



U.S. Department of Housing and Urban Development
New England Regional Inspector General for Audit, 1AGA
Thomas P. O'Neill, Jr. Federal Building
Room 370
10 Causeway Street
Boston, Massachusetts 02222-1092

Number 2003-BO-0802
February 12, 2003

MEMORANDUM FOR: Engram Lloyd, Director, Single Family Home Ownership, 3AHH

FROM: Barry L. Savill, Regional Inspector General for Audit, 1AGA

SUBJECT: New England Region's Officer Next Door and Teacher Next Door
Property Disposition Program

INTRODUCTION

The Office of Inspector General (OIG), Region 1, Office of Audit completed a review of a sample of New England homebuyers who participated in the Officer Next Door (OND) and Teacher Next Door (TND) program during the period January 1999 to January 2002. Our objective was to determine whether program participants complied with requirements of the program and to refer any violations to the OIG Office of Investigations for further action.

Our review of 89 OND/TND homebuyers disclosed 23 OND/TND homebuyers or 26 percent who did not comply with one or more of the program requirements. On May 28, 2002, we referred these 23 homebuyers to the OIG Office of Investigations for whatever action they felt necessary. As of January 31, 2003, Office of Investigations has administratively closed ten of these OND/TND cases and is working on the remaining thirteen OND/TND case files. While this memorandum closes the Office of Audit's interest in these cases, the Office of Investigation does have continuing interest in those cases that remain open.

We appreciate the cooperation extended to us during the audit by HUD's Servicing Center in Oklahoma City, OK, the Homeownership Center in Philadelphia, PA, and HUD's Marketing and Management contractor for New England. Should you or your staff have any questions, please contact Cristine M. O'Rourke, Assistant Regional Inspector General for Audit or me at (617) 994-8380.

METHODOLOGY AND SCOPE

Our objective was to determine whether OND/TND program participants complied with program requirements and to refer any violations to the OIG Office of Investigations for further action.

To accomplish our audit objective, we:

- Researched 100 percent of the 270 properties using Internet data systems to determine if the homebuyer owned other residential property and if the homebuyer lived at another address during the three-year occupancy.
- Visited local real estate tax assessor's offices to determine current ownership of the properties and the mailing address for tax statements to determine if the tax statements were mailed to the OND/TND property or to another address.
- Coordinated research efforts with OIG Investigations using Internet data systems to track credit information regarding current addresses.
- Interviewed OIG Investigators to confirm that our sample selection is not in conflict with any current investigations.
- Selected the following non-representative sample of 89 OND/TND properties to review in the New England Region. Our selection was based upon our evaluation of Internet data systems, local tax assessors' records, caseload size, geographic locations, and discussions with OIG Investigators.

| Name of State | Total Number of OND/TND Properties Selected for Review | Number of OND Properties Selected for Review | Number of TND Properties Selected for Review |
|---------------|--|--|--|
| Connecticut | 46 | 36 | 10 |
| Maine | 20 | 12 | 8 |
| Massachusetts | 23 | 18 | 5 |
| Totals | 89 | 66 | 23 |

- Reviewed 89 OND/TND files to determine if the initial sales contract, initial certification as teacher or law enforcement officer, additional annual certifications, deed restrictions and settlement statements existed in the case files.
- Visited 89 properties purchased through the OND/TND program to confirm occupancy of the OND/TND property owners.

The audit covered the period January 1999 through January 2002. We visited OND/TND properties throughout the states of Connecticut, Maine and Massachusetts between March 2002 and May 2002.

BACKGROUND

The goals of the Officer Next Door/Teacher Next Door Program is to serve and strengthen distressed neighborhoods by offering home ownership to police officers and teachers. Officers and teachers may purchase a HUD owned single family home at a 50 percent discount. The homebuyer must live in this home for three years and own no other property during these three years. The presence of these officers and teachers could have a positive influence on the residents to make a safer and revitalized community. Another available option is a plan that permits a government agency, a pre-approved non-profit organization, or a school district to purchase eligible HUD homes at a 50 percent and then sell these homes to officers and teachers.

On June 29, 2001, the Office of Inspector General's Southeast and Caribbean Region issued a nationwide audit of the Officer/Teacher Next Door program. That review disclosed that 23 of 108 randomly selected homebuyers (21 percent) violated occupancy requirements. As a result, HUD responded by suspending the program for 120 days so that controls could be established. HUD has since performed a top to bottom review of procedures, determined enforcement actions against noncompliant program participants and provided training to management and marketing contractors and closing agents. Since the OIG's nationwide audit disclosed this high level of program abuse, we decided to further review homebuyers in the New England for possible violations of the OND/TND program requirements.

For the period January 1999 through January 2002, we determined there were 270 HUD (207 OND and 63 TND) properties sold under the Officer/Teacher Next Door program in the New England Region.

| Name of State | Total Number of OND/TND Properties | Number of OND Properties Sold | Number of TND Properties Sold |
|----------------------|---|--------------------------------------|--------------------------------------|
| Connecticut | 192 | 149 | 43 |
| Massachusetts | 39 | 31 | 8 |
| Maine | 31 | 20 | 11 |
| Vermont | 0 | 0 | 0 |
| New Hampshire | 4 | 4 | 0 |
| Rhode Island | 4 | 3 | 1 |
| Totals | 270 | 207 | 63 |

RESULTS OF REVIEW

We referred 23 homebuyers of homebuyers in the states of Connecticut (12), Maine (3), and Massachusetts (8) to the Office of Investigations for violations of provisions of the Officer Next Door/Teacher Next Door Program. As of January 31, 2003, HUD's Office of Investigations has administratively closed ten of these OND/TND cases for the following reasons:

- Two TND cases where the teachers lived within the school jurisdictions and, therefore, are eligible.
- Two OND cases the Federal Correction Officers have arresting powers and, therefore, are eligible.
- Three OND cases where the additional properties were owned by family members, not the mortgagor
- Three OND/TND cases where the subject qualified for the program.

As of January 31, 2003, the Office of Investigations is working on the remaining thirteen OND/TND case files.

DISTRIBUTION

Larry E. McGhee, Department ALO, FMA, Room 2206

Teresa E. Roland, ALO-Housing, HF, Room 6232

Kenneth M. Donohue, Inspector General, G. Room 8256

James A. Heist, Assistant Inspector General for Audit, GA, Room 8286

Mary E. Dickens, OIG Central Files, GF, Room 8266

The Honorable Susan M. Collins, Chairman, Committee on Government Affairs, 172 Russell
Senate Office Building, Washington, DC 20510

The Honorable Thomas M. Davis III, Chairman, Committee on Government Reform, 2348
Rayburn Bldg., House of Representatives, Washington, DC 20515

The Honorable Henry A. Waxman, Ranking Member, Committee on Government Reform,
2204 Rayburn Bldg., House of Representatives, Washington, DC 20515