. The delinquent balances for the loans totaled \$27,767.54 and ranged from \$827.44 to \$6,867.00. The loans were delinquent from 4 months to over 4 years. We reviewed the loan files to determine if the Grantee had made any systematic attempt to collect the past due balances. We noted only a few instances where the Grantee sent notices of past due balances. The notices were dated 1990 or 1991 and were not followed up by subsequent notices. One or two of the notices mentioned foreclosure but, again, the Grantee did not follow up with subsequent notices.

CD Board was not informed

We interviewed the Chairman of the CD Board about the delinquent balances. The Chairman stated that the Board was not aware that the balances were as high as they were. He said that in the past the Board received regular reports about delinquent accounts, but had not received any over the past several years. He said when the Board ask the CD staff about delinquent accounts, the former staff told them there were no accounts past due.

Taxes and insurance payments

The Grantee paid out from program income \$7693.74 for taxes and insurance on four properties on which it held a mortgage. The borrowers were responsible for these payments. The Grantee paid the expenses because the loans were seriously delinquent and it had not collected enough funds to establish an escrow for these expenses.

The Grantee has subsequently received notices of delinquent taxes and insurance policies for other delinquent loans. Since these bills are unpaid, the current Community Development (CD) administration requested direction from its Board and the City Council on how the bills should be paid. Although the Grantee believes the bills should be paid, it has not approved expenditures of non-CDBG funds for this purpose.

New procedures had not been implemented

The current CD administration has prepared written rehabilitation loan collection procedures. The City Council and CD Commission approved the procedures during May 1996, but the CD administration had not fully implemented them.

The new procedures provide for 15, 30, and 60 day delinquency notices to the borrower. If the loan is not current after 75 days, an on-site inspection will be made of the condition of the property and a notice will be left informing the borrower of the visit and telling the borrower to contact the CD office immediately. Once the loan becomes 90 days delinquent, it will be turned over to the CD Commission for further action. This action includes possible foreclosure. Although we consider the new procedures generally adequate, we believe that after a loan is over 90 days delinquent and the borrower has not cooperated with the CD collection staff, the CD Director should start the foreclosure procedure immediately after assuring that all collection procedures have been followed and documented.

According to the CD staff, the poor condition of the collection records delayed the implementation of the new procedures because they were not sure of the accuracy of the past due balances. In order to remedy this, the CD staff has contacted each borrower to determine if there were any disagreements with their balances and to establish work out agreements if necessary. According to the CD staff, the borrowers will be notified that the new collection procedures will become effective January 1, 1997.

Grantee comments

The Grantee generally agreed with the finding. However, the CDC attorney stated that payment of taxes and insurance was permitted by the Deed of Trust and such payments served to protect the City's interest. He added that such payments should be allowed.

OIG Evaluation

HUD is specific that only the first year's costs for taxes and insurance will be allowed to be included in the loan. The provision included in the Deed of Trust serves to protect the Grantee and does not benefit the Government. Therefore, we consider such payments ineligible when paid from CDBG funds. If the Grantee chooses not to foreclose on a property, the Grantee may pay applicable taxes and insurance from its own funds, but not from HUD funding.

Recommendations

We recommend you:

- 4A. Ascertain that the Grantee has implemented the new collection procedures and has established a monitoring system to assure the procedures are being followed and are effective. This should include at least a monthly review by the Director of all delinquent balances.
- 4B. Suggest that the Grantee revise its collection policy specifying that the foreclosure process will begin automatically when certain events occur.
- 4C. Disallow the \$7,693 paid for taxes and insurance on behalf of the delinquent borrowers.
- 4D. Ensure the City protects its interests by curing the delinquent taxes owed on several properties.

Grantee Did Not Comply With Procurement Requirements

The Grantee did not comply with Federal procurement requirements in obtaining professional legal and accounting services on behalf of its CDBG Program. Grantee staff had awarded open ended contracts without competition or justification. One contract had been in effect for over 15 years. As a result, the Grantee had no assurance that its professional services contracts were the most advantageous to the program. From late 1994 through July 1996, the Grantee made payments totaling \$18,214 under these contracts.

Procurement requirements

HUD's procurement requirements are included in 24 CFR 85.36 and provide, in part, that all procurement transactions will be conducted in a manner providing full and open competition. Specifically:

- Grantee records shall document the rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the cost or price [part (b)(9)];
- The Grantee must perform a cost or price analysis in connection with every procurement action [part (f)(1)];
- Awards must be made which are most advantageous to the program, with price and other factors considered [part (d)(3)(iv)].

Legal services contract

The Grantee entered into a legal services contract with a private law firm in May 1980. The agreement was still in effect as of our audit. The contract provided for the firm to render legal advice and assistance in connection with the CDC's oversight of the CDBG grant agreement with HUD. Payment vouchers showed CDBG payments to the law firm of \$15,014 from December 1994 through July 1996.

Accounting services contract

The accounting services contract had been in effect since July 1995. It provided for the Grantee's auditing firm to assist the Department of Urban Development in evaluation, design, and documentation of an accounting system to meet the needs of the CD programs. The contract provided for a total payment of up to \$9,000. We verified that competitive proposals were obtained for the auditing services (a 4 year contract), but no proposals had been solicited for the additional CDBG accounting services. The Grantee paid the firm a total of \$115,172 from October 1994 through June 1996. Of that total, only one voucher for \$3,200 was charged to the CDBG Program.

Grantee files

The Grantee did not have written policies and procedures on procurement, and the staff lacked an adequate understanding of the Federal requirements. Consequently, the Grantee's files did not: (1) document the rationale for the method of procurement or contract type, (2) document performance of cost or price analysis or other procedures to determine the reasonableness of proposed contract prices, or (3) justify that the contract awarded was most advantageous to the program, considering price and other factors. The contracts were let by the former administration; however, the current Director continued to use the professional services without readvertising.

MSO Monitoring

The HUD MSO previously cited the Grantee's lack of compliance in this area. Stating in its Monitoring Review Report, for its September 23 through 25, 1992 visit:

"As for professional legal services, it was again noted that no competitive proposals had been solicited for a number of years. In this regard, it is our opinion that no contract should be awarded or extended for a period of more than three years.

"Since the two legal services contracts currently in force are over four years old, as was mentioned in our monitoring report of May 9, 1991, the City should solicit competitive proposals for these services as soon as possible. The Request for Proposals (RFP) should identify all significant evaluation factors, including price or cost where required, and their relative importance.

"The solicitation of new proposals for legal services does not preclude awarding of contracts to the present providers of the services, if they are the most advantageous to the Grantee, after price and other factors are considered."

The Grantee had not complied with the MSO's recommendation and was continuing to use the same legal services contract.

Grantee comments

The Grantee agreed with the finding and intends to adopt new procedures.

Recommendations

We recommend you require the Grantee to:

- 5A. Cancel its legal services contract and solicit competitive proposals for a new contract in accordance with procurement regulations.

- 5B. Establish and implement policies and procedures to comply with HUD's procurement requirements in 24 CFR Part 85.

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Internal Controls

In planning and performing our audit, we considered the Grantee's internal controls in order to determine auditing procedures and not to provide assurance on internal controls. Internal control is the process by which an entity obtains reasonable assurance as to achievement of specified objectives. Internal controls consist of interrelated components, including integrity, ethical values, competence, and the control environment which includes establishing objectives, risk assessment, information systems, control procedures, communication, managing change, and monitoring.

We determined that the following internal control categories were relevant to our audit objectives:

- Grantee program progress
- Grantee financial system
- Procurement
- Cost allowability and reasonableness
- Housing rehabilitation

We evaluated relevant control categories identified above by determining the risk exposure and assessing control design and implementation.

A significant weakness exists if internal control does not give reasonable assurance that the entity's goals and objectives are met; that resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data is obtained, maintained, and fairly disclosed in reports.

Based on our review, significant weaknesses existed in all the controls we tested as discussed in the findings in this report.

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Follow-Up On Prior Audits

This is the first OIG audit of the City of Gulfport's Community Development Block Grant Program since 1980.

The current independent audit report completed by Moore & Powell, Certified Public Accountants, for the fiscal year ending September 30, 1995 cited the following deficiencies in Federal program controls and internal controls:

- No reconciliations of subsidiary records to cash receipts and disbursement records,
- Escrow accounts continue to differ from the bank account balance and general ledger,
- Continued lack of collection procedures for delinquent loans,
- Questionable lending practices, including payment of personal debts,
- Instances of untimely inspections,
- Poor filing procedures, and
- Unallowed costs.

The Grantee hired Moore and Powell to evaluate the CDC accounting system. The firm provided its results in an October 27, 1995, report to the Director. The report included accounting system recommendations regarding cash receipts/disbursements and the General Ledger and cited the rehabilitation loan program as the biggest problem area. Loan program deficiencies included the areas of: underwriting guidelines and collection policies; staff training; loan monitoring; and loan documentation. Generally, the IPA discussed multiple problems in each area.

Findings 1 through 5 also discuss these deficiencies.

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Schedule of Ineligible Costs

<u>Recommendation</u>	<u>Ineligible²</u>
1D	\$ 150,234
1F	5,140
4C	<u>7,693</u>
Total	<u>\$ 163,067</u>

² Amounts not allowed by law, contract, HUD or local agency policies or regulations.

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Loans For Ineligible New Construction

<u>LOAN No.</u>	<u>LOAN AMOUNT</u>	<u>COMMENTS</u>
0729	\$ 26,435	Change order No. 1, to build a new house, accepted at bid opening; bid opening was about 2 months before the Notice to Proceed.
0748	\$ 26,950	Letter to insurance company, about 4 months before the Notice to Proceed, indicated new construction.
0757	\$ 30,114	High estimated repair cost due to deteriorated condition of existing house, appraised at \$7,000; contractor refused to bid because house should be demolished; information known 1 month or more before the Notice to Proceed.
0789	\$ 32,600	During contract negotiations, contractor exercised option to build new construction; construction contract accepted almost 2 months before the Notice to Proceed.
0817	<u>\$ 34,135</u>	Letter to insurance company, about 4 months before the Notice to Proceed, indicated new construction.
	<u>\$ 150,234</u>	Total

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Properties Inspected - Rehabilitation Program

<u>LOAN #</u>	<u>INSPECTION DATES</u>		<u>REPAIR</u>	<u># OF WORK</u>	<u>ITEMS NOT</u>	<u>ESTIMATED</u>
	<u>GRANTEE</u>	<u>OIG</u>	<u>COSTS</u>	<u>ITEMS</u>	<u>COMPLETED/ UNACCEPTABLE</u>	<u>COSTS</u>
0768	2/22/89	8/28/96	\$ 29,064	17	1/0	\$ 1,500
0789	7/20/95	8/22/96	30,301	29	9/9	5,170
0790	NONE	8/27/96	35,995	42	13/6	5,435
0791	11/3/94	8/27/96	27,725	23	4/11	5,280
0792	1/10/95	9/12/96	28,127	31	7/4	3,300
0829	8/17/95	8/21/96	28,490	31	5/4	660
0832	9/13/95	8/29/96	42,894	22	6/7	5,750
0833	NONE	8/28/96	36,000	42	6/9	3,930
0835	NONE	8/20/96	14,150	30	4/2	1,980
0836	10/17/95	8/29/96	28,490	24	5/2	1,616
0840	5/20/96	8/21/96	29,292	<u>36</u>	<u>8/8</u>	<u>3,975</u>
	Totals			<u>327</u>	<u>68/62</u>	<u>\$ 38,596</u>

NOTE:

Grantee inspection date represents the final inspection date, as performed by the Grantee. If none is shown, the final inspection was not documented in the loan file(s).

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Inspection Deficiencies By Property

<u>Deficiency</u>	<u>1³</u>	<u>2⁴</u>	<u>3⁵</u>
<u>Loan 0768</u>			
Foundation was not 12" above grade	X		
<u>Loan #0789</u>			
Bath vent fan not vented to outside; bath window panes not opaque	X		
GFCI outlet not installed in bath and kitchen; three way switches not installed for hall ceiling lights; electrical wiring hazardous for the kitchen vent hood; no electrical outlet for the stove	X		
Kitchen cabinets not acceptable including no shelving and drawer cannot be opened; kitchen vent hood not sealed; bath vanity size improper; lavatory not secured to cabinet			X
No direct air vented to furnace and water heater combustion chamber	X		
Ceiling not sealed above furnace and water heater; kitchen vent hood not secured to cabinet			X
No wall brace for closet shelf exceeding 48 inches			X
Finger joint trim requires paint not stain; exterior doors inadequately painted			X
Floor tile not installed on smooth surface; carpet is of poor quality			X
Tile not installed in hallway and dining area	X		
Peepholes not in exterior doors	X		
Handicap water closet not installed	X		
Handicap bar not installed in bath	X		
Decks were not 8 by 10 foot as required; actual sizes were 7 by 10 foot and 8 by 8 1/2 foot; yard grade unacceptable under front deck; rear deck has exposed nail points			X
Yard grade does not slope away from house			X
Sewer cleanouts not installed in safe manner; quality materials not used; kitchen faucet lever not secure; tub faucet collars not flush with wall			X
Contractor debris not removed	X		
Kitchen pantry and bar not installed	X		
Foundation concrete finish of poor quality			X

³ Work not completed.

⁴ Work not acceptably completed.

⁵ Code/HQS violation not included in rehabilitation contract.

Deficiency 12 3

Loan 0790

Bath vent fan not vented to outside; bath light fixture not installed; no electrical outlets on two kitchen walls; kitchen vent hood pipe not sealed	x		
Shower head not sealed at wall		x	
Mirror not installed in bath		x	
Vanity was not installed	x		
Handicap bars not installed in bath	x		
Kitchen faucets not secured		x	
Kitchen vent hood not secured			x
Drywall trim loose at kitchen sink window		x	
Utility and bath cabinets not installed; broom closet not installed; kitchen wall cabinets not installed as required	x		
No direct air vented to furnace and water heater combustion chamber	x		
Heating and cooling system not upgraded to service entire house per change order #2	x		
Water heater not 30 gallon; no drain pan installed	x		
No wall brace for closet shelf exceeding 48 inches	x		
Rear room not finished			
Exposed electrical wiring			x
Walls and ceilings not drywalled and painted			x
Finish floor cover missing			x
Trim work missing			x
Ceiling not insulated			x
Concrete stoop and step not installed			x
New electrical circuit and overhead light fixture not installed per change order #1	x		
Attic access not according to specifications		x	
No peephole in exterior door			x
Inadequate paint coverage on exterior doors		x	
Storm doors not installed	x		
New stoop (3 by 6 foot) not poured per change order #1	x		
Exterior piping not foam sealed at foundation	x		
Contractor debris not removed; old house masonry foundation not removed			x
Yard grade does not slope away from house			x
Four by four inch treated wood posts not installed per change order #1	x		

Loan 0791

Bath vent fan not vented to outside	x		
Bath tile not sealed along tub area			x

<u>Deficiency</u>	<u>12</u>	<u>3</u>
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Loan 0791 (Continued)

Kitchen vent hood piping not sealed in cabinet area; exposed electrical wiring to kitchen vent hood; bath GFCI outlet inoperable; kitchen vent hood wired to the GFCI outlet, but wiring should be separate; GFI outlet not installed behind stove		X
Kitchen cabinets not according to specifications		X
No direct air vented to furnace combustion chamber; furnace closet not properly framed or sealed	X	
No direct air vented to water heater combustion chamber	X	
No wall brace for closet shelf exceeding 48 inches		X
No peephole in exterior doors	X	
Attic scuttle door not properly insulated		X
Attic access hatch size incorrect (20 by 30 inch versus 22 by 30 inch); window seals and trim not acceptable		X
Finger joint trim should only be painted, not stained		X
Loose siding not secured		X
Spindle spacing too wide for rear deck guardrail; 6 inches is permitted		X
External sewer piping exposed and subject to damage; Kitchen sink faucet not secured and sealed; shower and faucet collars not secured to wall;		X
Foundation backfill inadequate and unstable; excessive erosion occurring; footing and foundation inadequately installed for front concrete stoop		X

Loan 0792

GFCI outlet not installed in kitchen		X
Florescent ceiling fixture not installed	X	
Sheetrock in hall ceiling not installed level		X
Inadequate finish on interior doors		X
No direct air vented to furnace and water heater combustion chamber	X	
Furnace and water heater ceiling not sealed		X
Water heater installed in bedroom; bath vent fan not vented to outside;		X
No insulation certificate provided	X	
Abandoned septic tank not removed		X
Foundation had no screen vents for circulation		X
Rear concrete steps broken and no handrail (platform landing needed at rear exterior door)		X
Double key deadbolt locks on the exterior door not acceptable		X
Porch not primed	X	
Rotted wood not replaced	X	
Termite shield not installed; piers not replaced/repared		X
Contractor debris not removed	X	

Exterior siding not sealed properly

x

<u>Deficiency</u>	<u>12</u>	<u>3</u>
<u>Loan 0829</u>		
Bath vent fan not vented to outside; bath outlet defective	x	
Damaged interior bath door frame		x
Twenty inch vanity installed instead of 30 inch	x	
Kitchen cabinetry doors not plumb		x
No direct air vented to furnace and water heater combustion chamber; floors not repaired after removing gas piping	x	
Floor tiles loose, missing, or damaged in kitchen, bath, and utility room		x
Floors not leveled (large gap between the floor and baseboard)		x
Door stops not installed	x	
Inadequate paint coverage on exterior surfaces		x
Roof overhang was not extended to 18 inches	x	
Abandoned automobile and other large debris not removed		x
<u>Loan 0832</u>		
Bath vent fan not vented to outside		x
Bath window pane is not opaque	x	
Medicine cabinets not installed	x	
Master bath mirror was 24 by 30 inches, not the required 30 by 36 inches	x	
Drywall improperly installed around window frames and interior of frames not sealed		x
Closet door guides not installed		x
Kitchen vent hood pipes not adequately sealed and screws protrude from cabinet areas		x
Kitchen linoleum improperly installed		x
Wood trim inadequately painted		x
No direct air vented to furnace and water heater combustion chamber	x	
New water heater not installed with current appliance red tagged by the gas company	x	
Foundation clearance inadequate between the finish grade and the siding		x
Vinyl siding loose in some areas		x
Breaker box had 16 spaces, not 20 spaces as required		x
<u>Loan 0833</u>		
Bath vent fan not installed	x	
Mirror not installed in bath	x	
Vanity base not installed	x	
Towel bar omitted	x	
Toilet improperly sealed at the base		x

<u>Deficiency</u>	<u>12</u>	<u>3</u>
<u>Loan 0833</u>		
Window frames not sealed along interior wall		X
Carpet grade does not meet specifications		X
Water heater closet wall and ceiling not sealed		X
No direct air vented to furnace and water heater combustion chamber	X	
Furnace wiring installed in hazardous way; wall living room fan switch does not operate properly		X
No wall brace for closet shelf exceeding 48 inches		X
Sharp screws protrude from laundry hookup		X
No peephole in exterior door		X
Scuttle cover not insulated; no insulation certificate provided		X
Exterior handrail does not meet handicap or standard railing criteria		X
Pier foundation not installed, but concrete slab was; foundation clearance inadequate between the finish grade and the finish floor;	X	
Yard grade does not slope away from house		X
<u>Loan 0835</u>		
Kitchen vent hood improper size for the wall cabinet; electrical wiring installed in hazardous manner; hood light inoperable	X	
GFI outlet not installed in bath	X	
No direct air vented to furnace combustion chamber; electrical wiring to furnace was hazardous	X	
Interior surfaces and trim had inadequate paint coverage; painting of store room door unfinished; kitchen cabinetry did not receive adequate stain coverage		X
Tile not acceptably installed in kitchen		X
Missing latch plate on side exterior door frame		X
No insulation certificate	X	
<u>Loan 0836</u>		
Bath vent fan not vented to exterior	X	
Tub surround not adequately sealed		X
GFCI outlet not installed in kitchen		X
Kitchen base cabinets should have been replaced along with sink and faucets		X
Kitchen linoleum and underlayment should have been replaced		X
Baseboard trim not installed in closet area	X	
Water heater exhaust below roof line		X
Water heater not replaced		X
No direct air vented to furnace combustion chamber		X

Loan 0836 (Closed)

<u>Deficiency</u>	<u>12</u>	<u>3</u>
Exterior door frame splintered and not weathertight (door and frame should have been replaced)	x	
Veneer on exterior door splintered		x
Exterior light fixture at side exterior door should have been replaced		x
Abandoned septic tank not removed		x
Termite shields either omitted or improperly installed; concrete blocks not mortared to concrete footings		x
Half inch plywood not installed for roof	x	
Entrances do not have 3 by 5 foot overhang	x	

Loan 0840

Bath vent fan not installed; kitchen vent hood not vented to exterior; cover plate missing on electrical junction box in attic	x	
Bath subfloor does not extend to tub; linoleum not sealed along the tub; kitchen floor linoleum does not extend to wall		x
Tub surround at faucet is not acceptably repaired and watertight		x
Vanity bases not installed in either bath	x	
Plumbing leak under kitchen sink		x
Adequate fire resistant material not installed around kitchen stove		x
Damaged countertop in kitchen		x
Linoleum installed in bedroom #1 without plywood underlayment	x	
No direct air vented to furnace combustion chamber; no gas hookup to furnace	x	
New water heater not installed	x	
New interior windows inadequately caulked around framework		x
New exterior doors not weathertight		x
R-30 insulation not installed	x	
Exterior wall joints not caulked before painting	x	
Some split/rotten wood siding not replaced	x	
No roof opening for ridge vent	x	

Distribution

Secretary's Representative, 4AS
Director, Accounting Division, 4AFF
Audit Liaison Officer, 3AFI
Director, Administrative Service Center, 4AA
Mississippi State Coordinator, 4GS
Director, Community Planning and Development Division, 4GD
Acquisitions Librarian, Library, Room 10164 (2)
Associate General Counsel, Office of Assisted Housing and Community
Development, CD (Room 8126)
Audit Liaison Officer, Office of Community Planning and Development, D (Room 7100) (3)
Chief Financial Officer, F, Room 10164 (2)
Deputy Chief Financial Officer for Finance, FF, Room 10164 (2)
Director, Housing and Community Development Issue Area, US GAO, 441 G St. NW,
Room 2474, Washington, DC 20548, ATTN: Judy England-Joseph (2)
Assistant to the Deputy Secretary for Field Management, SDF (Room 7106)
City of Gulfport, Mississippi