

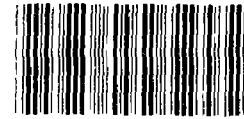
GAO

Report to the Secretary of Housing and
Urban Development

September 1987

**INTERNAL
CONTROLS**

**Weaknesses in HUD's
Single Family Housing
Appraisal Program**



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United States
General Accounting Office
Washington, D.C. 20548

**Resources, Community, and
Economic Development Division**

B-226204

September 30, 1987

The Honorable Samuel R. Pierce, Jr.
The Secretary of Housing and Urban
Development

Dear Mr. Secretary:

This report discusses the Department of Housing and Urban Development's efforts to correct weaknesses in its single family housing appraisal program and the continued existence of some of these weaknesses.

The report contains recommendations to you in chapters 3, 4, and 5. As you know, 31 U.S.C. 720 requires the head of a federal agency to submit a written statement on actions taken on our recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations not later than 60 days after the date of this letter and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of this letter.

Thank you for the cooperation and courtesies extended to our staff during the review. This work was performed under the direction of Sarah Frazier Jaggar, Associate Director. Other major contributors are listed in appendix VI.

Sincerely yours,

A handwritten signature in cursive script that reads 'J. Dexter Peach'.

J. Dexter Peach
Assistant Comptroller General

Executive Summary

Purpose

Since the inception of the Department of Housing and Urban Development's (HUD) single family housing insurance program, HUD has lost several billion dollars as a result of mortgage defaults and subsequent resales—about 6 percent of the mortgages insured by HUD have failed. In fiscal year 1986 HUD processed more applications for mortgage insurance than in any prior year. By the end of fiscal year 1986, HUD held insurance on about 5.7 million mortgages worth about \$177 billion. The program sustained a \$629 million loss in fiscal year 1986 caused by weaknesses in the appraisal process and adverse economic conditions in certain areas of the country.

As required by the Federal Managers' Financial Integrity Act (FMFIA), in 1983 HUD performed an internal control review (ICR) of its single family housing appraisal process. This review identified a material weakness in the appraisal process. Despite HUD's efforts to implement corrective actions, two later ICRs revealed continuing program weaknesses. GAO evaluated the effectiveness of HUD's actions to correct the program's weaknesses and determined whether the weaknesses continue to exist.

Background

Before HUD will insure a mortgage under the single family housing program, it requires an appraisal by either a HUD employee or an independent appraiser (called a fee appraiser) whose eligibility is determined by factors such as experience and education. Because of staff shortages, in recent years fee appraisers have done almost all of HUD's appraisals. An eligible appraiser is assigned to a fee panel from which HUD selects its appraisers. To ensure that appraisers are providing accurate estimates, HUD requires a review of 10 percent of each HUD field office's appraisals and 5 percent of each fee appraiser's appraisals. These "field reviews" take place at actual housing sites and are usually performed by an appraiser from the fee panel.

During a 1983 FMFIA review of appraiser selection, performance, and field review results, HUD found, among other things, that it could not conduct enough field reviews to meet the 5- and 10-percent review requirements during periods of high volume because of staffing limitations. HUD also identified problems in the selection of fee panels and the assignment of appraisers.

Results in Brief

GAO's review confirmed the findings in HUD's ICR of continued weaknesses in the appraisal program and disclosed additional problems. Specifically, (1) HUD's selection of appraisals for review is not based on a

systematic, statistical sample and (2) HUD does not exercise sufficient internal controls over the field review process. For example, HUD authorizes fee appraisers to perform field reviews of other fee appraisers' work, in spite of studies that claim such a practice increases the potential for fraud, waste, and abuse. HUD also has not corrected problems involving the selection of appraisers for fee panels or the assignment of appraisers to individual cases. Moreover, HUD has not adequately addressed its practices noted in the original ICR with regard to training or terminating unsatisfactory appraisers.

Principal Findings

Inappropriate Assessment of Appraisals

HUD considers field reviews as its quality control measure in the program. However, in GAO's opinion, HUD's method of selecting appraisals for review is of limited value because the selection is neither random nor based on a sound statistical sampling plan.

GAO also found that HUD has not met the requirements of its present review program. In fiscal year 1985, 31 of HUD's 81 field offices did not review 10 percent of their appraisals as required; by the end of fiscal year 1986, 40 offices did not meet this requirement. Data on the offices' performance in meeting the 5-percent review requirement are not readily available. However, GAO reviewed data from seven HUD offices that indicated about 50 percent of the appraisers did not have 5 percent of their appraisals reviewed.

Insufficient Internal Controls Over Field Reviews

HUD continues to use fee appraisers to perform field reviews of other fee appraisers' work, although internal studies have indicated that this practice increases the potential for fraud, waste, and abuse because appraisers may be reluctant to criticize other appraisers work.

Although the field reviewer must rate each appraisal reviewed, GAO found that HUD does not have specific criteria to assist the reviewer in determining the rating. In addition, the form transmitting the review results to HUD often does not document the rationale used by the reviewer to arrive at the rating. As a result, the field offices experience difficulties in using the field review results for training and counseling purposes.

One of HUD's goals is that 50 percent of its field reviews include a review of the house's interior. On the basis of its review of appraisers' vouchers, GAO determined that in fiscal year 1986 for the three offices visited, between 2 percent and 25 percent of the reviews included interior reviews.

Appraiser-Related Internal Control Problems

Despite actions implemented by HUD to correct appraisal-related weaknesses, deficiencies continue to exist, including the following:

- Many field offices continued to use one HUD official to select appraisers for fee panels, even though HUD's 1983 ICR stated that such a selection system increases the potential for fraud, waste, and abuse because it does not ensure that the best qualified candidates are selected.
- Appraiser assignments made randomly by a computerized system were being overridden and the appraisers were being assigned manually without adequate supervision or documentation of the reasons.
- HUD offices GAO visited were not providing regularly scheduled training for fee appraisers, as required by HUD, nor were these offices taking action to terminate appraisers who were performing unsatisfactorily.

Recommendations

GAO recommends that the Secretary of HUD improve the operations of the single family housing appraisal program by directing the Assistant Secretary for Housing to

- develop, at field offices where it is cost-beneficial, a systematic plan with a sound methodological basis, such as statistical sampling, to produce accurate estimates of the quality of the appraisals performed overall;
- intensify efforts to have HUD staff perform field reviews and allow fee appraisers to be used for this purpose only on an exception basis;
- improve the manner by which field reviews are performed by (1) developing criteria for use by the reviewer when rating an appraisal, (2) requiring more documentation of the rationale for the rating given by the reviewer, and (3) increasing the number of field reviews, which include interior reviews; and
- improve the documentation and supervisory controls over the appraiser assignment process.

GAO has also made other recommendations in this report to improve the program's operations.

Agency Comments

HUD stated that it had no substantive disagreement with our recommendations and agreed to take actions to implement them.

Contents

Executive Summary		2
<hr/>		
Chapter 1		10
Introduction	Executive Agencies Required to Maintain Internal Controls	10
	HUD's Single Family Housing Appraisal Program	10
	Objectives, Scope, and Methodology	12
<hr/>		
Chapter 2		15
Weaknesses Continue to Exist in HUD's Single Family Housing Appraisal Program	Internal Control Reviews Subsequent to HUD's 1983 Review Indicate Continuing Weaknesses	15
	Our Review Corroborates Continuing Weaknesses	16
<hr/>		
Chapter 3		21
Ineffective HUD Requirements for the Quantity of Reviews Performed Limit Their Usefulness	Quantity of Field Reviews Is Often Less Than Required	21
	A Statistical Sampling Method Could Provide More Reliable Estimates of the Quality of Appraisals	24
	Conclusions	26
	Recommendation	26
	Agency Comments	26
<hr/>		
Chapter 4		27
HUD's Internal Controls Over Field Reviews Do Not Meet Comptroller General Standards	The Use of Fee Appraisers to Do Field Reviews Increases the Potential for Abuse	27
	Lack of Rating Criteria and Documentation Creates the Potential for Subjective Review Results	30
	Reviews Need to Include the Interior of the House More Often	32
	Conclusions	33
	Recommendations	34
	Agency Comments	34

<hr/>		
Chapter 5		36
HUD Has Not	Better Controls Needed Over the Assignment Process	36
Corrected Appraiser-	Problems in the Selection of Fee Appraisers Still Exist	39
Related Internal	Appraiser Training Inadequacies	40
Control Problems	Field Offices Have Experienced Problems in Terminating Poor Performers	41
	Conclusions	43
	Recommendations	43
	Agency Comments	43
<hr/>		
Appendixes	Appendix I: Actions Reported Taken by HUD to Correct a Material Weakness in Its Single Family Housing Appraisal Program	46
	Appendix II: Scope and Methodology	47
	Appendix III: Field Offices That Did Not Reach the 10-Percent Review Requirement for Fiscal Years 1985 or 1986	49
	Appendix IV: Percentage of Appraisals Receiving Field Reviews in Georgia and Pennsylvania	51
	Appendix V: Comments From the Department of Housing and Urban Development	53
	Appendix VI: Major Contributors to This Report	62
<hr/>		
Tables	Table 2.1: Weaknesses Found in HUD's Single Family Housing Appraisal Program	18
	Table 3.1: Appraisers Receiving Various Percentages of Field Reviews, Fiscal Year 1986	24
	Table 5.1: Appraisers Assigned by Overrides, Fiscal Year 1986	37
<hr/>		
Figures	Figure 3.1: Percentage of Field Reviews Done by Fee Appraisers and HUD Staff, Fiscal Year 1986	22
	Figure IV.1: Percentage of Appraisals Receiving Field Reviews—Georgia (By County)	51
	Figure IV.2: Percentage of Appraisals Receiving Field Reviews—Pennsylvania (By County)	52

Abbreviations

CHUMS	Computerized Home Underwriting Management System
FMFLA	Federal Managers' Financial Integrity Act
GAO	General Accounting Office
HUD	Department of Housing and Urban Development
ICR	internal control review
OMB	Office of Management and Budget

Introduction

Executive Agencies Required to Maintain Internal Controls

The Congress enacted the Federal Managers' Financial Integrity Act (FMFIA), 31 U.S.C. 3512(b) and (c), in 1982 in response to continuing disclosures of fraud, waste, and abuse largely attributable to serious internal control weaknesses across federal agencies. The act strengthens the existing requirements of the Accounting and Auditing Act of 1950, which requires that executive agencies establish and maintain systems of accounting and internal controls over all funds, property, and other assets for which the agency is responsible (31 U.S.C. 3512(a)(3)).

To achieve these ends, FMFIA requires each agency to

- establish and maintain its internal accounting and administrative controls in accordance with the standards prescribed by the Comptroller General;¹
- evaluate and report annually on internal control systems, including identifying any material weaknesses in its programs and describing plans to take corrective action; and
- prepare a separate report on whether the agency's accounting systems conform to the principles, standards, and related requirements prescribed by the Comptroller General.²

The Office of Management and Budget (OMB), in December 1982, provided guidance for agencies to meet the requirements of the act. This guidance recommended an approach for evaluating, improving, and reporting on agencies' internal controls.

HUD's Single Family Housing Appraisal Program

The National Housing Act (12 U.S.C. 1715l) authorizes the Department of Housing and Urban Development (HUD) to insure mortgage loans that private lending institutions make to eligible low- and moderate-income buyers of single family homes. The amount that HUD can insure is based on the value of the home as determined by HUD staff or a HUD-approved outside appraiser, called a fee appraiser.³ In fact, almost all appraisals are now performed by fee appraisers. If the borrower defaults on the loan,

¹Standards for Internal Controls in the Federal Government. Comptroller General of the United States (June 1983).

²Reviews of accounting systems were made in accordance with the Guidelines For Evaluating Financial Management Accounting Systems issued by the Office of Management and Budget, which was based on principles and standards developed by the Comptroller General and implemented through OMB Circular A-127.

³A fee appraiser is authorized by HUD to establish the value of houses for HUD mortgage insurance. The appraiser must meet general and specialized experience requirements, pass a written exam, and attend certain training courses.

the lender can recover any losses from HUD, up to the amount insured. HUD then attempts to sell the property for at least the amount paid to the insured. Through fiscal year 1986, HUD's single family housing insurance program had insured about 15.6 million mortgages of which about 994,000, or about 6 percent, failed. This resulted in HUD's acquisition and reselling of the properties at a loss of several billion dollars. In fiscal year 1986 the single family housing insurance program consisted of about 5.7 million active mortgages valued at about \$177 billion. HUD lost about \$629 million on single family housing mortgage defaults and subsequent resales in fiscal year 1986.

The Fee Appraisal Process

Appraisals for initial mortgage insurance applications and requests for revised valuations are normally performed by fee appraisers. Once selected by HUD, the fee appraiser becomes part of a fee panel. HUD selects an appraiser from the panel for an individual case rotationally on the basis of their current work load and the geographic areas in which they have chosen to work.

The fee appraisers submit their appraisals to the appropriate HUD field office. Office personnel review all appraisals for mathematical accuracy and completeness. The reviewer also analyzes the appraisal for reasonableness, logical conclusions, and the adequacy of any adjustments made in determining the appraised value. This type of review is called a desk review, and is performed at the field office.

In addition, HUD requires that at least 10 percent of each field office's appraisals and 5 percent of each individual appraiser's appraisals be reviewed on a quarterly basis at the actual housing sites. These reviews are called field reviews. The field review of the appraisal includes an evaluation of

- the analysis of the location of the property, value of the site, and economic life;
- the selection and interpretation of sales prices of similar houses recently sold in the neighborhood;
- the support of value and accuracy of reporting;
- the adequacy and necessity of repair requirements and other commitment conditions; and
- any items that should receive special attention.

Unless specifically stated in this report, the term "review" applies to field reviews as opposed to desk reviews.

Material Weakness Revealed by Internal Control Review

In October 1983, in accordance with FMFIA, HUD issued the results of an internal control review (ICR) of its single family housing appraisal program. The review identified a material weakness in the program. HUD described the weakness as the "[i]nability of field offices to conduct desk and field reviews of appraisal reports during high volume periods because of staffing limitations and issues relating to the selection of fee panels and assignment of appraisers [which] may lead to the issuance of inflated or questionable commitments." The ICR was a joint effort by HUD's Single Family Valuation Branch, the Office of Management, and the Office of the Inspector General. The ICR was performed because an assessment by program managers showed that the program had a high vulnerability for fraud, waste, and abuse.

The ICR focused on how (1) fee appraisers are chosen for a fee panel, (2) appraisers are assigned to the individual cases, and (3) mortgage insurance commitments are issued. The review disclosed the following:

- HUD field offices' decisions on the selection of fee panel members normally involved only one HUD staff member and thus, did not ensure that the best available candidates were selected.
- Field offices were not following current HUD directives for assigning appraisers on a rotational basis in accordance with prescribed criteria such as location, work load, and availability. Supervision of the assignment process was weak and assignment clerks were not receiving adequate training in the requirements of the assignment process.
- Fee appraisers were providing poor appraisals, and the desk and field reviews performed by HUD or the fee appraisers were not adequately picking up errors and omissions. In addition, the number of field reviews was insufficient to meet requirements, which called for a review of 10 percent of the office's appraisals and 5 percent of each appraiser's work. Field offices also were not regularly scheduling training, and appraisers performing field reviews were not properly supervised.

HUD identified 10 actions that it believed would correct the material weakness. (See app. I for a list of the corrective actions taken.) HUD claimed in its December 1985 annual report on its internal control weaknesses that these actions were all implemented by the end of January 1985.

Objectives, Scope, and Methodology

The overall objectives of this review were to evaluate the effectiveness of the actions taken by HUD to correct the material weakness in its single family housing appraisal program and to determine if the weakness still

exists in the program. To accomplish these objectives we examined the following areas at HUD's Philadelphia, Atlanta, and Washington, D.C., field offices:

- the number of field reviews done in fiscal years 1985 and 1986 and the percentage of appraisals reviewed by field office and by individual appraiser for fiscal year 1986;
- use of fee appraisers to perform field reviews;
- existence of specific criteria and documentation for field review ratings;
- field office performance in meeting the interior/exterior review goals established by HUD;
- the field offices' use of review results to train or terminate poorly performing fee appraisers; and
- procedures for the selection, assignment, and termination of fee appraisers.

In 1980 HUD required appraisers to perform a minimum of 20 appraisals per month before the review requirement was invoked. However, a subsequent policy update that stressed the need to do a 5-percent review no longer discussed a minimum number. In identifying those appraisers receiving or not receiving a 5-percent review, we did not consider a minimum number of appraisals as necessary before being reviewed because HUD has been instructing its field offices not to consider such a minimum.

In November 1986 we requested HUD to provide us with fiscal year 1986 data on the individual appraisers in seven HUD field offices. The data requested included the appraiser's name, number of appraisals done, number of appraisals reviewed, and the ratings given on the field reviews. We subsequently found that, because HUD moves some records to a national archive file according to the age and type of the records, the data given to us as complete for fiscal year 1986 were in fact missing some records from the first month of the fiscal year. We explored the possibility of retrieving the archived records in order to have complete fiscal year records but found that the retrieval would be time-consuming and expensive. After analyzing the usefulness of these additional data, we decided not to retrieve them.

These archived records would have some impact on our analysis of whether the 5-percent field review requirement is being met, but we believe that this impact would be relatively small. We base our belief on data compiled quarterly by seven field offices that indicate that for fiscal year 1986, the fewest field reviews were done in the first quarter. On

the other hand, complete fiscal year 1986 data on compliance with the 10-percent review requirement is readily available. Our analysis of compliance with the 10-percent field review requirement is based on quarterly reports prepared by each HUD field office.

We supplemented data from the three offices we visited by examining comparable data from four other HUD field offices on certain aspects of the appraisal program. In the report we identify those instances when data from all seven offices were used.

Our review was made in accordance with generally accepted government auditing standards. See appendix II for a more detailed discussion of our scope and methodology.

Weaknesses Continue to Exist in HUD's Single Family Housing Appraisal Program

ICRs published in 1986 and 1987 indicate that weaknesses persist in HUD's appraisal program despite corrective actions taken following HUD's 1983 ICR. Our review confirms those findings reported in the 1983, 1986, and 1987 ICRs and also points out additional problems associated with the program as follows:

- The selection of appraisals for the required 10-percent review of each field office's appraisals and 5-percent review of individual appraiser's appraisals is not based on a systematic, statistical sample.
- The field reviewer rates each appraisal reviewed, but, except for some very general criteria, HUD has no specific criteria to assist the reviewer in determining the rating. In addition, field reviewers often do not adequately document on the review form the rationale they used to determine the rating.

Internal Control Reviews Subsequent to HUD's 1983 Review Indicate Continuing Weaknesses

HUD contracted with Peat, Marwick, Mitchell & Co. to perform follow-up ICRs on HUD's 1983 ICR. HUD stated that such follow-up ICRs would aid management in making decisions as to whether changes might be needed to improve program operations. The first ICR was issued in January 1986 and identified several problems related to HUD's field review process and the methods it used to evaluate appraiser performance. A second ICR was issued in February 1987 and raised additional questions regarding the selection of appraisers and HUD's lack of a system to ensure that an adequate number of reviews are assessed to meet the HUD-required review levels.

The 1986 ICR

The first ICR was conducted at five field offices and pointed out that the selection of appraisals for review in the five offices was done on a random basis, except that three offices selected all the appraisals for which the office had received written complaints. The ICR also noted that it may not be possible for management at several offices to evaluate appraiser performance because of an insufficient ratio of reviews to the number of appraisals performed. Further it noted that using fee appraisers to perform field reviews of the work of other fee appraisers did not ensure that the reviews were objective or constructive. An additional issue raised by the ICR addressed the selection and assignment of appraisers.

HUD's Deputy Assistant Secretary for Single Family Housing agreed with certain corrective actions noted in the review. He stated, however, that the recommendations (especially the recommendation to use HUD staff to

do field reviews) were primarily staff-intensive, of marginal utility in achieving real quality control protection, or, in some cases, simply impractical.

The 1987 ICR

A second ICR issued by Peat, Marwick, Mitchell & Co. in 1987 again raised questions concerning the nonrandom selection of appraisals for field reviews. This ICR also reiterated the concern that reviewers were permitted to choose the cases they would review. In one case, field office management was unaware of which cases had been selected for review. As of April 1987, HUD was considering the results of the review, but had not undertaken any corrective action.

Our Review Corroborates Continuing Weaknesses

Our review found that weaknesses still exist in HUD's single family housing appraisal program. Some of the weaknesses we found were the same weaknesses indicated in the 1983, 1986, and 1987 ICRs. We also found other weaknesses that had not been identified in the ICRs.

Some GAO Findings Parallel ICR Findings

Table 2.1 shows categories of weaknesses in which both we and Peat, Marwick, Mitchell & Co. identified similar problems. Generally, these categories deal with the selection, assignment, and termination of fee appraisers and matters dealing with the supervision and training of reviewers. The table also shows weaknesses disclosed in one or more of the ICRs that did not result in a corrective action.

Chapter 2
Weaknesses Continue to Exist in HUD's
Single Family Housing Appraisal Program

Table 2.1: Weaknesses Found in HUD's Single Family Housing Appraisal Program

Weakness category	Weakness identified in 1983 ICR	Corrective action implemented
Selection of fee appraisers	No formal selection plan	Adopt a formal selection plan
	No guarantee that the best candidate is selected	
Assignment of fee appraisers	Not following directives calling for rotational assignment of appraisers	Enhance computerized system to ensure that assignments are made on a rotational basis
	Weak supervision of assignment process	Issue directive requiring supervisors to review the assignment log periodically
	Inadequate (or no) training of assignment clerks	Instruct assignment clerks on requirements
Termination of fee appraisers	Field offices retaining fee appraisers who perform in less than an acceptable manner	Require that all newly approved appraisers serve a 1-year probationary period
	Lack of skills not evident until after selection for fee panel	Provide field offices with an easier way to remove unsatisfactory appraisers
	Field offices not dismissing appraisers because of the involved process to do so	
Supervision of review appraisers	Field offices are not reviewing the performance of their field reviewers	Issue a memo to field offices reminding them of their supervisory duties
Training of fee and review appraisers	Field offices do not have regularly scheduled training classes	Require field offices to have regularly scheduled training sessions for fee and review appraisers
Poorly comparable houses used	Comparables chosen by the appraisers were not similar to the houses being appraised	Require provisions for photographs of properties used
	Desk reviewers could not determine the adequacy of the comparables used	
Use of fee appraisers to do field reviews	Use of fee appraisers to do field reviews is very costly	None developed
	Use of fee appraisers for field reviews opens up potential for fraud	
Insufficient number of reviews done	Field reviews are not performed in sufficient amounts to meet requirements	
Field reviews often do not include interior of dwelling	Not included	None developed

Chapter 2
Weaknesses Continue to Exist in HUD's
Single Family Housing Appraisal Program

Weakness identified in		
1986 ICR	1987 ICR	GAO review results
Selection system is subjective HUD may not be selecting the most qualified candidates	Not included	The version of the formal selection plan adopted by HUD does not ensure that the best qualified candidates are selected.
Assignment clerks still manually assigning appraisers; frequent overrides done computer-assigned appraisers	Certain field offices are overriding appraiser assignments	Numerous overrides to the appraiser assignment process
The assignment log is not being reviewed	Not included	Inadequate supervision of the assignment process
Assignment clerks need additional instruction	Not included	Assignment clerks receive limited training
Not included	Not included	The field offices still have no easy way to dismiss poor performers—either by the pre-1983 method or the corrective action implemented in August 1984
Not included	Not included	
Not included	In no office visited was there a system to review the work of field reviewers	HUD staff was not reviewing appraisals done by field reviewers
	Follow-up reviews on poor ratings are rare	HUD staff has not been checking the field reviewers work
Not included	Not included	None of the three offices we visited had regularly scheduled training classes
Not included	Not included	We found that this corrective action has been implemented and is accomplishing its objective
Fee appraisers tend to develop a camaraderie and may be reluctant to provide criticism of other appraisers	Not included	Field offices make substantial use of fee appraisers to do field reviews
Fee appraisers are less loyal to HUD than HUD's staff appraisers	Not included	HUD staff are aware that this is not a preferred method
Not included	No system to choose cases for review leads to extraordinary efforts to meet 10-percent review requirement	In FY85, 31 field offices did not reach required number of reviews, in FY86 the number of offices not meeting the requirement was 40
None of the offices visited had a method to monitor compliance with 50-percent goal	Not included	No office we visited met the goal of including interior reviews in 50 percent of the field reviews
		No system at field offices to monitor or supervise progress toward meeting this goal

^aThe corrective action recommended was to provide field offices with sufficient review appraisers. HUD did not accept this recommendation, instead it allowed field offices to use fee appraisers to perform field reviews

Additional Findings

Our review also identified weaknesses that had not been identified in the three ICRs. These weaknesses were more related to the field review process than to fee appraisers or field reviewers.

Previous ICRs measured HUD's performance in meeting its 10-percent and 5-percent review requirements and found that many offices did not meet the requirements. The ICRs did not examine the adequacy of the requirements themselves. Our review did so, however, and found that they do not require that a systematic, statistical sample of the work of field offices or individual appraisers be taken. Statistical sampling is needed to produce estimates of the quality of the appraisals. (See ch. 3.)

Our review also found that, except for some very general criteria, HUD has not provided its field reviewers with specific criteria to aid them in rating an appraisal. Furthermore, the field review form, as filled out by the reviewer, often does not include adequate documentation concerning the rationale used by the reviewer in determining the rating. (See ch. 4.)

Ineffective HUD Requirements for the Quantity of Reviews Performed Limit Their Usefulness

HUD uses the field review of appraisals as a quality control measure to help ensure that its appraisals are of high quality. However, we found that HUD's field review system would provide a better basis for judging the overall quality of its appraisal program if appraisals were randomly selected for review in accordance with a statistically valid sampling plan. The present system requires that predetermined, arbitrary percentages of appraisals be reviewed and allows the appraisals to be selected subjectively for review. HUD's system is not working in many offices because the offices have not reviewed all the appraisals that its present system requires. By adopting a statistically valid sampling plan, HUD could cut costs at some of its offices by reducing the number of appraisals reviewed while at the same time improving oversight of its appraisal program.

Each HUD office is required to perform field reviews on at least 10 percent of its appraisals to ascertain whether the fee appraisers followed acceptable appraisal techniques and arrived at an accurate estimate. HUD also requires that field reviews be performed on at least 5 percent of each appraiser's work. Many HUD field offices are not reaching the 10-percent review requirement. In fiscal year 1985, 31 of HUD's 81 field offices reviewed less than 10 percent of their appraisals; in fiscal year 1986, the number of offices not meeting the 10-percent requirement had increased to 40. In addition, at each of the seven offices for which we reviewed such data, we found that a number of appraisers were not receiving the 5-percent review.

Quantity of Field Reviews Is Often Less Than Required

HUD requires that each field office review 10 percent of all the appraisals it performs. In addition, each field office is to review a minimum of 5 percent of the appraisals completed by each appraiser. HUD officials were not able to explain the rationale for choosing the 10-percent or 5-percent levels of review. Many field offices did not reach the 10-percent or 5-percent requirements in fiscal year 1985 or 1986. The primary reasons for this shortfall seem to be a heavy appraisal caseload and the absence of plans at the field offices for reaching targets.

The Number of Field Offices Not Reaching the 10-Percent Requirement Increased in Fiscal Year 1986

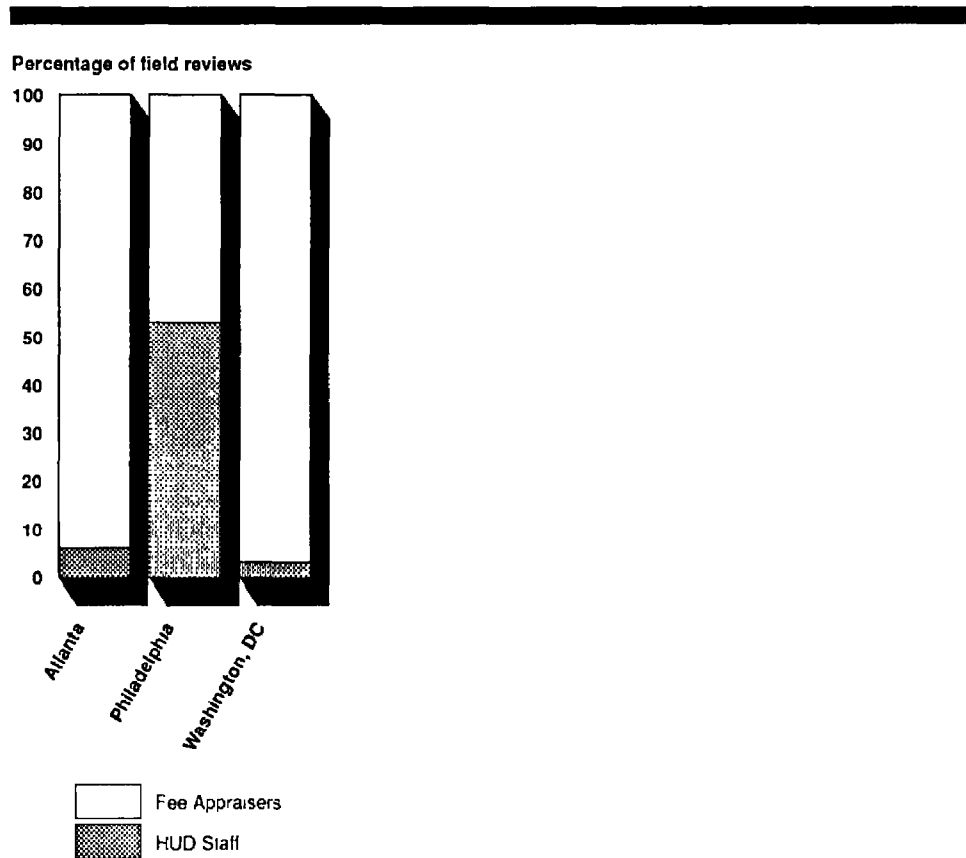
According to HUD's quarterly reports, in fiscal year 1985, 31 field offices, or 38 percent, did not reach the 10-percent requirement, and in fiscal year 1986, 40 offices, or 49 percent, did not reach the requirement. (See app. III.) According to HUD officials, the requirement was not met because of a heavy work load at the field offices, lack of sufficient professional staff to do the reviews, and a shortage of clerical staff to

**Chapter 3
Ineffective HUD Requirements for the
Quantity of Reviews Performed Limit
Their Usefulness**

prepare the necessary review packages, which are given to the reviewers. In fiscal year 1986 HUD performed more appraisals than it had in any previous year.

HUD allowed the use of fee appraisers for field reviews to make up for its own staff shortages. But this did not solve the problem of insufficient field reviews. The Philadelphia, Atlanta, and Washington, D.C., field offices each have over 200 fee appraisers. But in fiscal year 1986, these field offices reviewed 9.2, 7.4, and 5.5 percent of their respective appraisals, even though as table 3.1 shows, they relied heavily on fee appraisers to do the field reviews.

Figure 3.1: Percentage of Field Reviews Done by Fee Appraisers and HUD Staff, Fiscal Year 1986



Officials at the three field offices we visited gave us various reasons why the 10-percent review level was not reached even with the use of fee appraisers: (1) the fee appraisers were needed to reduce the backlog

of appraisals rather than to do additional field reviews. (2) fee appraisers do not want to do field reviews because of the difference in fees between performing an appraisal and a field review, and (3) the field office does not have adequate travel funds to send field reviewers to remote sections of the office's area of responsibility.

The Offices Have No Plan to Ensure That the 10-Percent Requirement Is Reached

During our review of the three field offices, we determined that the offices have no plan, system, or method to ensure that 10 percent of their appraisals are reviewed. This often leads to a concerted effort at the end of the fiscal year to get close to the 10 percent. For example, in both fiscal years 1985 and 1986, the Philadelphia office performed over 50 percent of its annual field reviews in the last quarter. In the Washington, D.C., office, about 66 percent of the fiscal year 1985 field reviews were done in the last quarter. Further, no field reviewer is assigned to large segments of the area covered by the Atlanta and Philadelphia field offices and thus appraisals done in these areas receive little or no review. (See app. IV for a map of the offices' areas of responsibility with appropriate notations concerning the percentage of appraisals that had field reviews.)

Both of the ICRs done by the HUD-contracted consultant found that the HUD offices they reviewed did not have a method, plan, or system to ensure that 10 percent of the appraisals had field reviews. One ICR pointed out that in those offices reviewed, certain areas were receiving few, if any, field reviews. Both the 1986 and 1987 reviews covered five field offices—four of which, in each case, were different from the three offices we visited.

The 5-Percent Review Requirement Often Is Not Met

HUD regional and headquarters offices appear to be more concerned about reaching the 10-percent level for overall field reviews than the 5-percent level for field reviews of the work for individual appraisers. The 10-percent review requirement is included in HUD's annual management plan as an important goal to meet. The 5-percent review requirement is not included in this plan.

In all seven offices included in our review, appraisers were not receiving the 5-percent review. (See table 3.1.) Of the 524 appraisers that did not receive a 5-percent review, 340 appraisers received no reviews during the fiscal year. As was the case with the 10-percent requirement, HUD officials we spoke with could not explain the rationale of reviewing 5 percent of each appraiser's work.

Chapter 3
Ineffective HUD Requirements for the
Quantity of Reviews Performed Limit
Their Usefulness

Table 3.1: Appraisers Receiving Various Percentages of Field Reviews, Fiscal Year 1986

Field office	Appraisers receiving		Total
	less than 5 percent	5 percent or more	
Atlanta, GA	142	63	205
Philadelphia, PA	113	97	210
Washington, DC	160	72	232
Baltimore, MD	43	87	130
Birmingham, AL	30	83	113
Orlando, FL	16	42	58
Coral Gables, FL	20	46	66
Total	524	490	1,014

HUD believes that a review of each appraiser's work could assist HUD in identifying poor appraisers or those appraisers that need specialized training. Knowing who the poor performers are could help ensure that when a fee panel is decreased in number, the appraisers dropped from the panel would be those who have the poorest performance. HUD officials told us that their field offices should decrease the size of the panel if the current heavy work load significantly decreases.

A Statistical Sampling Method Could Provide More Reliable Estimates of the Quality of Appraisals

As of April 1987, HUD did not have a requirement concerning how the 10-percent sample of appraisals should be selected. If samples were selected on a systematic, statistical basis, the field review results could be generalized to provide an accurate estimate of the quality of appraisals overall. In addition, the sampling error—the maximum amount by which the office's true performance level could be expected to differ from the review sample—could be calculated.

Statistical Sampling May Benefit HUD's Field Offices

One important advantage of a statistical sample is that it may enable large offices to reduce the number of field reviews they are required to perform in each quarter. (Large offices are categorized here as those performing over 16,000 appraisals annually.) In fiscal year 1986, 26 field offices performed over 16,000 appraisals annually. Under the 10-percent requirement, these large offices would perform an average of 400 or more field reviews per quarter. Using a statistical sampling plan, no office would need to perform over 400 reviews per quarter, and most would review fewer than 400.¹ If a 10-percent poor appraisal rate is

¹This method includes a sampling error of, at most, 3 percentage points at the 95-percent confidence level and a maximum observed poor appraisal rate of 10 percent.

found in the sample for a particular office, the chances are 95 out of 100 that the poor appraisal rate for the office is between 7 and 13 percent.

During fiscal year 1986, the Atlanta, Philadelphia, and Washington, D.C., field offices would have had to average 757, 519, and 1094 field reviews each quarter, respectively, to reach the 10-percent review requirement. Thus the use of this statistical sampling plan would reduce the number of field reviews required by about 1,170 field reviews per quarter. Because field review fees vary depending on the office (from \$25 to \$150), over time the dollar savings could be substantial. Decreasing the number of field reviews necessary could also allow a field office to take some of the pool of reviews saved and, without increasing costs, target certain geographical areas or suspected poor performers.

In addition to producing potential savings, a statistical sample, unlike the current 10-percent sample, can be used to reliably project the quality of appraisals at each field office. HUD headquarters officials we talked with were receptive to the idea of a sampling plan and told us that changes were needed in the current field review selection process.

Statistical Sampling Method Would Terminate the 5-Percent Review Requirement

The use of a random sample might mean that each appraiser would not be included in the sample and thus the 5-percent requirement might not be satisfied. However, we found that this 5-percent sample is of doubtful value for the following reasons:

- Even if the 5-percent review is performed, it frequently does not allow HUD to make valid estimates of the quality of an appraiser's work. A review of a much larger percentage of randomly selected appraisals would generally be necessary for such estimates.
- The 5-percent review level often was not reached in fiscal year 1986, and field offices did not believe that the requirement was very important.
- The results of the review cannot be used to rank the appraisers accurately to determine which appraisers should be excluded from the panel if it is reduced because of decreased office work load.

HUD field office officials told us that for the most part, they could identify their suspected poor performers from methods other than a 5-percent review, such as complaints from the lenders on the appraiser's timeliness, cooperation, and abilities.

Conclusions

HUD uses property appraisals to determine the mortgage amount it will guarantee. It then checks the quality of appraisals through field reviews. However, HUD's review requirements could be strengthened. Moreover, many HUD field offices are not reaching the required 10-percent and 5-percent levels of review. Because the selection of the appraisals to review is not done on a random basis, HUD cannot reliably project the results of the 10- and 5-percent reviews, even when they are made, to the office's or individual appraiser's level of adequacy.

A statistical sampling method of selecting the appraisals for review would provide HUD with data to make reliable estimates of the quality of field office appraisals. This sampling method might result in a decrease in the number of field reviews at the larger offices, which in turn would result in either a direct dollar savings or additional field reviews targeted to suspected poor performers. HUD needs to compare the costs and benefits of statistical sampling at each of its field offices.

Recommendation

We recommend that the Secretary of HUD direct the Assistant Secretary for Housing to develop, at field offices where it is cost-beneficial, a systematic plan with a sound methodological basis, such as statistical sampling, to produce accurate estimates of the appraisal quality at each of its field offices. In conjunction with the development and implementation of this plan, the Assistant Secretary should ensure that each field office will continue to identify poor performers and, if necessary, in the large offices use some of the reviews no longer needed for general oversight to monitor their performance.

Agency Comments

HUD agreed with our recommendation and, in accordance with it, will contract out the development of a systematic plan of statistical sampling. (See app. V.)

HUD's Internal Controls Over Field Reviews Do Not Meet Comptroller General Standards

The Comptroller General issued standards for internal controls in the federal government in 1983. These standards specify that controls be established so that (1) key duties and responsibilities are assigned systematically to a number of individuals in such a way that effective checks and balances exist, (2) internal control systems are clearly documented, and (3) qualified and continuous supervision is provided to ensure that internal control objectives are achieved.

In examining the field review process, we found that the controls in the performance of the reviews do not meet the Comptroller General's standards. This creates an obstacle to their use as a quality control tool. Control weaknesses noted include the

- use of fee appraisers to do field reviews (inappropriate assignment of key duties and responsibilities);
- lack of criteria used to determine field review ratings, lack of adequate documentation of review results, and insufficient number of evaluations of houses' interiors (inadequate documentation); and
- inadequate supervision of the review process by field office management (inadequate supervision).

Until these weaknesses are corrected, the accuracy and adequacy of field reviews will be questionable.

The Use of Fee Appraisers to Do Field Reviews Increases the Potential for Abuse

The ICR HUD completed in 1983 indicated that the use of fee appraisers to perform field reviews increases the potential for fraud, waste, and abuse. Because of the increased work load and corresponding staff shortages at HUD field offices, HUD decided to authorize the use of fee appraisers to perform field reviews as a method of increasing the number of field reviews. HUD is aware that this is not a preferred method but believes it has no choice as long as the work load remains high and the staff is not available to meet the increased work load.

Use of Fee Appraisers to Perform Reviews Was Identified as a Weakness

HUD's 1983 examination of the single family housing appraisal program concluded that field reviews should be done by HUD appraisers for two reasons:

- The use of fee appraisers increases the potential for fraudulent or cover-up reviews. The possibility exists that a member of the close fraternity of fee appraisers may not wish to report noted deficiencies in another

appraiser's report. The potential for fraud diminishes rapidly when a HUD staff person performs the review function.

- Fee appraisers are costly. The 1983 report calculated that the use of HUD staff instead of fee appraisers would result in a \$3,000-per-week reduction at one office.

The ICR report issued in January 1986 by the consultant under contract to HUD pointed out that fee appraisers were still being used to perform field reviews in 4 of the 5 offices they reviewed. The consultant stated that using fee appraisers to this extent was not a good method to ensure quality control and recommended that all field reviews be conducted by HUD staff appraisers in order to ensure objective and constructive reviews.

HUD Authorized the Use of Fee Appraisers to Perform the Reviews

In December 1982 the Assistant Secretary for Housing authorized field offices to use fee appraisers to perform field reviews because of problems in meeting the 10-percent review requirement. This allowed field offices with severe staffing shortages in the valuation section to utilize the most capable fee appraisers for field reviews during peak business periods. The Assistant Secretary stressed that the implementation of such a process would be done at considerable expense to HUD and should only be used to address the most serious staffing shortages. The authorization allowed the field offices to set their own fees for the field reviews, which were to be based on the dollar amount necessary to attract capable reviewers to perform the reviews.

The Assistant Secretary pointed out that the appraisers chosen to do field reviews would also be eligible to do appraisals. To avoid potential conflicts, any field reviews of those appraisals were to be performed by HUD staff and not by other fee appraisers. In addition, HUD staff were to monitor the fee reviewer's work to ensure compliance with HUD instructions.

The field offices we visited were not normally using HUD staff to review appraisals done by fee reviewers as required in the Assistant Secretary's memo, but rather the offices used other fee reviewers. In two of the offices we visited, we found instances in which two fee reviewers were reviewing each other's appraisals.

Field office officials told us that the work load has been so heavy over the past year that they have not had the time to check the fee reviewer's work to ensure that the work is acceptable as outlined in the Assistant

Secretary's memorandum. The lack of HUD reviews in this instance is especially critical in field offices where a significant number of the reviews are performed by fee reviewers. As long as the heavy use of fee appraisers to perform field reviews continues, a need remains to ensure that these reviews are done according to HUD standards.

Field Offices Are Making Substantial Use of Fee Appraisers to Perform Field Reviews

In the three offices we visited, many of the field reviews were being done by fee appraisers. For example, in the Washington, D.C., and Atlanta field offices, fee appraisers did over 90 percent of the field reviews in fiscal year 1986. In the Philadelphia office, about 47 percent of the reviews were done by fee appraisers because the office had a larger staff of appraisers relative to its work load.

Between the end of fiscal year 1985 and the end of fiscal year 1986, HUD field offices increased the number of fee appraisers from 4,683 to 7,423. During that same time period, the number of HUD staff appraisers assigned to field offices decreased from 197 to 180. Many field offices have few or no HUD staff appraisers to perform field reviews. Specifically, three field offices—Providence, Rhode Island; Charleston, South Carolina; and Knoxville, Tennessee—had no HUD staff appraisers at the end of fiscal year 1986. Twenty offices have 1 staff appraiser; 22 offices have 2 staff appraisers; and 32 offices have 3 or more staff appraisers.

Field office and headquarters officials at HUD told us that they did not think it was a good idea to use fee appraisers to perform field reviews, but they had little choice because of the severe staffing shortages at most offices. They said that additional staff would be needed to perform the field reviews with HUD staff. It appears that HUD does not believe it can obtain additional staff for this function. In response to a 1986 ICR recommendation to have HUD staff perform all field reviews, the Deputy Assistant Secretary for Single Family Housing said that such a recommendation would lead to major increases in staff and, therefore, at the time was impractical.

If the field offices initiate a statistical sampling of their appraisals as discussed in chapter 3, the number of field reviews to be conducted may decrease sufficiently in the large field offices so that existing staff levels could perform many or all of the reduced number of reviews. More importantly, this would help HUD conform to the Comptroller General's standards for internal controls in the federal government. One of the specific standards requires the separation of duties and responsibilities.

The use of fee appraisers to conduct both appraisals and reviews does not meet that standard.

Lack of Rating Criteria and Documentation Creates the Potential for Subjective Review Results

One of the Comptroller General's internal control standards requires that internal control systems and all transactions and other significant events be clearly documented and the documentation be readily available for examination. Our review found that HUD does not have specific criteria to assist the reviewer in determining whether an appraisal is good, fair, or poor. In addition, we found that the field review form transmitting the results of the review to the HUD field office often contains very little documentation. Thus, we believe that this situation does not meet the documentation standard developed by the Comptroller General.

HUD does not have specific criteria for the good, fair, and poor ratings given by field reviewers. However, it does have very general criteria, which state that only those items that have a deleterious effect on the health and safety of the occupants of a house or the marketability of the property should adversely affect the rating. For fiscal year 1986, we examined the ratings given in seven field offices and found that 84 percent of the ratings were good, 13 percent were fair, and 3 percent were poor.

Some field office officials told us that field review ratings are subjective and therefore they did not see any problem in not having criteria. They added that appraising is an art and the reviewers are expected to use their professional judgment rather than some specified criteria when reviewing an appraisal. On the other hand, the Washington, D.C., field office developed additional general criteria for ratings and believed that such criteria were necessary. Field reviewers we interviewed were generally in favor of additional criteria. For example, in the Atlanta office, three out of four field reviewers we spoke with wanted HUD to establish some general criteria that would describe what makes an appraisal good, fair, or poor.

The need for some type of specific criteria becomes important when considering that HUD field and headquarters officials told us that more than three poor ratings or less than 80 percent good ratings received in a year by an appraiser could cause disciplinary action or dismissal. From our interviews with the nine Atlanta office appraisers, it is evident that they are confused about the interpretation of the ratings. Some appraisers told us that a fair rating meant that there were some significant

weaknesses in the appraisal that needed to be corrected; other appraisers said that a fair rating meant that the appraisal had some minor mistakes.

HUD officials advised us that ratings are used to identify training needs and to determine the adequacy of an appraiser. Accordingly, general agreement is needed as to what each of the rating categories means. This could be accomplished through the use of criteria that would be informative but still sufficiently general to allow the reviewer to use some subjectivity. The following example was developed and used by the Washington, D.C., field office.

GOOD - A report that is better than fair. It does not have to be perfect.

FAIR - A report that has minor deficiencies, such as poor analysis of the neighborhood or incomplete repair requirements. The deficiency is minor if it will not have a major impact on the valuation underwriting or risk analysis—e.g., is the property one that is a relatively safe insurance risk?

POOR - Any appraisal involving conflict of interest or false documentation. A poor rating deals with all of the items in the fair category, but the deficiencies have a major impact on the valuation underwriting. That is, if the reviewer finds the value to be out of the reasonable range of true market value or major repair items missed, or the appraiser accepts a property that is a poor risk for mortgage insurance and should have been rejected, a poor rating is justified.

In February 1987 the Assistant Secretary for Single Family Housing issued a memorandum that discussed criteria for rating the appraiser and mortgage underwriter in a HUD program similar to the single family housing appraisal program. HUD headquarters officials told us in April 1987 that field offices could apply these criteria to all field reviews. Some conversations we had with field office officials between the memorandum issuance in February and our discussion with headquarter officials in April 1987 indicated that these officials were not aware that they were expected to use the cited criteria.

We agree that the rating criteria developed cannot be overly specific, but we do believe that a critical need exists to develop some criteria that would allow for more equality in the ratings, especially if the rating results are to be used to decide if an appraiser should be retained.

Often the Review Results Are Not Well Documented

In addition to developing general criteria to be used in rating the appraisers, the reviewer must adequately document the rationale used to give the appraisal a certain rating in accordance with HUD requirements. In a January 1985 memorandum to the field offices, the Assistant Secretary for Housing stated that a quality field review should contain comprehensive, constructive comments about every aspect of the appraisal made in such a manner that the appraiser will understand areas of the report that are good and any others that may need improvement.

In the three offices we visited, we found field review forms that contained a one-word rating in each of the areas on the rating form. Often we found field review forms that did not contain comprehensive comments. If the ratings are to be used for counseling, training, and disciplinary actions, better documentation of the rationale used for the rating in each category is necessary.

Reviews Need to Include the Interior of the House More Often

HUD has set a goal that 50 percent of all field reviews include a review of the appraiser's valuation of the house's interior. The field offices we visited did not reach this goal. It is important for the reviewer to review the appraiser's valuation of the interior of the house—for such items as the interior walls, floors, heating, and plumbing. An older house can have even more appraised value in the interior of the house. Thus, it is important that the field review determine the condition of the inside of the house as often as possible.

Although HUD's goal has been to review the house's interior in 50 percent of the field reviews, none of the three offices we visited tracked the number of interior reviews made. To determine the percentage of interior reviews made, we checked the vouchers submitted by fee reviewers for payment. (A fee reviewer gets a higher fee for performing a field review including an interior review.) We found that in fiscal year 1985 for the three offices we visited, the fee reviewers' percentage of field reviews including interior reviews ranged from 14 to 39 percent. In fiscal year 1986, this percentage ranged from 2 to 25 percent.

Officials from both the field offices and headquarters told us that the primary reason more interior reviews are not made is the difficulty in arranging a time for such a review with the homeowner. However, at none of the three offices we visited did management have a system to supervise or monitor the number of field reviews with interior reviews, or to determine if the reviewer actually tried to arrange a time with the

homeowner for the review. This lack of supervision indicates that in this regard, the field offices are not following a specific Comptroller General's standard that requires qualified and continuous supervision to ensure that internal control objectives are achieved.

One field office conducted a spot check to determine whether the interior reviews made for a period of time had actually been made. The office found numerous instances of field reviewers claiming to have performed interior reviews—and receiving a higher fee—when the homeowner has stated no such review was made.

It is important to perform as many interior reviews as possible when performing field reviews. HUD identifies the significance of interior reviews by setting a goal that one out of every two field reviews includes an interior review. The field offices need to greatly increase their fiscal year 1986 performance to reach that goal. Furthermore, the field offices need to start monitoring the percentage of field reviews that include interior reviews and determine methods to improve that percentage to reach HUD's goal.

Conclusions

HUD uses field reviews as the quality control measure for ensuring that appraisals adequately reflect the value of a house. Effective internal controls are essential to ensure that the reviews are conducted as accurately and completely as possible.

We found that certain internal control weaknesses in the standards of separation of duties, documentation, and supervision exist in the performance of the reviews, thereby limiting their usefulness. The use of fee appraisers to perform these field reviews increases the potential for fraud and abuse in the program because of inadequate separation of duties. The implementation of a sampling plan as outlined in chapter 3 should significantly decrease the number of field reviews performed at the field offices with heavy work loads, thus making it feasible for HUD staff to perform the reviews. The field offices are not adequately supervising the process to determine the adequacy of the reviews as required. If fee appraisers are to continue making field reviews, the field offices should ensure that effective internal controls are in place and used.

HUD has not ensured that the field review results are adequately documented. Developing specific criteria for the reviewer to use in determining the rating for the appraisal and requiring documentation of the

rationale for the rating would vastly improve the accuracy and usefulness of the review results.

HUD is not reaching its goal of including interior reviews in at least 50 percent of an office's field reviews. HUD field offices have no plan or method to reach the goal and do not supervise progress toward that goal. In addition, the field offices do not normally check to determine that the interior reviews were actually made.

Recommendations

We recommend that the Secretary of HUD direct the Assistant Secretary for Housing to take the following actions:

- Intensify efforts to use HUD staff to perform field reviews, and allow fee appraisers to be used for this purpose only on an exception basis, especially in those offices where the statistical plan reduces the required number of reviews.
- Stress to the field offices the importance of using required checks when fee appraisers are doing field reviews. These checks include having HUD staff (1) review appraisals done by the field reviewer and (2) examine reviews done by the fee reviewer.
- Improve the manner by which field reviews are performed, rated, and documented, especially by increasing the number of field reviews with interior reviews, implementing general criteria for use by the reviewer in determining the appraisal's rating, and requiring more documentation of the rationale or reason for the rating on the field review form.

Agency Comments

HUD stated that it plans to implement our recommendations (see app. V). The Assistant Secretary for Housing agrees that the best internal control of appraisal quality would be an internal review staff. He plans to request that HUD provide increased staffing in the field offices to accomplish these reviews. A draft processing directive prepared by HUD states that its goal is to use staff appraisers whenever possible to conduct field reviews. But until HUD can increase staffing, the draft directive would establish a separate fee panel for the specific purpose of conducting field reviews, which cannot be done by office staff. Except in certain cases, no member of this separate fee panel would do appraisals for HUD.

The draft directive requires that every field reviewer's work must be reviewed by the chief appraiser or designee at least once during the fiscal year. Documentation of the field reviewer's performance is to be

included in the reviewer's file along with records of disciplinary meetings and training sessions.

HUD also stated in its draft directive that it will scale back its previous goal that 50 percent of all field reviews include interior reviews. According to the directive, HUD's new goal will be to include interior reviews in one-third of all field reviews. However, to provide an incentive to increase the number of interior reviews, the draft directive calls for an additional \$30 in fees paid for such reviews. The draft directive also prescribes that reviewers rate fee appraisers on the basis of HUD's February 1987 standards for rating, which are discussed earlier in this chapter.

HUD Has Not Corrected Appraiser-Related Internal Control Problems

Despite actions implemented by HUD to correct problems involving the selection of appraisers for fee panels and the assignment of appraisers to individual cases, deficiencies continue to exist in these areas. In particular, internal controls for documentation and supervision are lacking. In addition, we found that HUD practices with regard to training or terminating unsatisfactory appraisers need improvement. If they are not corrected, these problems involving appraisers—selection, assignment, training, and termination—could have a major impact on the potential for waste, fraud, and abuse in HUD's single family housing appraisal program.

Better Controls Needed Over the Assignment Process

One of the stated objectives of the single family appraisal program is to ensure that appraisers are assigned appraisals on a fair and equitable rotation basis to prevent the possibility of assignment clerks showing favoritism toward certain appraisers and mortgage lenders. A 1983 ICR showed that individual field offices were using their own systems to assign fee appraisers to appraisals. In one office, the assignment process was not based on a rotational, nonbiased system.

As a result, HUD took three corrective actions to improve the assignment process. Specifically, HUD

- enhanced the Computerized Home Underwriting Management System (CHUMS)¹ to ensure appraiser assignment on a rotational basis,
- instructed assignment clerks on procedures for the prompt and efficient processing of single family applications for HUD mortgage insurance, and
- issued a directive requiring supervisors to review the assignment log periodically to ensure that the rotational system is being properly used.

Our review found (1) limited documentation of the reasons for making changes to (overriding) the original appraiser assignment made by using CHUMS, (2) limited supervision of the appraisal assignment system, and (3) a high number of "overridden" appraisal assignments. Apparently, the weaknesses continue to exist, not because the corrective actions were inadequate but rather the field offices have not been given the "tools" to monitor activity, such as adequate time to supervise the process or the computer runs necessary to determine the number and validity of overruns.

¹An automated system used in HUD's single family mortgage insurance application processing that captures data needed to meet the information requirements of HUD on the single family housing program.

**More Descriptive Reasons
 for Overrides Needed**

As one of the corrective actions taken as a result of the 1983 ICR, HUD enhanced CHUMS to make automatic appraiser assignments on the basis of the location, work load, and availability of the appraiser. Despite the use of CHUMS to make assignments, we found in three offices we visited that a significant number of overrides are still being made. (See table 5.1.)

We were unable to determine the extent to which the overrides in the three offices were for valid reasons because the reasons HUD gives for these overrides are too general. For example, about 95 percent of the overrides for fiscal year 1986 in the three offices were for "automatic appraiser assignment overridden," or "appraiser assignment delayed." In neither instance are these reasons sufficiently descriptive to aid in determining why an override was made and if such an override was valid. HUD had identified other reasons for overrides that were more specific, but rarely used them.

**Table 5.1: Appraisers Assigned by
 Overrides, Fiscal Year 1986**

Field office	Cases requiring appraisals	Overrides made	Percentage of appraisers assigned by overrides
Atlanta	42,974	13,240	30
Philadelphia	29,487	11,221	38
Washington, DC	62,385	12,704	20

Field office officials told us that the large number of overrides occurred for valid reasons, such as instances in which lenders decide to use their own staff appraisers rather than the one assigned, as well as situations in which the CHUMS system is down and assignments are made on a manual basis. Overrides can also occur for other reasons, such as during periods of heavy work loads when there is a need to exceed an appraiser's maximum caseload included in the computer.

Adequate documentation is one of the Comptroller General's internal control standards. The documentation should be accurate and should help trace the transactions or events and related information. Such is not the case in the CHUMS appraiser assignment process because the reasons for overrides are not specific enough to facilitate tracing. With the large number of overrides, the need for good documentation becomes even more important.

Limited Supervision of the Assignment Process

The 1983 ICR reported that supervision over the appraiser assignment process was poor. To correct the problem, HUD issued a directive requiring supervisors to review the assignment logs periodically to ensure that the system is properly used. We found that the appraisal process was not adequately supervised in the three offices we visited.

Field office managers and assignment clerks at two of the three offices told us that they neither maintained records nor monitored overrides during fiscal year 1986. Officials at all three field offices told us that the heavy work load in fiscal year 1986 had limited the amount of supervision they could perform on the assignment process. However, the Washington, D.C., field office kept manual records on overrides for 8 months of fiscal year 1986. It appears that these records were not comprehensive. The records showed that the office had 204 overrides during that 8-month period. However, CHUMS indicates that for fiscal year 1986 the office made 12,704 overrides. It is unlikely that 12,500 overrides were made in 4 months. Officials at the three field offices told us that there was no effective way to monitor overrides, which makes the assignment process difficult to supervise.

If the heavy work load continues, HUD will continue to experience problems in supervising the assignment process. When we discussed the recordkeeping and supervision problems with HUD headquarters officials, they told us that field offices could identify cases where the original assignment of an appraiser had been overridden. Each office receives a daily progress report which, among other data, lists data on mortgage applications requiring appraisals. Those applications that involved an override of the appraiser assigned are identified with an asterisk. In discussions with the CHUMS contractor, we found that CHUMS could produce a special run that would identify the clerk who made the override, the appraiser assignment, the reason for the override, the lending institution involved, the case number, and the property's address. The field offices we visited were not aware of either method of identifying overrides.

The use of this CHUMS-generated data could decrease the time needed to supervise the assignment process. Regardless of the method field offices choose to supervise the assignment process, supervision is important. One of the Comptroller General's internal control standards states that qualified and continuous supervision is to be provided to ensure that internal control objectives are achieved. Supervision aids detection and elimination of errors and discourages wrongful acts.

Assignment Clerks Receive Limited Training

Another corrective action instituted by HUD as a result of the 1983 ICR was to instruct assignment clerks on the HUD requirements for processing single family housing appraisal applications. We did not perform an in-depth review of the adequacy of training, but we did observe that assignment clerks in the three offices we visited received limited or no training on (1) enhancements to CHUMS or (2) how and when overrides to CHUMS appraiser assignments are to be made. Assignment clerks in two of the three offices we visited had not received training on the various CHUMS enhancements that affect the appraiser assignment process. In one field office, an assignment clerk told us that she had not received training on CHUMS other than the initial training she was given when she was hired. In a second field office, an appraiser responsible for training assignment clerks told us that the clerks were not provided with written guidance or procedures on when or how manual assignment of appraisers should be made.

Our observations on training at the three field offices we visited may not necessarily reflect ongoing practices at other HUD field offices. However, since additional training of assignment clerks was cited as a corrective action to be implemented at all offices, HUD may wish to use our observations as an incentive to determine whether a training problem exists at its offices.

Problems in the Selection of Fee Appraisers Still Exist

The 1983 ICR pointed out that a formal process was not required to select appraisers for the fee panel. In fact, in most offices included in the ICR, only one person was responsible for selecting appraisers. The ICR recommended that HUD field offices use a panel to select the most qualified appraisers. The panel would rate each candidate on the basis of experience, education, and professional designation. In January 1985 HUD made changes to its process of selecting appraisers but did not require field offices to use the panel method of selection. HUD did not see the need for the panel because it believed the official doing the selection at each of the field offices was effectively selecting the eligible appraisers. Moreover, officials at one field office said that the work load was too heavy to convene a panel to make selection decisions.

The 1983 ICR stated that such a panel would provide an orderly, rational, and fair selection process. HUD has not employed the panel as part of its selection process; thus this potential may not have been realized.

Appraiser Training Inadequacies

The 1983 ICR pointed out that field offices do not have regularly scheduled training and orientation sessions for review and fee appraisers. The report added that although training and orientation provide appraisers with the necessary information for preparing good appraisals, field offices have been scheduling such meetings only sporadically. One of the corrective actions the report recommended and HUD accepted was to require field offices to have regularly scheduled training sessions for fee and review appraisers.

HUD's Handbook 4150.1 specifies that field office management shall periodically schedule a meeting with each appraiser to review the accumulated field review reports. These meetings did not occur during fiscal year 1986 at the three offices we visited.

The handbook adds that selected field review reports that show deficient performances shall be used as an additional basis for continued training for all fee appraisers. If the appraiser's performance is judged unsatisfactory from receiving too many fair and/or poor ratings, the handbook requires field offices to provide prompt and intensive training and guidance to that appraiser. None of the three offices we visited could document that they had regularly scheduled training sessions or provided prompt and intensive training to unsatisfactory performers. For example, two appraisers in the Atlanta office told us that they were unaware of their field review ratings. Together, these 2 appraisers had received 8 fair and 9 poor ratings in 79 reviews.

Neither the 2 appraisers discussed previously nor the 3 other appraisers we spoke with, who had 25 fair ratings and 11 poor ratings in 215 reviews, had received any training specifically designed to eliminate the weaknesses noted in the field reviews. All of the appraisers had received at least one poor rating. Neither the Washington, D.C., nor the Philadelphia field office provided general or specific training for poor performers during fiscal year 1986.

Field office officials told us that training did not take place in fiscal year 1986 because of the heavy work load. They recognize the importance of additional training but find it difficult to schedule training because of the record volumes of requests for appraisals received in fiscal year 1986. We agree that, especially in times of heavy work load, periodic meetings to discuss accumulated field review results may be deferred unless those results show that the appraiser is not performing satisfactorily. Conversely, we disagree that the counseling and training of

appraisers who receive enough fair and/or poor ratings to be judged unsatisfactory should be delayed because of a heavy work load.

Officials at all three field offices told us that they had discussed field review results by telephone or face-to-face with appraisers who had unsatisfactory results. However, at all 3 offices, we checked appraisers' files with the poorest ratings and found no documentation that such counseling took place. HUD can take disciplinary action against poor performers, but counseling should take place before an action is taken. If the counseling is not documented, it will be difficult to support the need for stronger action. Officials at each of the three offices agreed with us about the importance of documenting any counseling and told us that they would provide such documentation in the future.

Field Offices Have Experienced Problems in Terminating Poor Performers

The 1983 ICR report stated that field offices were retaining fee appraisers who perform in a less than acceptable manner. It pointed out that field offices have not dismissed these poor performers because of the difficulty of doing so under the temporary denial of participation process as outlined in 24 C.F.R. 24. A temporary denial of participation is for a 12-month period and is used when HUD believes that either an appraiser has failed to maintain the prerequisites for eligibility to be on the fee panel or adequate evidence exists of irregularities, such as poor appraisals, lack of timeliness, or being uncooperative. The appraiser may request an information hearing and present evidence as to why the appraiser should not be denied participation on the panel.

As a result, HUD took two corrective actions in this regard. First, HUD required that all newly approved appraisers serve a 1-year probationary period. Second, HUD provided field offices with the authority to remove unsatisfactory appraisers from the panel by means other than the temporary denial of participation process. During fiscal year 1986, although each of the three offices we visited had unsatisfactory performers, two of the offices had not terminated a fee appraiser for any reason. A third office said a few poor performers had been terminated, but this office could not document the cases.

In fiscal year 1986, none of the three offices we visited issued a temporary denial of participation. Field office officials said that before issuing a denial, the office needs to gather a substantial amount of documentation on the adequacy of the appraiser's appraisals, timeliness, and willingness to cooperate. One office told us it is easier to assign very few or no cases to those appraisers who are poor performers. Officials at all

three offices believed that the temporary denial of participation process is too lengthy and difficult to use effectively.

In 1985 the Assistant Secretary for Housing issued a memorandum to all field offices informing them that no fee appraiser should be removed from a panel unless substantial evidence exists in the field of untimeliness, uncooperativeness, or less-than-acceptable performance. A field office could, however, reduce the size of its panel. HUD headquarters officials told us that the reduction in the size of the fee panel is their alternative to the temporary denial of participation process.

HUD Handbook 4020.1 states that panel size may be changed according to work load and that the field office branch chief must determine the appropriate size of the panel on the basis of current and projected work load. The branch chief also decides on which fee panel appraisers should be retained, in agreement with certain procedures to be followed in making the determination as required by the handbook. Specifically, the handbook requires the offices to

- rate the appraisers on the panel annually using the results of the reviews, promptness of service, quality of performance in comparison with other fee panel members, and willingness to accept assignments;
- retain fee panel appraisers in descending order of their ratings;
- notify the others that the panel has been reduced and that their rating did not place them among the most highly qualified who were retained on the panel; and
- notify those not selected for the new panel that this action is not an administrative sanction subject to 24 C.F.R. 24.

None of the three offices we visited had ever used this method to terminate unsatisfactory performers, nor had any annually ranked its fee panel members. The offices told us that such a rating system is very difficult to apply because some appraisers receive no field reviews or a very small percentage of field reviews in relation to other appraisers. These statements were borne out by the results of our review, which indicate that 340 appraisers, or 33 percent of the 1,014 appraisers assigned to 7 HUD field offices for which we reviewed data, had received no field reviews.

HUD headquarters officials told us that one of its field offices had recently attempted to reduce its panel by ranking the fee appraisers but found that the method was not feasible because of the vast differences in the number of reviews made on each appraiser.

Conclusions

HUD identified problems involving the selection, assignment, training, and termination of fee panel appraisers. As a result, HUD developed corrective actions to mitigate these appraiser-related problems. We found that these problems, by and large, still exist. The selection process, which continues to be carried out by one person, still holds the potential for fraud, waste, and abuse; training and counseling of appraisers does not meet HUD requirements; and field offices still have no effective method, in their view, for terminating poor performers. The failure of field offices to document counseling sessions with unsatisfactory appraisers makes their removal more difficult.

In addition, appraisers are being assigned on a nonrotational basis. Clerks at HUD field offices frequently override the CHUMS-assigned appraiser. The reasons for the overrides are not specific enough to document the need for the overrides. At the field offices we visited, the clerks were not adequately trained on the assignment process, and HUD field office management were not adequately supervising the assignment process.

Recommendations

We recommend that the Secretary, HUD, direct the Assistant Secretary for Housing to

- require field offices to use panels to select the most qualified appraisers for their fee panels;
- require that the three field offices we visited provide training to appraisers who receive unsatisfactory ratings, and document in the appraisers' personnel files that such training and/or counseling has taken place;
- alert the other field offices of the need to provide and document similar training and counseling;
- improve the documentation and supervision controls within the single family housing appraisal program by (1) developing override codes that are sufficiently explanatory to trace the validity of the override and (2) using the special override runs available in the CHUMS to permit better supervision of the assignment process; and
- ensure that field office assignment clerks are adequately trained on the CHUMS system and on the process for overriding CHUMS appraiser assignments.

Agency Comments

HUD stated that it has included our recommendations in a draft processing directive (see app. V). In addition, follow-up training for assignment

Chapter 5
HUD Has Not Corrected Appraiser-Related
Internal Control Problems

clerks and chief appraisers on CHUMS has been scheduled for the first quarter of fiscal year 1988. At this training, HUD plans to address the issue of overriding the appraiser assignment.

Actions Reported Taken by HUD to Correct a Material Weakness in Its Single Family Housing Appraisal Program

Corrective action	Month/year implemented
Use fee appraisers to do field reviews	12/82
Require photographs of properties of comparable value	1/85
Adopt a version of a plan for selecting fee appraisers	1/85
Enhance CHUMS to ensure appraiser assignment on a rotational basis	9/84
Issue a directive requiring supervisors to review the assignment log periodically to ensure that the rotational system is being used properly	9/84
Instruct assignment clerks on requirements of HUD Notice 80-14, which provides processing procedures for the prompt and efficient processing of single family applications for HUD mortgage insurance	9/84
Require that all newly approved appraisers serve a 1- year probationary period	8/84
Provide field offices with the authority to remove unsatisfactory appraisers from the panel by means other than temporary denial of participation	8/84
Require field offices to have regularly scheduled training sessions for fee and review appraisers	1/85
Issue a memorandum to field offices reminding them of supervisory duties	1/85

Source HUD's 1985 Annual Assurance Report

Scope and Methodology

We reviewed pertinent regulations, HUD handbooks and notices, HUD Inspector General reports, ICRs, and procedures concerning appraisals, field reviews, and valuation analysis for home mortgage insurance. We also reviewed reports from HUD's CHUMS, fee utilization reports, fee field review personnel files, valuation field review reports, vouchers, prompt payment records, and staff characteristics reports showing the geographic areas in which fee appraisers indicated they would like to work.

At HUD headquarters in Washington, D.C., we reviewed files on the identification of the material weakness, the internal control studies made of the single family housing valuation area, and the headquarters monitoring function for the implementation and effectiveness of the corrective actions. We also identified the types of data available to headquarters personnel concerning the operation of the single family housing appraisal process in its field offices.

In addition, to obtain necessary information and discuss problems, we interviewed officials at HUD headquarters, its Philadelphia and Atlanta regional offices, and its Philadelphia, Atlanta, and Washington, D.C., field offices. We interviewed headquarters officials, such as the Directors of the Offices of Insured Single Family Housing, Management, and Financial Management Systems Staff; regional officials including the Director of the Office of Housing and Housing Management Division staff; and field office officials such as the Chiefs of the Valuation Branch, Mortgage Credit Branch, Operations Branch, and Field Monitoring Division. We interviewed HUD appraisers, fee appraisers, field reviewers, and assignment clerks at each field office.

We also contacted appraiser organizations to discuss performance standards for appraisers such as the Society of Real Estate Appraisers and the National Association of Independent Appraisers and the Federal Home Loan Bank Board, Federal Home Loan Mortgage Corporation, and the Federal National Mortgage Association.

HUD data at times did not directly provide the information we needed, so we made certain analyses of the available data. Examples of these analyses follow:

- To determine the number of field reviews which included interior reviews, we examined vouchers for payment to field reviewers.
- To compare the number of overrides with the assignment of appraisers, we used special computer runs provided by HUD's Single Family Housing Systems Branch.

- To determine the geographic field coverage of field reviews, we listed each appraiser by county. For those appraisers who worked in more than one county, we included their totals within each county. We then determined the percentage of appraisals reviewed in each county by dividing the number of reviews by the number of appraisals done in the county. Because of the small geographic area covered by HUD's Washington, D.C., field office, its coverage is not typical of other field offices, and thus our determination of coverage was limited to HUD's Atlanta and Philadelphia offices.
- To determine the use of field review results, we discussed actions taken with field office managers. To document any actions taken, we examined the personnel files of those appraisers with the poorest ratings for fiscal year 1986 and examined training records and attendance sheets.
- To determine the method field offices used to select fee appraisers for the fee panel, we discussed the method used with the officials making the selection. We did not examine all candidates' applications to determine whether the ones selected were the best qualified.

Field Offices That Did Not Reach the 10-Percent Review Requirement for Fiscal Years 1985 or 1986

Field office	Fiscal Years in percent	
	Did not reach requirement in	
	FY 85	FY 86
Louisville, KY	9.9	
Nashville, TN	9.8	
Tucson, AZ	9.5	
Milwaukee, WI	9.2	
Portland, OR	9.1	
Salt Lake City, UT	9.1	
Memphis, TN	9.0	
Las Vegas, NV	8.6	
Jackson, MS	8.8	
Charleston, WV	8.5	
Los Angeles, CA	7.9	
Tampa, FL	6.6	
Dallas, TX	5.8	
Des Moines, IA	4.1	
Fresno, CA	4.0	
Sioux Falls, SD		9.9
Phoenix, AZ		9.6
Lubbock, TX		9.3
Cincinnati, OH		9.2
Philadelphia, PA		9.2
Coral Gables, FL		9.0
Orlando, FL		9.0
Wilmington, DE		9.0
Kansas City, KS		8.7
Richmond, VA		8.1
Knoxville, TN		7.6
Baltimore, MD		7.2
Shreveport, LA		7.1
Anchorage, AK		6.6
Burlington, VT		6.6
Manchester, NH		6.2
Santa Ana, CA		6.1
Little Rock, AR		5.6
Washington, DC		5.5
Springfield, IL		5.3
Denver, CO		5.2
Flint, MI		5.1

(continued)

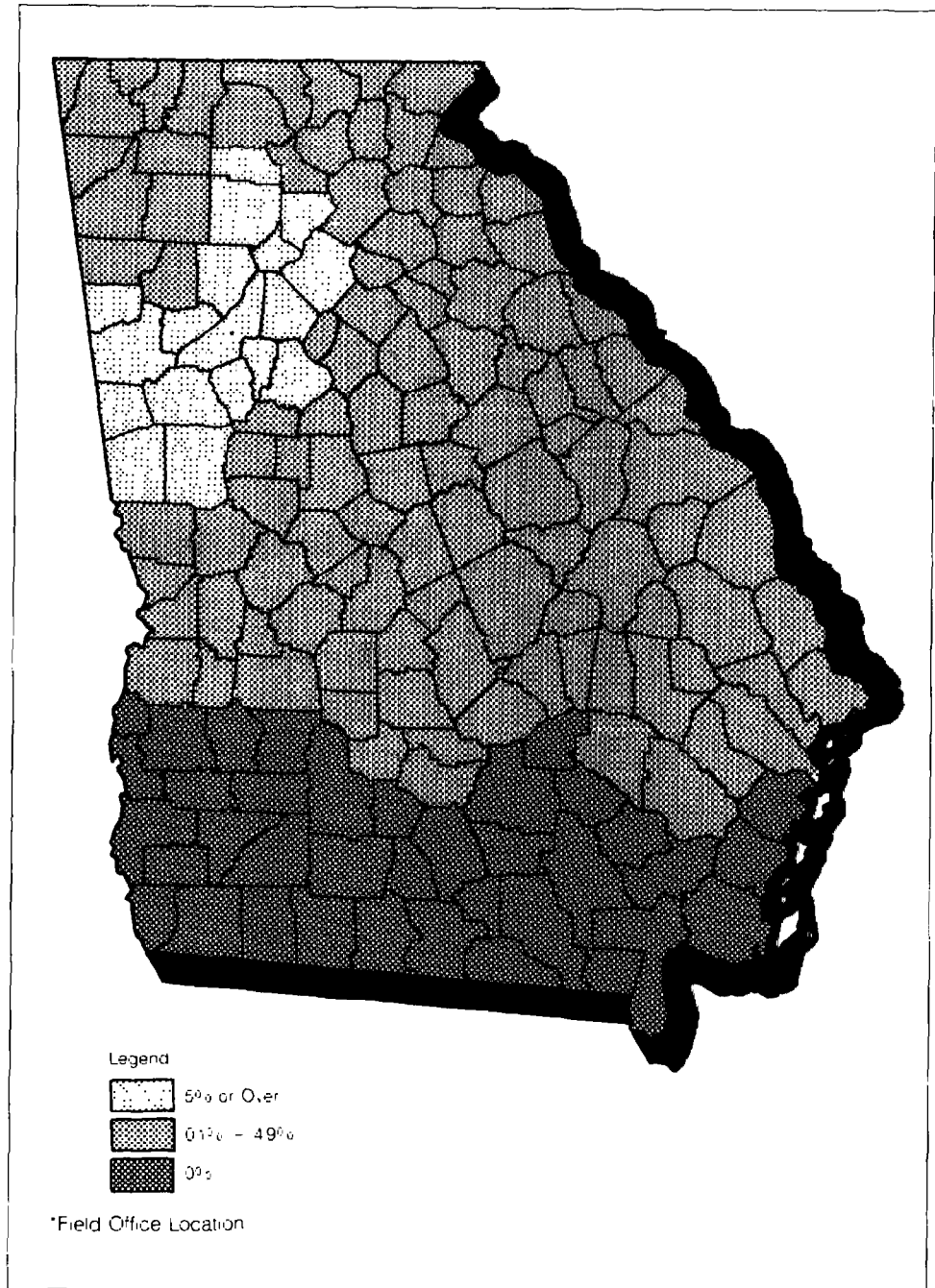
**Appendix III
Field Offices That Did Not Reach the 10-
Percent Review Requirement for Fiscal Years
1985 or 1986**

Field office	Fiscal Years in percent Did not reach requirement in	
	FY 85	FY 86
Albany, NY		2.2
Boston, MA		0.1
Hartford, CT	9.9	8.8
New York, NY	9.7	7.9
Topeka, KN	9.6	4.1
Caribbean	9.4	4.3
Albuquerque, NM	8.8	7.5
Casper, WY	8.8	4.4
Bangor, ME	8.5	0.9
Buffalo, NY	8.5	8.5
Providence, RI	8.3	8.6
Boise, ID	8.2	4.7
Columbia, SC	8.1	9.4
Spokane, WA	7.8	9.9
Chicago, IL	7.5	7.9
Atlanta, GA	6.8	7.4
Seattle, WA	5.3	5.6
Houston, TX	5.2	9.6

Source: HUD's quarterly reports for fiscal years 1985 and 1986

Percentage of Appraisals Receiving Field Reviews in Georgia and Pennsylvania

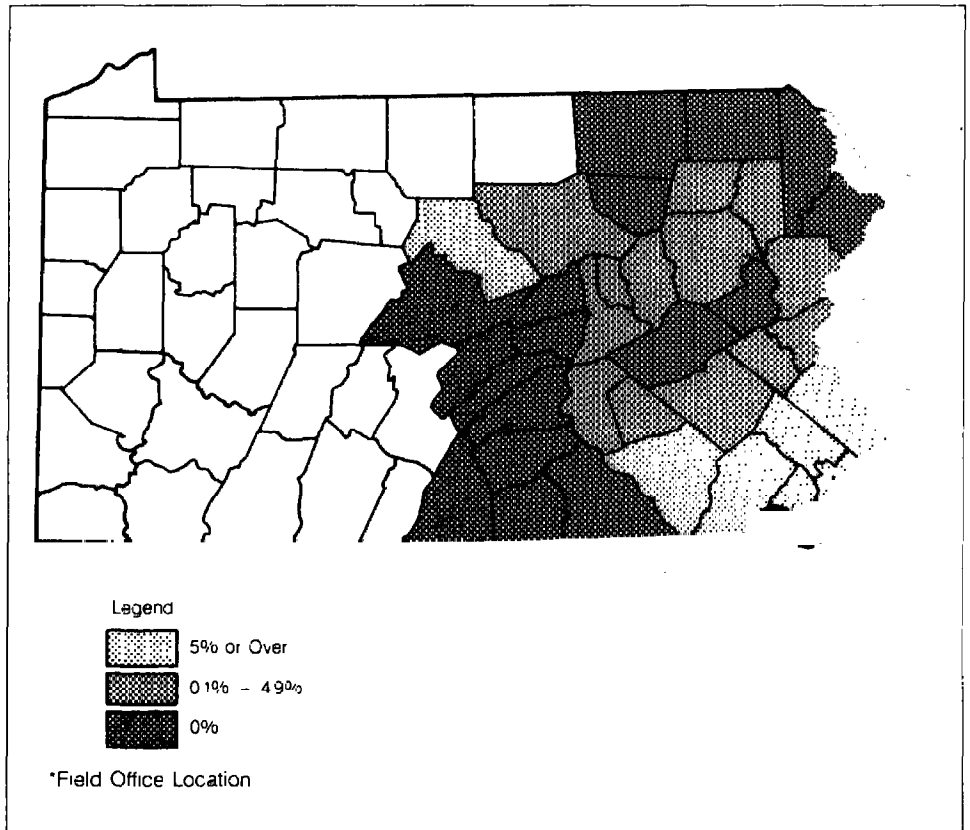
Figure IV.1: Percentage of Appraisals Receiving Field Reviews—Georgia
(By County)



Source: GAO analysis of HUD data

Appendix IV
Percentage of Appraisals Receiving Field
Reviews in Georgia and Pennsylvania

Figure IV.2: Percentage of Appraisals
Receiving Field Reviews—Pennsylvania
(By County)



Source: GAO analysis of HUD data.

Comments From the Department of Housing and Urban Development

Note: GAO comments supplementing those in the report text appear at the end of this appendix



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D.C. 20410-8000

AUSIT

OFFICE OF THE ASSISTANT SECRETARY FOR
REFINING FEDERAL HOUSING COMMISSIONER

Mr. J. Dexter Peach
Director, Community and Economic
Development Division
United States General Accounting Office
Washington, DC 20548

Dear Mr. Peach:

Your letter of July 16 1987, addressed to the Secretary of Housing and Urban Development transmitting a proposed report to the Congress entitled: "Internal Controls, HUD Should Correct Weaknesses In Its Single Family Housing Appraisal Program," has been referred to me for reply.

We have no substantive disagreement with the recommendations in the report. However, we are disappointed with two aspects of the Executive Summary. First, in the opening paragraph you state that "Also, in Fiscal Year 1986, the (single family insurance) program sustained a \$629 million loss." This statement is misleading. The Mutual Mortgage Insurance Fund had a net income (surplus) of \$462 million in Fiscal Year 1986. It is true that HUD sustained a loss of approximately \$635 million on the sale of properties it acquired through foreclosure, but this loss cannot be attributed solely to weaknesses in the appraisal process, as your statement implies. In our opinion, adverse economic conditions in certain areas of the country that have caused a decline in property values are responsible for the major portion of our losses on foreclosure sales.

Secondly, you fail to explain in the Executive Summary that during Fiscal Year 1986, FHA processed more applications than in any prior year in its history. There is no doubt that this high volume contributed to HUD's inability to meet its field review goals and resulted in overrides to our automated appraiser assignment system more often than desirable.

I will answer the recommendations in the order that they are presented in the report.

Recommendation No. 1: The Secretary of HUD should direct the Assistant Secretary of Housing to develop, at Field Offices where it is cost beneficial, a systematic plan with a sound methodological basis, such as statistical sampling, to produce accurate estimates of the quality of the appraisals performed overall.

See comment 1

See comment 2

**Appendix V
Comments From the Department of Housing
and Urban Development**

Reply: Attachment A is a memorandum for Housing's Director, Office of Management requesting contract funds to assist in developing a plan in accordance with this recommendation.

Recommendation No. 2: The Secretary of HUD should direct the Assistant Secretary of Housing to improve the manner by which field reviews are performed by (1) increasing the number of field reviews which include interior reviews, (2) developing criteria for use by the reviewer when rating an appraisal, and (3) requiring more documentation of the rationale for the rating given by the reviewer.

Reply:

Attachment B is a processing directive which is intended to address the issues raised in Recommendations 2 and 4.


Recommendation No. 3: The Secretary of HUD should direct the Assistant Secretary of Housing to intensify efforts to use HUD staff to perform field reviews and allow fee appraisers to be used for this purpose only on an exception basis, especially in those offices where the systematic plan reduces the number of required reviews.

Reply: Attachment C is a memorandum to the Assistant Secretary for Administration requesting that the necessary staff increases be studied and implemented.

Recommendation No. 4: The Secretary of HUD should direct the Assistant Secretary of Housing to improve the documentation and supervisory controls over the appraiser assignment process.

Reply: We have attempted to include the recommendations in Attachment B. In addition, followup training for assignment clerks and Chief Appraisers on the Computerized Homes Underwriting Management System (CHUMS) has been scheduled for the first quarter of Fiscal Year 1988. At this training, we will address the issue of overriding the appraiser assignment.

Sincerely yours,


Thomas T. Demery
Assistant Secretary

Enclosures

Appendix V
Comments From the Department of Housing
and Urban Development



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D.C. 20410-8000

ATTACHMENT A

OFFICE OF THE ASSISTANT SECRETARY FOR
HOUSING FEDERAL HOUSING COMMISSIONER

JUL 21 1987

MEMORANDUM FOR: Paul Williams, Director, Office of
Management, HPA

FROM: Alan J. Kappeler, Director, Office of Insured Single Family
Housing, HSS

SUBJECT: GAO Draft Report on Single Family Appraisals

The subject report makes several recommendations to the Secretary to improve the single family appraisal process.

One of the major recommendations is that we should develop a systematic plan with a sound methodological basis, such as statistical sampling, to produce accurate estimates of the quality of the appraisals performed overall. The GAO believes that using a statistical sample may enable large volume Field Offices to reduce the required number of field reviews but still reliably project the overall quality of the appraisals in the office.

Glen Ruggles of your staff has indicated to us that Assistant Secretary Hofmann has offered to provide contract money to develop a systematic plan of statistical sampling. We accept Mrs. Hofmann's offer and we request that you take the necessary steps with her office to procure such a contract.

If you have any questions concerning this memorandum, please contact Bud Carter at 755-6700.

Appendix V
Comments From the Department of Housing
and Urban Development



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D.C. 20410-8000

ATTACHMENT B

OFFICE OF THE ASSISTANT SECRETARY FOR
HOUSING FEDERAL HOUSING COMMISSIONER

DRAFT

MEMORANDUM FOR: All Directors, Office of Housing
All Directors, Housing Development Division
(Category A and B Offices)
All Field Office Managers (Category C Offices)
All Field Office Chiefs (Category D Offices)

FROM: James C. Nistler, Deputy Assistant Secretary for Single
Family Housing, HS

SUBJECT: Single Family Development - Processing Directive # _____
Field Review of Appraisals

It is the Department's goal to use HUD staff appraisers to conduct field reviews whenever possible. However, because fluctuations in workload and constraints in staffing often make it difficult to use HUD staff for field reviews, we must rely on fee appraisers.

Several Internal Control Reviews (ICR's) and a General Accounting Office audit have found weaknesses in our current system of field reviews. The purpose of this directive is to establish a uniform policy governing field review panels, case selection for field reviews and related monitoring activities. It outlines actions you must take to implement the new policy, along with a revised field review form, Exhibit A. The new field review form now includes a section for the reason used to select an appraisal for review and a section for rating an appraiser's performance. The actions and the review form must be implemented by each field office by October 1, 1987.

CREATION OF A FIELD REVIEW PANEL

Field Review Panel

Each office must establish a separate fee panel for the specific purpose of conducting field reviews which cannot be done by office staff. This panel will be known as the Field Review Fee Panel. Individuals may not serve on the field review panel and fee appraiser panel simultaneously, except as stated below. By establishing a separate fee panel for field reviews we assure the objectivity of these reviews.

In areas where the office can show just cause to use a fee appraiser on the regular panel for field reviews this practice will be allowed. For example, if a limited number of field reviews need to be done in a remote area where time and travel constraints occur, a fee panel member in that area may conduct the field review. Approval for this arrangement must come from the Regional Director of Housing.

DRAFT

Recruitment and Selection of Field Review Fee Panel

Field offices will use the same procedures to select and remove members from the Field Review Fee Panel as used to select and remove members from the fee panel. This procedure is outlined in Handbook 4020.1 and clarified in a memorandum issued January 28, 1985 from Maurice L. Barksdale, Assistant Secretary of Housing, Exhibit B.

Qualifications for field review panel members are the same as those of the U.S. Civil Service requirements for grade GS-11 Appraisers. Field review appraisers cannot be hired solely by virtue of their position on the fee panel. There must be an open recruitment process.

Rates Paid for Field Review Work

Field offices are now permitted to pay up to 50 percent of the regular appraisal fee for a field review. If the field review appraiser performs an interior review the fee should be adjusted to include an additional \$30.00. The goal is to perform an interior review on at least one third of the properties reviewed and the higher fee is an incentive to accomplish more interior reviews.

Selecting Cases for Field Review

Presently, we are retaining the requirement that offices field review ten percent of all appraisals. This includes five percent of each fee or Direct Endorsement (DE) staff appraiser's cases plus an additional five percent of all cases. In order to get the most effective use of resources we should use the additional five percent to target specific areas for field review. Field Review Fee Panel members should not, under any circumstances, be allowed to select the cases for field review. Please use the following reports and criteria to select cases.

CHUMS presently produces two reports that should be used to select five percent of the cases from each appraiser's caseload for field review. The F17INCA, "Report of Appraisals Performed," lists by appraiser all appraisals performed during the previous month. The F17NACA, "Distribution of Appraisal Assignments," is a semi-monthly report designed to provide appraiser caseload and assignment distribution information for both fee appraisers and lender staff appraisers.

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The additional five percent field review on all cases should target the following areas:

1. Cases performed by appraisers who have recently received "poor" ratings.
2. Cases performed by new appraisers.
3. Cases on which complaints are received.
4. Cases underwritten by new D.E. mortgagees.
5. Cases involving property in older, declining areas.
6. Cases identified through the desk review process.

CHUMS report F17FOCA, "Field Review Report," summarizes the results of field reviews performed during the reporting period. It provides qualitative and quantitative analysis data on the appraiser. This report should be used to identify appraisers that have recently received "poor" ratings.

Time Frame and Documents Required for Field Reviews

The time limit for completion of field reviews on HUD processed cases is thirty days from the date the HUD review appraiser issues a conditional commitment or rejects the property. The time limit on D.E. cases is thirty days after receipt of the URAR copy and the HUD 92800. To perform a thorough field review on DE cases, Field offices may require more than the copy of the URAR and 92800, e.g., photocopies of the photographs and other documentation, at the Chief Appraiser's discretion.

Timeliness is essential to ensure quality field reviews. Meeting the thirty day goal will result in a more even distribution of field reviews throughout the fiscal year.

Field Review Results

Once a field review is complete and the new Form 1038 is turned into the field office, HUD is responsible for all following actions. The rating stemming from the field review report is that of the Chief Appraiser and not the individual field review appraiser. The copy of the field review form that will be sent to the fee appraiser will not include the field review appraiser's name.

The Chief Appraiser (or designee) must review each field review report and rate the fee or D.E. staff appraiser based upon the review. (Standards for ratings can be found in Direct Endorsement Update #14, Exhibit C.) After each review, the Chief

DRAFT

Appraiser must send Copy 1 of the Form 1038 to the fee appraiser informing the appraiser of the results of the field review. The fee appraiser will be instructed on the form to either respond in writing for a "fair" rating or come in for a personal meeting with the Chief Appraiser for a "poor" rating. After three poor ratings the Chief Appraiser must: (1) institute a short term (30 to 90 day) training and monitoring period, or (2) remove (?) the individual from the Fee Appraiser Panel. Additional cases should not be assigned to the appraiser until the appraiser responds in writing to a "poor" rating.

In the case of D.E. staff appraisers, mortgage companies and their underwriters should be informed of a "poor" or "fair" rating. Field offices will keep a record of correspondence sent to DE mortgagees.

Documentation of each fee appraiser's performance is important. Files must be updated regularly. Copies of all field review ratings along with a record of disciplinary meetings, training sessions, and phone calls must be documented in each fee appraiser's file. Without this documentation it is difficult to justify action against a problem fee appraiser.

Monitoring of Field Reviewers

Every field reviewer's work must be reviewed by the Chief Appraiser (or designee) at least once in the fiscal year. If the field review reflects a "poor" rating, other cases should be reviewed to determine if the field reviewer is doing an adequate job.

If the field office assigns a "poor" or "fair" rating to a field review fee appraiser, the Chief Appraiser's will inform the field review fee appraiser by sending an official letter of warning. (A copy should be retained in the field review fee appraiser's file.) The letter will inform the field review fee appraiser to either respond in writing for a "fair" rating or come in for a personal meeting for a "poor" rating. Additional cases should not be assigned to appraisers until they respond to "poor" ratings. After two poor ratings, the Chief Appraiser must (?) remove the individual from the Field Review Appraiser Panel.

Documentation of each field review fee appraiser's performance is important. Files must be updated regularly. Copies of all field review ratings along with a record of disciplinary meetings, training sessions, and phone calls should be included in each field review appraiser's file. Without this documentation it is difficult to justify action against a problem review appraiser.

Appendix V
Comments From the Department of Housing
and Urban Development



OFFICE OF THE ASSISTANT SECRETARY FOR
HOUSING, FEDERAL HOUSING COMMISSIONER

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D.C. 20410-8000

DRAFT

Attachment C

MEMORANDUM FOR: Judith L. Hofmann, Assistant Secretary for
Administration, A

FROM: Thomas T. Demery, Assistant Secretary for Housing, H

SUBJECT: Staff Review Appraisers

GAO Report HO-933, "A Report on Internal Controls in the Single Family Housing Appraisal Program", recommends that HUD "Intensify efforts to use HUD staff to perform field reviews." We agree that the best internal control of appraisal quality would be an internal field review staff.

In conjunction with our study of the statistical sampling required to improve our field review quality, we would like to work with your office on the necessary steps to increase the staffing in the field offices to accomplish these reviews. If you do not believe that this is a feasible goal, I would like to meet with you to discuss this matter.

GAO Comments

The following are GAO's comments on the Department of Housing and Urban Development's letter dated August 17, 1987.

1. We have revised the executive summary to indicate that adverse economic conditions contributed to program losses.
2. We have revised the executive summary to indicate that in fiscal year 1986, HUD processed more mortgage insurance applications than in any prior year.

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