

OFFICE OF INSPECTOR GENERAL

# SEMIANNUAL REPORT TO CONGRESS

FOR THE PERIOD ENDING MARCH 31, 2015



PUBLIC AND INDIAN HOUSING

COMMUNITY PLANNING AND DEVELOPMENT

MULTIFAMILY

SINGLE FAMILY

# SERVING THE PUBLIC



U.S. DEPARTMENT  
OF HOUSING  
AND URBAN  
DEVELOPMENT



# OUR MISSION

**As the Office of Inspector General (OIG)** for the U.S. Department of Housing and Urban Development (HUD), we remain an independent and objective organization, conducting and supervising audits, evaluations, and investigations relating to the Department's programs and operations.

- **We promote** economy, efficiency, and effectiveness in these programs and operations as we also prevent and detect fraud, abuse, and mismanagement.
- **We are committed to** keeping the HUD Secretary, Congress, and our stakeholders fully and currently informed about problems and deficiencies and the necessity for and progress of corrective action.





# OUR VALUES

- 1 **Collaboration:** The commitment to work jointly with HUD, Congress, and our stakeholders for the benefit of all citizens.
- 2 **Accountability:** The obligation and willingness to accept responsibility and account for our actions.
- 3 **Integrity:** The firm adherence to high moral and professional standards, honesty, and fairness in all that we do. Acting with integrity is a core job responsibility for every employee.
- 4 **Stewardship:** The careful and responsible management of that which has been entrusted to our care.
- 5 **Diversity:** The promotion of high standards of equal employment opportunity for employees and job applicants at all levels so that our workforce is reflective of our country's citizens.



# OUR VISION

- 1 To promote fiscal responsibility and financial accountability in HUD programs and operations,
- 2 To improve the execution of and accountability for grant funds,
- 3 To strengthen the soundness of public and Indian housing programs,
- 4 To protect the integrity of housing insurance and guarantee programs,
- 5 To assist HUD in determining whether it is successful in achieving its goals,
- 6 To look ahead for emerging trends or weaknesses that create risk and program inefficiencies,
- 7 To produce innovative work products that are timely and of high quality,
- 8 To benchmark best practices as a means to guide HUD, and
- 9 To have a significant impact on improving the way HUD does business.



# DIVERSITY AND EQUAL OPPORTUNITY

## **The promotion of high standards and equal employment opportunity**

for employees and job applicants at all levels. HUD OIG reaffirms its commitment to nondiscrimination in the workplace and the recruitment of qualified employees without prejudice regarding their gender, race, religion, color, national origin, sexual orientation, disability, or other classification protected by law. HUD OIG is committed and proactive in the prevention of discrimination and ensuring freedom from retaliation for participating in the equal employment opportunity process in accordance with departmental policies and procedures.

# PROFILE OF PERFORMANCE

For the period October 1, 2014, to March 31, 2015

| AUDIT RESULTS <sup>1</sup>                      | THIS REPORTING PERIOD |
|---|-----------------------|
| Recommendations that funds be put to better use | \$1,195,397,959       |
| Recommended questioned costs                    | \$1,729,366,318       |
| Collections from audits                         | \$457,149,983         |
| Administrative sanctions                        | 2                     |
| Civil actions                                   | 6                     |
| Subpoenas                                       | 12                    |
| Personnel action                                | 1                     |

| INVESTIGATION RESULTS <sup>1</sup>               | THIS REPORTING PERIOD |
|--|-----------------------|
| Total restitution and judgments                  | \$176,969,680         |
| Total recoveries and receivables to HUD programs | \$38,496,636          |
| Arrests <sup>1</sup>                             | 106                   |
| Indictments and informations                     | 133                   |
| Convictions, pleas, and pretrial diversions      | 179                   |
| Civil actions                                    | 20                    |
| Total administrative sanctions                   | 255                   |
| Suspensions                                      | 74                    |
| Debarments                                       | 92                    |
| Limited denial of participation                  | 0                     |
| Removal from program participation               | 58                    |
| Evictions  | 6                     |
| Other <sup>2</sup>                               | 25                    |
| Systemic implication reports                     | 5                     |
| Search warrants                                  | 37                    |
| Subpoenas  | 302                   |

| JOINT CIVIL FRAUD RESULTS <sup>1</sup>                                 | THIS REPORTING PERIOD      |
|--|----------------------------|
| Recoveries and receivables to HUD programs or HUD program participants | \$396,935,478              |
| Recoveries and receivables for other entities                          | \$181,285,522 <sup>3</sup> |
| Civil actions  | 5                          |
| Administrative sanctions   | 1                          |

<sup>1</sup> The Offices of Audit and Investigation and the Joint Civil Fraud Division periodically combine efforts and conduct joint civil fraud initiatives. Outcomes from these initiatives are shown in the Joint Civil Fraud Results profile and not duplicated in the Audit Results or Investigation Results. These results include civil settlements of \$968 million from Suntrust Mortgage, Inc., \$123.5 million from MetLife Bank, N.A., and \$36.3 million from Golden First Mortgage Corporation and its owner. Results are further detailed in chapter 7.

<sup>2</sup> Includes reprimands, suspensions, demotions, or terminations of the employees of Federal, State, or local governments or of Federal contractors and grantees as the result of OIG activities

<sup>3</sup> This amount represents funds that relate to HUD programs but were paid to other entities rather than to HUD for its benefit, such as funds paid to the U.S. Treasury for general government purposes. This amount does not include \$540 million from the Suntrust Mortgage settlement that was designated for general consumer relief.

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DURING THIS REPORTING PERIOD, WE HAD NEARLY **\$1.2 BILLION** IN FUNDS PUT TO BETTER USE, QUESTIONED COSTS OF MORE THAN **\$1.7 BILLION**, AND MORE THAN **\$457 MILLION** IN COLLECTIONS, RESULTING FROM **38 AUDITS**; OBTAINED MORE THAN **\$38 MILLION** IN RECOVERIES AND RECEIVABLES DUE TO OUR INVESTIGATIVE EFFORTS; AND CONTRIBUTED TO NEARLY **\$400 MILLION** IN CIVIL FRAUD SETTLEMENTS DIRECTLY BENEFITING THE FEDERAL HOUSING ADMINISTRATION INSURANCE FUND.

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It is my pleasure to submit the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) Semiannual Report to Congress for the first half of fiscal year 2015. This report describes the extraordinary accomplishments achieved by the talented public servants of HUD OIG. By promoting better stewardship and

accountability, HUD OIG staff continues to make a significant impact on the Department and our communities for the benefit of all of our stakeholders and the public we serve.

During the first reporting period of fiscal year 2015, the Office of Audit issued 38 highly impactful reports. They resulted in the following:

- Nearly \$1.2 billion in funds put to better use,
- Questioned costs of more than \$1.7 billion, and
- More than \$457 million in collections.

The most monetarily significant of these audits was our audit of HUD's fiscal year 2014 financial statements. We expressed a disclaimer of opinion on HUD's consolidated financial statements because of the significant effects of certain unresolved audit matters, which restricted our ability to obtain sufficient, appropriate evidence to express an opinion. These unresolved audit matters related to (1) HUD's improper use of cumulative and first-in, first-out budgetary accounting methods of disbursing community planning and development program funds and (2) \$6.6 billion in Government National Mortgage Association (Ginnie Mae) nonpooled loan assets that we could not audit because Ginnie Mae could not provide adequate support for us to test these asset balances. We also expressed a disclaimer of opinion on Ginnie Mae's stand-alone financial statements.

During the first half of fiscal year 2015, the Office of Investigation completed 156 investigations to improve departmental operations and address program abuses, recovering \$38.5 million. We continue to focus on HUD's performance and accountability in single-family and public and Indian housing, both significant concerns for the Department and taxpayers.

In one single-family case, a vice president and two loan officers were sentenced to prison terms ranging from 24 to 30 months, and a branch manager was sentenced to 2 years probation following their conviction of mortgage fraud. They were also ordered to pay \$24 million in restitution to HUD. These conspirators submitted false information involving Federal Housing Administration (FHA) loans.

During a joint investigation between the Office of Investigation and the Office of Audit, it was determined that HUD's Office of Public and Indian Housing (PIH) misused the Intergovernmental

Personnel Act (IPA) Mobility Program. The IPA Mobility Program provides for the temporary assignment of personnel between the Federal Government and State and local governments, colleges and universities, Indian tribal governments, federally funded research and development centers, and other eligible organizations. HUD inappropriately used the IPA program to appoint an individual from the Council of Large Public Housing Authorities (CLPHA – a housing industry group) as the Deputy Assistant Secretary for PIH's Office of Policy, Program, and Legislative Initiatives. In doing so, a former PIH Assistant Secretary (previously head of the CLPHA organization) created an inherent conflict of interest because she placed the deputy director of an industry group in charge of PIH's policy-making division, the division responsible for developing and coordinating the regulations applicable to the entities that CLPHA represents. In essence, HUD appointed someone who represented the regulated to be in charge of developing the regulations.

Joint civil fraud investigations continue to be an area of emphasis to combat fraud against FHA's single-family programs. Through coordinated civil fraud efforts across the U.S. Government, HUD OIG substantively assisted in civil investigations of FHA's largest lenders, providing a direct benefit to the FHA insurance fund of nearly \$397 million.

I have also joined with Secretary Castro to stress the importance of a strong whistleblower protection program for all HUD employees. To build on these efforts and maximize our impact on the people we serve, the Secretary and I signed a letter of cooperation last year, setting out our goals for a more transparent and accountable HUD for the future. Whistleblowers are a crucial source of information about waste, fraud, and abuse. Employees need to better understand their specific rights and remedies, while managers need to better understand prohibitions against retaliating against whistleblowers. To assist in this effort, HUD OIG has established a strong Whistleblower Ombudsman Program that focuses on outreach and training. In addition, we have worked with the Department to present whistleblower training in coordination with the Department's ethics training. All new and current HUD employees are required to attend whistleblower training.

I would like to express my gratitude to Congress and the Department for their sustained interest and commitment to improving HUD's programs. I also want to express my sincere admiration to the staff of HUD OIG for its outstanding accomplishments and dedication to our mission. Through our collective effort, HUD OIG has achieved its annual goals, fulfilled its mission and responsibilities to its stakeholders, and had a significant and positive impact on the Department and our communities.

A handwritten signature in black ink that reads "David A. Montoya". The signature is fluid and cursive.

David A. Montoya | Inspector General

# TRENDING

## WHISTLEBLOWER OMBUDSMAN PROGRAM

The U.S. Department of Housing and Urban Development, Office of Inspector General (HUD OIG), continues to stress the importance of a strong Whistleblower Protection Program and recognizes that whistleblowers are a crucial source of information about waste, fraud, and abuse. Whistleblowing has become more high profile in recent times, and the poor treatment suffered by whistleblowers has been highlighted in the press. HUD OIG strives to create an environment in which allegations of waste, fraud, and abuse can be freely reported without fear of reprisal. One important aspect of HUD OIG's Whistleblower Protection Program ensures that HUD employees are educated about prohibitions against retaliating against Federal whistleblowers and that employees understand their specific rights and remedies. Within the last 6 months, the HUD OIG Whistleblower Ombudsman Program has focused on outreach and training. All HUD employees were directed to attend mandatory whistleblower training in October of 2014. The training was presented live and then posted on our whistleblower Web page. HUD Secretary Julián Castro introduced the training and stressed its importance. This same training is incorporated into HUD's new employee training, with required viewing within 30 days after coming onboard. It is also included in HUD's supervisor training series. Our tracking of complaints coming into our whistleblower mailbox and via telephone is captured. The following chart reflects the volume and disposition of complaints received.

|   |    |
|---|----|
| Number of complaints received   | 80 |
| Number of complainants asserting whistleblower status <sup>4</sup>                                      | 71 |
| Employee <sup>5</sup> complaints referred for investigation to the HUD OIG Office of Investigation (OI) | 16 |
| Employee complaint investigations opened by OI  | 10 |
| Complaints declined by OI   | 3  |
| Complaints currently under review by OI   | 3  |
| Employee complaint investigations closed by OI  | 1  |

HUD hosted an Open Government Open House for all of its employees in March of this year. The Whistleblower Ombudsman Program hosted a booth and provided brochures for HUD employees.

The Whistleblower Ombudsman Program continues to work to find opportunities to highlight how whistleblower disclosures have the potential to save billions of taxpayer dollars. Whistleblowers play a critical role in keeping our Government honest, efficient, and accountable.

<sup>4</sup> Many complainants raise questions regarding treatment by housing authorities following alleged wrongdoing by the same housing authority. They define themselves as whistleblowers. These complaints are referred to our hotline for appropriate referral and disposition.

<sup>5</sup> Employee complaints are those complaints received from employees, potential employees, and former employees of HUD as well as employees of contractors, subcontractors, and grantees.

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ONE

## SINGLE-FAMILY PROGRAMS

## AUDIT

*The Federal Housing Administration (FHA) single-family programs provide mortgage insurance to mortgage lenders that, in turn, provide financing to enable individuals and families to purchase, rehabilitate, or construct homes. Some of the highlights from this semiannual period are noted below:*

### STRATEGIC INITIATIVE 1: CONTRIBUTE TO THE REDUCTION OF FRAUD IN SINGLE-FAMILY INSURANCE PROGRAMS

| Key program results |                       | Questioned costs | Funds put to better use |
|---------------------|-----------------------|------------------|-------------------------|
| Audit               | 2 audits <sup>6</sup> | \$ 1,486,544,478 | \$666,310,336           |

#### AUDIT OF FHA FISCAL YEARS 2014 AND 2013 FINANCIAL STATEMENTS

In accordance with the Chief Financial Officers Act of 1990 (Public Law 101-576) as amended, the U.S. Department of Housing and Urban Development, Office of Inspector General (HUD OIG), is responsible for conducting the annual financial statement audit of FHA. This work includes the audit of FHA's balance sheets as of September 30, 2014 and 2013, and the related statements of net costs and changes in net position, the combined statements of budgetary resources for the years then ended, and the related notes to the financial statements.

HUD OIG conducted this audit in accordance with U.S. generally accepted government auditing standards and Office of Management and Budget Bulletin 14-02 as amended, Audit Requirements for Federal Financial Statements. Those standards require that OIG plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for its findings and conclusions based on its audit objectives.

OIG believes that the evidence obtained provides a reasonable basis for its findings and conclusions based on its audit objectives. In OIG's opinion, FHA's fiscal years 2014 and 2013 financial statements were presented fairly, in all material respects, in accordance with the generally accepted accounting principles for the Federal Government.

<sup>6</sup> The statistics shown in this chapter highlight values related to the financial audits of the FHA and Government National Mortgage Association programs. All other financial-related audits and their related statistics are located in Chapter 6, Other Significant Audits and Investigations.

Additionally, the audit disclosed one material weakness, two significant deficiencies in internal control, and one instance of noncompliance with applicable laws and regulations. This audit resulted in nearly \$1.5 billion in questioned costs related to more than 57,000 paid partial claims, for which no corresponding mortgage notes were obtained by FHA from the insured lenders to support the claim payments, and \$5.5 million in funds to be put to better use, representing the amount of court settlement funds that FHA failed to establish as accrued receivables. (Audit Report: **2015-FO-0001**)

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## AUDIT OF GOVERNMENT NATIONAL MORTGAGE ASSOCIATION FISCAL YEARS 2014 AND 2013 FINANCIAL STATEMENTS

HUD OIG audited the Government National Mortgage Association's (Ginnie Mae) fiscal year 2014 financial statements, including Ginnie Mae's internal control and compliance with selected provisions of laws and regulations applicable to Ginnie Mae. OIG contracted with the independent certified public accounting firm of CliftonLarsonAllen LLP to audit Ginnie Mae's fiscal year 2013 financial statements. CliftonLarsonAllen was responsible for its audit report and the conclusions expressed in that report.

In regard to the fiscal year 2014 audit, OIG was unable to obtain sufficient, appropriate evidence to express an opinion on the fairness of the \$6.6 billion in nonpooled loan assets from Ginnie Mae's defaulted issuers' portfolio and \$735 million in liability for loss on the mortgage-backed securities program guaranty. Additionally, Ginnie Mae improperly accounted for FHA reimbursable costs as an expense instead of capitalizing the costs as an asset. This error resulted in the misstatement of the asset and net income. Overall, the issues cited were tied to problems associated with the acquisition and management of a multi-billion-dollar defaulted issuers' portfolio, which is a noncore segment of Ginnie Mae's business. Due to the scope limitation in OIG's audit work and the effects of material weaknesses in internal control, OIG was not able to obtain sufficient, appropriate evidence to provide a basis for an audit opinion on Ginnie Mae's fiscal year 2014 financial statements. Accordingly, it did not express an opinion on those statements.

OIG's review noted four material weaknesses and one significant deficiency regarding internal controls over financial reporting. Its audit recommendations were directed toward strengthening Ginnie Mae's governance of its financial operations. (Audit Report: **2015-FO-0003**)

## INVESTIGATION

### PROGRAM RESULTS

|                                       |              |
|---------------------------------------|--------------|
| Administrative-civil actions          | 91           |
| Convictions-pleas-pretrial diversions | 78           |
| Financial recoveries                  | \$29,630,465 |

### LOAN OFFICER SENTENCED FOR MORTGAGE FRAUD

A former loan officer was sentenced in U.S. District Court to 37 months incarceration and 2 years supervised release and ordered to pay \$410,000 in restitution to FHA following his conviction of making false statements on mortgage loan applications. From August 2009 through November 2010, the loan officer conspired with others to provide false information on FHA loan documents to qualify borrowers. This investigation was conducted by HUD OIG, the Federal Bureau of Investigation (FBI), and the Indiana State Police. (**Fort Wayne, IN**)

### DEVELOPER SENTENCED IN LARGE-SCALE MORTGAGE FRAUD CONSPIRACY

A developer was sentenced in U.S. District Court to 51 months incarceration followed by 60 months supervised release following his conviction of conspiracy to commit bank fraud and wire fraud. From mid-2006 through December 2010, the developer, who owned or controlled several real estate properties in the Miami area, enlisted mortgage brokers and other industry professionals to recruit straw buyers to fraudulently purchase condominiums by providing false information on loan documents as well as advancing the borrowers cash to close through third parties. Many of those mortgages resulted in foreclosure. Losses to FHA totaled \$1 million. This investigation was conducted by HUD OIG and the Federal Housing Finance Agency (FHFA) OIG. **(Miami, FL)**

### CONSULTANTS SENTENCED IN LOAN MODIFICATION SCAM

The owners of a foreclosure rescue business, who are members of a sovereign citizen movement, were each sentenced to 9 years incarceration and 5 years supervised release and ordered to pay \$1.08 million in restitution, with \$384,468 payable to FHA, following their convictions of conspiracy to commit wire fraud, mail fraud, and Social Security fraud. From August 2010 through April 2012, the owners, who also fraudulently represented that they were lawyers, preyed on financially distressed homeowners throughout the country by claiming to refinance existing home loans, conduct necessary legal processes, contact relevant parties, and implement administrative procedures. The owners convinced homeowners to stop making payments to their lenders, make payments to them, and not communicate with their lenders. Twenty-one of the properties involved in this scheme were FHA-insured mortgages totaling approximately \$2.4 million. Losses to FHA totaled \$384,468. This investigation was conducted by HUD OIG, the FBI, the U.S. Secret Service (USSS), the Social Security Administration (SSA) OIG, the Johnson County District Attorney's Office, and the Kansas City, MO, Police Department. **(Kansas City, MO)**

### INVESTOR SENTENCED IN MORTGAGE FLIPPING SCHEME

An investor was sentenced in U.S. District Court to 97 months incarceration and 5 years supervised release and ordered to pay \$478,534 in restitution to HUD following his conviction of conspiracy to commit bank fraud, mail fraud, and money laundering. The investor orchestrated a mortgage fraud scheme that resulted in losses to lenders of approximately \$5.7 million. From June 2005 through July 2010, the investor and others conspired to defraud banks and mortgage lenders by recruiting straw borrowers and providing false information in support of the mortgage applications. The scheme involved more than 50 houses. The investor purchased properties in either his own name, the name of a limited liability corporation in which he had an interest, or the name of a co-conspirator. He then recruited borrowers to purchase the properties. The investor also engaged in a money laundering conspiracy with a closing attorney, who disbursed fraudulently obtained loan proceeds to private lenders that had loaned the investor money to purchase the properties. This investigation was conducted by HUD OIG, the FBI, the Internal Revenue Service – Criminal Investigation (IRS-CI), and the U.S. Postal Inspection Service (USPIS). **(Hartford, CT)**

### \$24 MILLION IN RESTITUTION ORDERED FOR MORTGAGE FRAUD SCHEME

A vice president, two loan officers, and a branch manager of a modular housing retailer were sentenced in U.S. District Court following their convictions of conspiracy to defraud the United States through a mortgage fraud scheme. The vice president was sentenced to 24 months incarceration and ordered to pay \$24 million in restitution to HUD. One loan officer was sentenced to 30 months incarceration and ordered to pay \$6 million in restitution to HUD. A second loan officer was sentenced to 24 months incarceration and ordered to pay \$5 million in restitution to HUD. The branch manager was sentenced to 2 years probation and ordered to pay

\$4 million in restitution to HUD. From February 2004 to 2009, the conspirators and others submitted false information involving FHA loans to qualify borrowers, often without the borrowers' knowledge. As a result of this scheme, HUD experienced losses of more than \$23 million. This investigation was conducted by HUD OIG, USPIA, the U.S. Department of Agriculture OIG, the North Carolina Attorney General's Office, the North Carolina State Bureau of Investigation, the North Carolina Commissioner of Banks, and the North Carolina Department of Justice. **(Statesville, NC)**

### BUSINESS OWNER SENTENCED FOR MORTGAGE FRAUD

A real estate business owner was sentenced in U.S. District Court to 6 years incarceration and 3 years supervised release and ordered to pay \$1.53 million in restitution, with more than \$700,000 payable to FHA, following a conviction of wire fraud, money laundering, and theft of government funds. From 2007 through 2009, the business owner engaged in a mortgage fraud scheme in which mortgage lenders loaned cash to borrowers to obtain cashier's checks for closings. The loan applications were falsified to reflect that the borrowers were making the downpayment, although the funds were supplied by the business owner. As part of the scheme, the business owner received funds for her fee and reimbursement for the funds advanced, neither of which was disclosed to the lenders. The investigation identified 45 fraudulent loans, which included 21 FHA-insured loans. This investigation was conducted by HUD OIG, IRS-CI, and SSA OIG. **(Kansas City, MO)**

### MULTIPLE DEFENDANTS SENTENCED IN MORTGAGE FRAUD CONSPIRACIES

Three real estate agents and an associate were sentenced in U.S. District Court for their roles in two separate mortgage fraud schemes involving multiple co-conspirators. One real estate agent was sentenced to 57 months incarceration and 5 years supervised release and ordered to pay more than \$2.4 million in restitution, with \$337,418 payable to FHA. Another real estate agent was sentenced to 5 months incarceration, 5 months home confinement, and 3 years supervised release and ordered to pay \$352,091 in restitution, with \$164,090 payable to FHA. The third real estate agent was sentenced to 33 months incarceration and 5 years supervised release and ordered to pay \$999,726 in restitution, with \$168,055 payable to FHA. The associate was sentenced to 21 months incarceration and 24 months supervised release and ordered to pay \$999,726 in restitution, with \$168,055 payable to FHA. From March 2007 through November 2008, several of the conspirators were involved in two separate schemes to defraud FHA, the Federal Home Loan Mortgage Corporation (FHLMC), and lenders. The first scheme involved the use of false information, including stolen or false identities, to secure mortgage loans. The other scheme involved the use of a straw purchaser to obtain financing as an owner-occupant when the properties were immediately rented out to HUD-subsidized tenants. The false information used in both conspiracies was supplied by the owner of a real estate company, who was convicted of financial fraud. The owner would sell false credit histories with backdated lines of credit that were used to convince lenders to issue mortgage loans. The total loss involving the individuals charged in the two conspiracies was approximately \$3.36 million and involved 14 properties, 7 of which were FHA insured. Three of the FHA-insured loans were indemnified, and FHA suffered a loss of \$501,508 on the remaining four properties. FHLMC suffered a loss of more than \$330,000, and lenders suffered losses of more than \$2.5 million. This investigation was conducted by HUD OIG, FHFA OIG, the U.S. Department of Homeland Security OIG, the U.S. Department of the Treasury OIG, and USSS. **(Greenbelt, MD)**

TWO

## PUBLIC AND INDIAN HOUSING PROGRAMS

### AUDIT

*The U.S. Department of Housing and Urban Development (HUD) provides grants and subsidies to more than 3,100 public housing agencies (PHA) nationwide. Many PHAs administer both public housing and Section 8 programs. HUD also provides assistance directly to PHAs' resident organizations to encourage increased resident management entities and resident skills programs. Programs administered by PHAs are designed to enable low-income families, the elderly, and persons with disabilities to obtain and reside in housing that is safe, decent, sanitary, and in good repair. Some of the highlights from this semiannual period are noted below.*

### AUDITS

#### STRATEGIC INITIATIVE 2: CONTRIBUTE TO THE REDUCTION OF ERRONEOUS PAYMENTS IN RENTAL ASSISTANCE

| Key program results |          | Questioned costs | Funds put to better use |
|---------------------|----------|------------------|-------------------------|
| Audit               | 8 audits | \$2,042,018      | \$455,876,648           |

#### SECTION 8 HOUSING CHOICE VOUCHER PROGRAM

HUD's Office of Inspector General (OIG) audited the Housing Choice Voucher program of the Chicago Housing Authority's Moving to Work (MTW) program, in **Chicago, IL**, to determine whether the Authority complied with its MTW agreement, HUD's requirements, and its own policies for the use of exception payment standards for its Housing Choice Voucher program.

The Authority lacked documentation to support that its policy increasing the exception payment standards up to 300 percent of HUD's 50th percentile rents was reasonable and cost effective. As a result, HUD and the Authority lacked assurance that the housing assistance paid for program households using the exception payment standard amounts was appropriate. The Authority could pay nearly \$5 million in housing assistance over the next year for households that exceed 110 percent of HUD's 50th percentile rents.



OIG recommended that HUD require the Authority to (1) conduct an analysis to determine whether its exception payment standards exceeding 110 percent of HUD's 50th percentile rents were reasonable and cost effective and provide the results of the analysis, along with support, to HUD for review and approval and (2) reimburse its program from non-Federal funds for the excess housing assistance paid for these households. (Audit Report: **2015-CH-1001**)

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## PUBLIC HOUSING

HUD OIG audited the Housing Authority of the City of **Taylor, TX**, to determine whether the Authority operated its public housing and related grant programs in accordance with HUD requirements and whether a complainant's allegations were valid. Specifically, the complainant alleged that the former executive director gave away, sold, or transferred Authority-owned properties to other entities. HUD identified additional concerns regarding ineligible Section 8 Homeownership Voucher Program participants, unsupported salaries for employees working at multiple properties, and improper expenditures by a former executive director.

The Authority did not implement adequate policies and procedures and did not properly manage its public housing and related grant programs in accordance with HUD requirements. Specifically, it (1) did not properly account for its funds, (2) allowed director 1 to improperly transfer assets, (3) paid unsupported salaries to employees who worked on multiple activities, (4) allowed director 1 to transfer funds to lease and purchase a parking lot the Authority already owned, and (5) allowed director 2 to circumvent financial and procurement controls. In addition, the Authority violated the conflict-of-interest provisions of the Section 8 Homeownership Voucher Program and the HOME Investment Partnerships Program (HOME). As a result, it lost control and possession of a \$255,000 property it owned, lost control of two component units with net asset values of more than \$1.7 million, and incurred more than \$392,000 in questioned costs.

OIG recommended that HUD's Office of Public Housing require the Authority to (1) implement controls, policies, and procedures; (2) correct its books and records; (3) take action to reclaim properties; and (4) support or repay questioned costs totaling more than \$392,000. OIG also recommended that HUD's Departmental Enforcement Center take appropriate administrative sanctions. OIG further recommended that HUD's Associate General Counsel for Program Enforcement determine whether legal sufficiency exists to pursue remedies under the Program Fraud Civil Remedies Act (31 U.S.C. (United States Code) 3801-3812), civil money penalties (24 CFR (Code of Federal Regulations) 30.35), or both against director 1 and the Section 8 program manager for submitting false claims for Section 8 Homeownership Voucher Program and HOME program assistance payments. (Audit Memorandum: **2015-FW-1801**)

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HUD OIG audited the Freeport Housing Authority in **Freeport, NY**, regarding the administration of its low-rent housing and home-ownership programs to determine whether the Authority administered the programs in accordance with HUD's regulations.

The Authority did not administer its low-rent housing and home-ownership programs in accordance with HUD's regulations. Specifically, former Authority officials did not (1) maintain adequate records to support the proper procurement of services, including justifications for not using customary procurement procedures; (2) administer its home-ownership program in compliance with the HUD-approved home-ownership plan; (3) comply with admissions and occupancy administrative requirements; and (4) implement financial and general administrative practices that were consistent with requirements. As a result, officials could not provide documentation to show that they spent more than \$1 million in Federal funds for properly procured services.

Further, officials could not ensure the proper use of more than \$1.25 million in home-ownership sale proceeds. Therefore, some proceeds may have been improperly spent, depriving the Authority of funds that could have been used to complete the sale of all scattered-site properties under the program. Former Authority officials also lacked records to support the integrity of the Authority's tenant selection process and financial controls to ensure the proper allocation and disbursement of nearly \$271,000 in Federal funds.

OIG recommended that HUD require Authority officials to (1) implement controls to ensure that the emergency procurement procedures in the Authority's procurement policy comply with Federal regulations and are consistently followed, (2) provide supporting documents for the use of home-ownership program sale proceeds, (3) maintain records to show the proper selection of applicants from the Authority's waiting lists, and (4) develop and implement financial controls to ensure the proper allocation and disbursement of funds. (Audit Report: **2015-NY-1002**)

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## LOBBYING ACTIVITIES

HUD OIG audited HUD's oversight of PHAs' lobbying activities to determine whether it was adequate to ensure that PHAs complied with Federal lobbying disclosure requirements and restrictions.

HUD policies generally did not ensure that the PHAs that lobbied complied with Federal lobbying disclosure requirements and restrictions. Only 12 of about 3,300 PHAs were reported to have engaged in lobbying activities during the audit period. However, of the 12 PHAs reported to have engaged in lobbying activities, 9 spent \$2.5 million on lobbying activities that they failed to disclose as required. Four of the nine PHAs were participants in HUD's MTW program and spent \$1.5 million on undisclosed lobbying activities. Therefore, the risk of violations appeared to be greater at PHAs participating in the MTW program. Three of the MTW PHAs incorrectly certified that they had not used Federal funds for lobbying. Also, HUD could not provide all of the required lobbying certifications and disclosures for the 12 PHAs on which lobbyists had reported during the review period. Because HUD failed to implement adequate policies to monitor PHAs' compliance with lobbying requirements, (1) three PHAs improperly spent nearly \$129,000 in Federal funds on lobbying activities, (2) HUD lacked assurance that other PHAs did not spend Federal funds on lobbying activities or violate other lobbying-related requirements, and (3) HUD risked creating an appearance of a lack of transparency.

OIG recommended that HUD require corrective action and pursue administrative sanctions, as appropriate, to address PHAs' violations of Federal lobbying disclosure requirements and restrictions and implement additional control policies or procedures to ensure that PHAs comply with lobbying disclosure requirements and restrictions. (Audit Report: **2015-PH-0001**)

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## COMMUNITY SERVICE AND SELF-SUFFICIENCY REQUIREMENT

HUD OIG audited HUD's monitoring of the community service and self-sufficiency requirement (CSSR) to determine the extent to which HUD subsidized public housing units occupied by noncompliant tenants and housing for tenants whose CSSR status was misreported.

Of nearly 550,000 potentially CSSR-eligible units nationwide, HUD subsidized housing for 106,000 units occupied by noncompliant tenants. Of the nearly 740,000 adult tenants living in these units, HUD's system contained incorrect CSSR status codes for 201,000. As a result, HUD paid more than \$37 million in monthly subsidies for public housing units occupied by noncompliant tenants that otherwise could have housed compliant households.

OIG recommended that HUD develop and implement a written monitoring policy for CSSR to ensure that PHAs comply with the Quality Housing and Work Responsibility Act of 1998 so that more than \$448.5 million in public housing operating subsidies will be put to better use over the next year. OIG also recommended that HUD create clarifying guidance for PHAs, develop training, apply penalties or sanctions against PHAs that house ineligible households, produce improved monitoring reports for field offices, and fix the error codes resulting from form HUD-50058 submissions. (Audit Report: **2015-KC-0001**)

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## REVIEW OF INTERGOVERNMENTAL PERSONNEL ACT APPOINTMENT

HUD OIG reviewed whether a conflict of interest existed within the HUD Office of Public and Indian Housing (PIH). Specifically, former Assistant Secretary for Public and Indian Housing Sandra B. Henriquez appointed Debra Gross, a former lobbyist and the deputy director of the Council of Large Public Housing Authorities (CLPHA), a housing industry group, to be responsible for PIH's Office of Policy, Program, and Legislative Initiatives. The audit objectives were to determine whether (1) HUD complied with requirements in obtaining the services of the deputy director, (2) a conflict of interest existed under this arrangement, and (3) HUD took appropriate actions to mitigate the apparent conflict of interest.

Assistant Secretary Henriquez inappropriately used the Intergovernmental Personnel Act (IPA) to appoint CLPHA's deputy director as HUD's Deputy Assistant Secretary for Policy, Program, and Legislative Initiatives. In doing so, she created an inherent conflict of interest because she placed the deputy director of an industry group in charge of PIH's policy-making division, the division responsible for developing and coordinating the regulations applicable to the entities that CLPHA represents. HUD's lack of oversight in the IPA agreement process allowed this inherent conflict of interest to occur without a prior ethical review by HUD's Office of General Counsel. Additionally, HUD did not obtain required financial disclosure reports from the deputy director, failed to provide the deputy director with required ethics training, and allowed her to hire permanent HUD employees. In her HUD policy-making role, it appeared that the deputy director supported the public housing industry's regulation relief agenda at HUD while retaining her job at CLPHA. Apparent lobbying efforts by CLPHA and other housing industry groups during this period further complicated the matter. Due to the inherent conflict of interest and HUD's failure to recognize and mitigate it, HUD cannot know whether the policy decisions enacted during the deputy director's tenure were inappropriately influenced or in the best interest of HUD and all of its stakeholders.

OIG recommended that HUD (1) establish and implement procedures to use IPA agreements responsibly and ensure that conflicts of interest do not exist and (2) perform an independent review of the deputy director's actions regarding policy making to determine whether they compromised HUD's integrity or objectivity in managing, monitoring, and evaluating PIH programs. (Audit Memorandum: **2015-FW-0801**)

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## INVESTIGATION

|                                       |             |
|---------------------------------------|-------------|
| Administrative-civil actions          | 70          |
| Convictions-pleas-pretrial diversions | 86          |
| Financial recoveries                  | \$4,367,194 |

### MAN SENTENCED FOR HIS ROLE IN IDENTITY THEFT CONSPIRACY

The husband of the former onsite manager of the Clinton-Peabody Public Housing Complex was sentenced in U.S. District Court to 30 months incarceration and 36 months supervised release and ordered to pay \$16,000 in restitution following his conviction of conspiracy to commit identity theft and aggravated identity theft. The former onsite manager was previously sentenced to 12 months and 1 day incarceration and 3 years supervised release and ordered to pay \$113,000 in restitution. From December 2011 through May 2012, the former manager of the Complex, who was under contract employment by the St. Louis Housing Authority, used her position to steal Social Security numbers and other personally identifying information of Authority public housing applicants and tenants, which were then used to file false tax returns and obtain the tax refunds. This investigation was conducted by HUD OIG and the Internal Revenue Service – Criminal Investigation. **(St. Louis, MO)**

### FINANCIAL ANALYST SENTENCED FOR EMBEZZLEMENT

A financial analyst for a company contracted to administer the Housing Choice Voucher program for the Miami-Dade Housing Agency was sentenced in U.S. District Court to 30 months incarceration and 2 years supervised release and ordered to pay \$83,944 in restitution following her conviction of theft of government funds and aggravated identity theft. From June 2013 through February 2014, the financial analyst, who was responsible for distributing program-funded debit cards to landlords, took two debit cards issued in the names of landlords who had recently left the program. The financial analyst then funded the cards, as if the landlords were still active participants, and used them for personal gain. This investigation was conducted by HUD OIG. **(Miami, FL)**

### FORMER INSPECTOR PLEADS GUILTY TO THEFT

A former inspector with the Union City Community Development Agency pled guilty in U.S. District Court to conspiracy to commit theft of government funds. Between April 2007 and July 2011, the inspector conspired with contractors to submit higher, phony bids from fictitious construction competitors so that the collusive contractors would win the bid for the Agency projects. HUD's losses exceeded \$400,000. This investigation was conducted by HUD OIG and the Federal Bureau of Investigation. **(Newark, NJ)**

## THREE

## MULTIFAMILY HOUSING PROGRAMS

*In addition to multifamily housing developments with U.S. Department of Housing and Urban Development (HUD)-held or HUD-insured mortgages, HUD subsidizes rents for low-income households, finances the construction or rehabilitation of rental housing, and provides support services for the elderly and handicapped. Some of the highlights from this semiannual period are shown below.*

## AUDIT

## STRATEGIC INITIATIVE 2: CONTRIBUTE TO THE REDUCTION OF ERRONEOUS PAYMENTS IN RENTAL ASSISTANCE

| Key program results |          | Questioned costs | Funds put to better use |
|---------------------|----------|------------------|-------------------------|
| Audit               | 3 audits | \$619,889        | \$10,036,763            |

## REVIEW OF GLENBROOK MANOR MANAGEMENT ACTIVITIES

HUD's Office of Inspector General (OIG) audited the multifamily project, Glenbrook Manor, in **Stamford, CT**, to determine whether it spent project funds for eligible activities and for costs that were reasonable and supported. OIG also wanted to determine whether surplus cash was properly calculated and deposited into the project's residual receipts account.

Glenbrook Manor could not always show that project costs were eligible and supported in accordance with HUD requirements. Specifically, its management agent did not ensure that project costs paid through the agent's revolving fund and salaries paid in 2011 were supported. In addition, surplus cash was not properly calculated and deposited into the project's residual receipts account as required by its regulatory agreement. As a result, officials paid nearly \$497,000 in unsupported costs and did not deposit more than \$61,000 in surplus cash into the residual receipts account as required.

OIG recommended that HUD require Glenbrook Manor officials to (1) provide support showing that the nearly \$240,000 liability to the agent's revolving fund and the \$200,000 transferred to the agent's revolving fund represented expenses for eligible project costs or repay the transferred funds and remove the liability from the project's books, (2) provide documentation to support that more than \$57,000 spent in 2011 was for eligible project salaries and repay any unsupported amounts from non-Federal funds, and (3) deposit the surplus cash into the residual receipts account. (Audit Report: **2015-BO-1001**)

## INVESTIGATION

|                                       |             |
|---------------------------------------|-------------|
| Administrative-civil actions          | 14          |
| Convictions-pleas-pretrial diversions | 5           |
| Financial recoveries                  | \$1,231,054 |

### OWNER OF A MORTGAGE SUBSERVICING COMPANY SENTENCED FOR MONEY LAUNDERING

The owner of a mortgage company was sentenced to 97 months incarceration and 5 years supervised release and ordered to pay \$7.8 million in restitution to the trustee and investors following his conviction of wire fraud and money laundering. From January 2008 through July 2010, the owner was responsible for the day-to-day management of mortgage loan accounts, including the receipt and crediting of mortgage payments, handling of escrow accounts, and forwarding of payments to investors in mortgage pools. Two of these mortgage pools contained seven Federal Housing Administration (FHA) commercial mortgages (under the Rental Assistance Payment Program, Section 236) in which investors purchased shares. The owner misappropriated funds provided to him by the borrowers of the FHA-insured loans in the mortgage pools and concealed this misappropriation by producing and transmitting fraudulent remittance reports to the trustee and investors in these two pools, which reflected that payments had been made. In addition to not passing monthly payments through the pool of investors, the owner received payoff funds for several of the properties and did not forward those payoff funds to investors. The owner continued to make monthly payments to investors as if monthly mortgage payments were being received from borrowers. The owner used some proceeds from the two mortgage pools to pay off a personal home equity line of credit. This investigation was conducted by HUD OIG and the Federal Bureau of Investigation. **(Davenport, IA)**

### MULTIFAMILY PROPERTY OWNER SENTENCED FOR EQUITY SKIMMING

The former owner of an identity-of-interest HUD management agent was sentenced in U.S. District Court to 78 months incarceration and ordered to pay \$543,000 in restitution to HUD and more than \$1.2 million to other victims following a conviction of equity skimming for diverting more than \$500,000 in rents, assets, proceeds, and income derived from an FHA-insured multifamily housing development. From February 2008, through June 2009, the owner violated HUD's regulatory agreement by using project funds for a luxury car purchase, a personal PayPal account, and other non-HUD project expenses in lieu of paying the HUD-insured mortgage. The owner further admitted to violating terms of his pretrial release when he obtained a new passport and fled the country for the United Kingdom before his March 2013 trial. This investigation was conducted by HUD OIG. **(Chicago, IL)**

### SECTION 8 MANAGER CAUGHT EMBEZZLING FUNDS FROM MULTIPLE VICTIMS

A former manager of three Section 8 project-based properties was sentenced in U.S. District Court to 366 days incarceration and 3 years probation and ordered to pay approximately \$180,000 in restitution to HUD following a conviction of embezzlement and theft of public funds. From October 2011 through October 2013, the manager falsified tenant income and asset information on tenant recertifications, which caused HUD to make a greater housing assistance payment than should have been required. While HUD was making maximum housing assistance payments on the tenants' behalf, the manager continued to accept full monthly payments from each tenant, which she deposited into her personal bank account. The manag-

er embezzled approximately \$180,000 by depositing 534 tenant checks into her personal accounts before her employment was terminated because of the theft. Immediately thereafter, the manager gained employment at another apartment complex, where her employment was terminated when she embezzled approximately \$6,000 between November 2013 and January 2014. She altered rent payments from residents and deposited them into her personal bank account. The manager gained employment at a third apartment complex, but her employment was terminated after officials learned of her history. This investigation was conducted by HUD OIG. (Omaha, NE)

## FOUR

COMMUNITY PLANNING AND  
DEVELOPMENT PROGRAMS

*The Office of Community Planning and Development (CPD) seeks to develop viable communities by promoting integrated approaches that provide decent housing, suitable living environments, and expanded economic opportunities for low- and moderate-income persons. The primary means toward this end is the development of partnerships among all levels of government and the private sector. Some of the highlights from this semiannual period are shown below.*

## AUDIT

## STRATEGIC INITIATIVE 3: CONTRIBUTE TO THE STRENGTHENING OF COMMUNITIES

| Key program results |                       | Questioned costs | Funds put to better use |
|---------------------|-----------------------|------------------|-------------------------|
| Audit               | 9 audits <sup>7</sup> | \$224,633,280    | \$63,043,774            |

The U.S. Department of Housing and Urban Development, Office of Inspector General (HUD OIG), audited the HOME Investment Partnerships Program (HOME), Section 108 Loan Guarantee Program, and Neighborhood Stabilization Program (NSP).

## HOME INVESTMENT PARTNERSHIPS PROGRAM

HUD OIG audited the HOME program of Rhode Island Housing in **Providence, RI**, to determine whether Rhode Island Housing officials awarded HOME funds to grantees in a reasonable and supported manner and whether HOME funds were disbursed in accordance with HUD rules and regulations.

Rhode Island Housing officials disbursed HOME funds for questionable expenditures. Specifically, they disbursed HOME funds for (1) expenses incurred before the HOME agreement was executed, (2) expenses not included in the HOME agreement, (3) expenses that exceeded the budget allocation, and (4) an activity for which they did not obtain a deed restriction and support all of the costs incurred. In addition, officials executed a HOME agreement that did not comply with Federal regulations and approved a HOME application with inaccurate costs. As a result, they could not assure HUD that reasonable and necessary costs were charged to the HOME program, and more than \$2.3 million in HOME funds was questioned. In

<sup>7</sup> The total community planning and development area audits, questioned costs, and funds put to better use amounts include any disaster recovery (two audits) type audits conducted in the community planning and development area. The writeups for these audits may be shown separately in chapter 5 of this semiannual report.



addition, officials did not always properly award and support HOME funds disbursed to community housing development organizations (CHDO). As a result, they could not assure HUD that nearly \$84,000 in HOME funds was allocated and disbursed in compliance with HOME requirements.

OIG recommended that HUD require Rhode Island Housing officials to reimburse HUD nearly \$888,000 from non-Federal funds for ineligible costs and provide support for more than \$1 million in costs. If sufficient support cannot be provided, officials should seek reimbursement from non-Federal funds and redistribute \$500,000 in HOME funds to other eligible HOME activities. (Audit Report: **2015-BO-1002**)

## SECTION 108 LOAN GUARANTEE PROGRAM

HUD OIG audited the Section 108 Loan Guarantee program of the Office of the Commissioner for Municipal Affairs in **San Juan, PR**, to determine whether Section 108 funds were effectively used to meet a Community Development Block Grant (CDBG) program national objective and provide the intended benefits and whether borrowers complied with loan contract and HUD requirements.

Municipal Affairs did not ensure that borrowers completed three Section 108 Loan Guarantee activities that showed signs of slow progress. As a result, HUD had no assurance that more than \$21 million awarded and disbursed for three Section 108-funded activities met a national objective of the CDBG program and fully provided the intended benefits. Further, (1) borrowers used more than \$1 million for ineligible expenditures and did not support the eligibility of more than \$367,000 in program disbursements, (2) loan proceeds were not disbursed within the established timeframe, (3) borrowers did not provide HUD the required loan collateral or establish a financial management system in accordance with HUD requirements, and (4) investments were not fully collateralized. As a result, HUD lacked assurance that funds were adequately accounted for, safeguarded, and used for authorized purposes and in accordance with HUD requirements.

OIG recommended that HUD (1) determine the eligibility of the unsupported Section 108 program costs and activities that showed signs of slow progress and (2) require the repayment of the ineligible expenditures. (Audit Report: **2015-AT-1001**)

## NEIGHBORHOOD STABILIZATION PROGRAM

HUD OIG audited the **State of Rhode Island's** NSP to determine whether the State properly administered its program and ensured that costs incurred complied with HUD regulations.

The State did not properly administer its NSP and ensure that costs incurred complied with HUD regulations. Specifically, State officials did not ensure that their subrecipients (1) had an adequate process for selecting and approving applicants for NSP funding, (2) always funded activities that were eligible and supported program costs, and (3) charged only eligible and supported administrative costs directly related to NSP. Additionally, OIG found instances of potential conflicts of interest. As a result, HUD had no assurance that more than \$6.3 million in NSP funds was effectively and efficiently used.

OIG recommended that HUD require State officials to (1) repay more than \$1.4 million in ineligible costs, (2) provide adequate documentation to support or repay more than \$4.5 million in NSP costs, (3) support the necessity and reasonableness of nearly \$490,000 in unexpended NSP funds or reallocate the funds for other eligible NSP activities, (4) ensure that proper affordability restrictions are put in place, (5) establish an agreement between the State and Rhode Island Housing to define responsibilities, and (6) properly monitor and oversee the State's subrecipients. (Audit Report: **2015-BO-1003**)

## AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009

HUD OIG audited HUD's NSP to provide an overall assessment of the program, including assessing the sufficiency of HUD's controls and determining whether HUD had improved its controls as a result of its own monitoring efforts as well as audits or reviews by OIG or other entities.

HUD failed to take appropriate action regarding more than \$22 million in unexpended NSP1 and NSP3<sup>8</sup> initial funding allocations. Since HUD had no assurance that these funds were used to help reduce the effects of the foreclosure crisis in a timely manner as Congress intended, the overall effectiveness of the program may have been lessened.

HUD had generally implemented sufficient controls and improvements, including providing guidance and technical assistance, as a result of its own assessments. However, it could improve its administration of NSP and similar programs by effectively using OIG reports on individual grantees to identify trends programwide.

HUD did not effectively use trends identified from OIG reports on individual grantees that highlighted common problems or regulatory gaps on which it could base national policy guidance or other directives. As a result, HUD may not have always recognized recurring issues or provided grantees the most effective guidance for improving overall program performance.

OIG recommended that HUD (1) provide support showing that it took action regarding more than \$22 million in unexpended funds or provide adequate support showing that grantees did not miss the expenditure deadlines, (2) work with grantees to ensure that the information reported is accurate and up to date, and (3) adopt a best practice to use OIG audit reports to help identify potential areas for improvement programwide for NSP and similar programs. (Audit Report: **2015-AT-0001**)

## INVESTIGATION

|                                       |             |
|---------------------------------------|-------------|
| Administrative-civil actions          | 31          |
| Convictions-pleas-pretrial diversions | 10          |
| Financial recoveries                  | \$2,365,596 |

## CONTRACTORS SENTENCED IN CONSPIRACY TO COMMIT THEFT OF FUNDS

Two contractors were sentenced in U.S. District Court following their convictions of conspiracy to commit theft of government funds from New Orleans Affordable Homeownership, an agency that received HUD CDBG funds. One contractor was sentenced to 6 months home confinement and 12 months supervised release and ordered to pay \$173,424 in restitution to HUD. The other contractor was sentenced to 36 months probation and ordered to pay \$133,872 in restitution to HUD. From January 2005 through August 2008, the contractors conspired with the executive director of the agency to overbill or bill for work that was not performed and provide a kickback to the executive director. The City of New Orleans administered the CDBG funds disbursed by HUD. This investigation was conducted by HUD OIG, the Federal Bureau of Investigation, the Internal Revenue Service - Criminal Investigation, the U.S. Postal Inspection Service, and the City of New Orleans OIG. (**New Orleans, LA**)

<sup>8</sup> HUD, through CPD, provided money to local governments, nonprofits, and all 50 States through three rounds of NSP funding totaling approximately \$6.82 billion. The three rounds of NSP funding were for stabilizing communities through the purchase and redevelopment of foreclosed-upon and abandoned homes and residential properties.

### CONTRACTOR SENTENCED FOR BRIBERY

A home construction contractor was sentenced in U.S. District Court to 3 years probation following his conviction of bribery of officials of a HOME grantee. From 2009 through 2011, the contractor had entered into an agreement with a senior property developer to “kick back” cash payments totaling \$9,600 to her in exchange for contract awards for HOME-funded property rehabilitation work. This investigation was conducted by HUD OIG. (**Bristol, PA**)

### EXECUTIVE DIRECTOR SENTENCED FOR EMBEZZLEMENT

The former executive director of the defunct CHDO, East Orange Revitalization and Development Corporation, was sentenced in Essex County Court to 5 years incarceration following her conviction of theft. From 2006 through 2009, the executive director submitted falsified invoices, acquired from a private developer, for payment as if they were expenses incurred for the project. The executive director then routed the funds to accounts that she controlled. She also used her relatives, former Internal Revenue Service agents, to prepare fraudulent financial statements for the CHDO to conceal the theft. She used the embezzled HOME funds to finance a lavish lifestyle that included refurbishing a former residence, taking trips to casinos and the Bahamas, and buying jewelry. (**Essex County, NJ**)

## FIVE

## DISASTER RELIEF PROGRAMS

*In response to disasters, Congress may appropriate additional funding as Disaster Recovery grants to rebuild the affected areas and provide crucial seed money to start the recovery process. Since fiscal year 1993, Congress has appropriated \$47 billion to the U.S. Department of Housing and Urban Development (HUD), from which HUD provides flexible grants to help cities, counties, and States recover from presidentially declared disasters. The active disaster grants nationwide were allocated \$44.2 billion and had nearly \$32.7 billion obligated and \$28.7 billion disbursed as of March 31, 2015.*

| Disaster                         | Funds allocated | Funds obligated | Funds disbursed | Percentage of funds used |
|----------------------------------|-----------------|-----------------|-----------------|--------------------------|
| Hurricane Sandy                  | \$14.2 billion  | \$3.2 billion   | \$2.8 billion   | 20                       |
| Hurricanes Katrina, Rita & Wilma | \$19.6 billion  | \$19.5 billion  | \$18.4 billion  | 94                       |
| Hurricanes Ike, Gustav & Dolly   | \$6.1 billion   | \$6.0 billion   | \$4.0 billion   | 66                       |
| 9-11                             | \$3.5 billion   | \$3.4 billion   | \$3.1 billion   | 89                       |
| Other                            | \$0.8 billion   | \$0.6 billion   | \$0.4 billion   | 50                       |

Keeping up with communities in the recovery process can be a challenging position for HUD. HUD's Office of Inspector General (OIG) continues to take steps to ensure that the Department remains diligent in assisting communities with their recovery efforts.

## AUDIT

## STRATEGIC INITIATIVE 3: CONTRIBUTE TO THE STRENGTHENING OF COMMUNITIES

| Key program results |                       | Questioned costs | Funds put to better use |
|---------------------|-----------------------|------------------|-------------------------|
| Audit               | 2 audits <sup>9</sup> | \$194,671,037    | \$40,000,000            |

<sup>9</sup> The total disaster-related audits consist of community planning and development audits. The questioned costs and funds put to better use amounts relate only to disaster-related costs.

HUD OIG audited the City of **New York**, Office of Management and Budget's administration of the Community Development Block Grant Disaster Recovery (CDBG-DR) funds awarded to the City as a result of damages caused by Hurricane Sandy to determine whether the City (1) disbursed CDBG-DR funds in accordance with the guidelines established under the HUD-approved action plan and HUD rules and regulations and (2) maintained effective program and financial management controls.

City officials did not always disburse CDBG-DR funds in accordance with Federal regulations. Specifically, they disbursed \$183 million to the City's subrecipient for unsupported salary and fringe benefits and unreasonable and unnecessary expenses and did not adequately monitor their subrecipient and sufficiently document national objectives. In addition, the City had weaknesses in its financial management controls and allowed the disbursement without a proper review to support the claim. As a result, City officials could not assure HUD that the CDBG-DR funds were disbursed for eligible, reasonable, and necessary program expenses in compliance with HUD rules and regulations. Further, the remaining allocation of \$40 million would be considered funds put to their intended use if City officials establish adequate monitoring controls.

OIG recommended that HUD instruct City officials to (1) provide documentation to justify the unsupported salary and fringe benefits and associated expenses charged to the grant and (2) strengthen controls over disbursements to ensure that all costs charged to the program are eligible and adequately supported with source documentation in compliance with Federal regulations. (Audit Report: **2015-NY-1001**)

HUD OIG audited the City of **Minot, ND**'s CDBG-DR program to determine whether the City complied with Federal and local procurement requirements.

The City did not fully comply with Federal and local procurement requirements. It did not prepare independent cost estimates before receiving bids or proposals for two grant administration and project delivery services contracts and the five amendments to those contracts or for the change orders for four construction projects. In addition, the City did not perform debarment checks before awarding three contracts. The mayor of Minot signed two amendments for the 2012 grant administration and project delivery services contract before the city council authorized the mayor to sign the documents on the City's behalf. Further, one construction contract was not dated and did not have an effective date of services.

OIG recommended that HUD (1) require the City to provide documentation demonstrating that the overall contract price for the two grant administration and project delivery services contracts and the five amendments to those contracts totaling more than \$11.5 million was fair and reasonable and if not, require the City to repay HUD from non-Federal funds any amount that it cannot support; (2) require the City to provide documentation demonstrating that the overall price for the change orders for the four construction projects totaling nearly \$122,000 was fair and reasonable and if not, require the City to repay HUD from non-Federal funds any amount that it cannot support; and (3) monitor the City to ensure that it follows its revised Federal grant procurement policy and newly adopted procurement checklist. (Audit Report: **2015-KC-1002**)

## INVESTIGATION<sup>10</sup>

|                                       |          |
|---------------------------------------|----------|
| Administrative-civil actions          | 6        |
| Convictions-pleas-pretrial diversions | 1        |
| Financial recoveries                  | \$12,043 |

### FORMER EXECUTIVE DIRECTOR SENTENCED FOR RECEIVING KICKBACKS

A former executive director of New Orleans Affordable Homeownership, an agency that received HUD CDBG funds, was sentenced in U.S. District Court to 60 months incarceration and 36 months probation, ordered to pay \$424,107 in restitution to HUD, and fined \$50,000 following a conviction of conspiracy to receive kickbacks from an agency receiving Federal funds. From January 2005 through August 2008, the former executive director conspired with contractors to overpay or pay for work not done and received kickbacks from those contractors. The former executive director also created and provided false invoices for at least one contractor to submit to the grand jury in an attempt to justify the overpayments. This investigation was conducted by HUD OIG, the Federal Bureau of Investigation, the Internal Revenue Service – Criminal Investigation, the U.S. Postal Inspection Service, and the City of New Orleans OIG. **(New Orleans, LA)**

<sup>10</sup> Figures included in Office of Public and Indian Housing and Office of Community Planning and Development statistics

## SIX

## OTHER SIGNIFICANT AUDITS AND INVESTIGATIONS

### AUDIT

#### STRATEGIC INITIATIVE 4: CONTRIBUTE TO IMPROVING HUD'S EXECUTION OF AND ACCOUNTABILITY FOR FISCAL RESPONSIBILITIES AS A RELEVANT AND PROBLEM-SOLVING ADVISOR TO THE DEPARTMENT

| Key program results |           | Questioned costs | Funds put to better use |
|---------------------|-----------|------------------|-------------------------|
| Audit               | 11 Audits | -                | \$119,500               |

The U.S. Department of Housing and Urban Development, Office of Inspector General's (HUD OIG) more significant audits are discussed below.

#### AUDIT OF HUD'S FISCAL YEARS 2014 AND 2013 FINANCIAL STATEMENTS

In accordance with the Chief Financial Officers Act of 1990 as amended, HUD OIG is required to annually audit HUD's consolidated financial statements and the stand-alone financial statements of the Federal Housing Administration (FHA) and the Government National Mortgage Association (Ginnie Mae). OIG's objective was to express an opinion on the fairness of the financial statements in accordance with U.S. generally accepted accounting principles applicable to the Federal Government. OIG's audit of HUD's fiscal years 2014 and 2013 consolidated financial statements included reviewing HUD's internal controls and compliance with applicable laws and regulations.

OIG expressed a disclaimer of opinion on HUD's fiscal year 2014 consolidated financial statements because of the significant effects of certain unresolved audit matters, which restricted OIG's ability to obtain sufficient, appropriate evidence to express an opinion. These unresolved audit matters related to (1) HUD's improper use of cumulative and first-in, first-out budgetary accounting methods of disbursing Office of Community Planning and Development program funds and (2) \$6.6 billion in nonpooled loan assets from Ginnie Mae's stand-alone financial statements that OIG could not audit because Ginnie Mae could not provide adequate support for OIG to test these asset balances. OIG identified another matter regarding unvalidated grant accrual estimates that would have required a modification to the opinion due to materiality. However, this matter was not pervasive.

OIG found eight material weaknesses, eight significant deficiencies in internal controls, and five instances of noncompliance with applicable laws and regulations. The most significant findings related to

- (1) The Office of Community Planning and Development's noncompliance with generally accepted accounting principles regarding its formula grant accounting,
- (2) Continued weaknesses in the Office of Public and Indian Housing's cash management process,
- (3) The lack of validation of grant accrual estimates,
- (4) HUD's continued financial management system weaknesses,
- (5) FHA's failure to recognize accounts receivable when claims to cash were established,
- (6) Material asset balances related to nonpooled loans not being auditable,
- (7) Weaknesses in Ginnie Mae's internal controls over financial reporting, and
- (8) HUD's and Ginnie Mae's ineffective financial management governance.

OIG's recommendations on its findings were included in Audit Report 2015-FO-0002, Interim Report on HUD's Internal Controls Over Financial Reporting, issued December 8, 2014; Audit Report 2015-FO-0001, Federal Housing Administration Financial Statements Audit, issued November 14, 2014; and Audit Report 2015-FO-0003, Government National Mortgage Association Financial Statement Audit, issued February 27, 2015. These audit reports included more than \$1.4 billion in questioned costs and more than \$666 million in funds put to better use. (Audit Reports: **2015-FO-0004** and **2015-FO-0002**)

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## REVIEW OF HUD'S PROCUREMENT AND ADMINISTRATION OF ITS MULTIFAMILY SERVICING CONTRACT

HUD OIG audited HUD's procurement and administration of its multifamily mortgage loan and property management servicing and accounting contract to determine whether HUD officials (1) ensured that the contract scope of services was appropriate and necessary, (2) maximized competition, (3) provided sufficient oversight and monitoring, and (4) provided adequate communication and coordination among the departments involved.

While HUD officials ensured that the scope of services was appropriate and necessary, they did not always follow applicable requirements or use best practices in the procurement and administration of HUD's contract for multifamily mortgage loan and property management servicing and accounting. Specifically, HUD officials did not sufficiently track contract payments, identify and deobligate excess funds at contract closeout, or ensure adequate communication and coordination with the departments involved with this contract. Also, HUD officials did not obtain sufficient bidders, ineffectively selected the procurement method used, and did not maximize vendor awareness and visibility for this contract.

OIG recommended that HUD (1) deobligate nearly \$10 million in excess obligations in HUD's most recent award of the contract for these services and ensure that these funds are put to better use and (2) implement procedures to ensure that obligated amounts are tracked and are consistent with funding needs; consistent oversight, accountability, and communication are promoted; best practices are followed to provide maximum competition; and decisions are made with input from all parties involved. (Audit Report: **2015-NY-0001**)



## INVESTIGATION

### LOAN GUARANTEE SPECIALIST SENTENCED FOR FRAUD

A former HUD Office of Native American Programs loan guarantee specialist was sentenced in U.S. District Court to 26 months incarceration, 36 months supervised release, and 400 hours community service and ordered to pay \$843,400 in restitution to HUD following his conviction of wire fraud involving a HUD real estate-owned property fraud scheme. From April 2013 to April 2014, the loan guarantee specialist, in his official capacity as a HUD employee, sold five Section 184 real estate-owned properties in California and Florida and directed settlement agents handling the closings to send \$843,400 in HUD sales proceeds to his personal bank accounts or accounts that he controlled. This investigation was conducted by HUD OIG and the U.S. Postal Inspection Service. **(Washington, DC)**

### HUD EMPLOYEE RESIGNS AFTER INVESTIGATION

A HUD multifamily realty specialist resigned his employment with HUD while under investigation after it was discovered that he provided false information on his hiring documents, which concealed a prior termination of employment from the New York City Housing Authority. The employee was employed by the Authority from July to September 2010 as the director of leased housing for its public housing program. When interviewed by HUD OIG, the employee admitted that he purposely concealed the termination because of the unfavorable circumstances surrounding his departure. This investigation was conducted by HUD OIG. **(Fort Worth, TX)**

### HUD OIG CONDUCTS SEX OFFENDER INITIATIVE

HUD OIG conducted a sex offender initiative, which involved the cross-referencing of HUD databases with the Virginia and West Virginia State Police's violent sex offender records to determine whether registered sex offenders were receiving Federal housing assistance from HUD. The initiative resulted in one arrest for failure to register as a sex offender, the removal of 36 Housing Choice Voucher program recipients from HUD-assisted units, and six referrals to the State Police for potential false statements made on recertification paperwork. **(Richmond, VA)**

## SEVEN

## JOINT CIVIL FRAUD INITIATIVES

*In recent years, the U.S. Department of Housing and Urban Development, Office of Inspector General (HUD OIG), has enhanced its efforts to identify and investigate civil fraud and pursue civil actions and administrative sanctions, frequently combining efforts from its multiple disciplines to create teams of auditors, special agents, attorneys, and data analysts to conduct civil investigations. The central hub of these efforts is HUD OIG's Joint Civil Fraud Division, a distinct team of forensic auditors and special agents dedicated to investigating fraud and pursuing civil and administrative remedies.*

*HUD OIG's joint civil fraud teams work closely with the U.S. Department of Justice (DOJ), U.S. Attorney's Offices, HUD's Office of General Counsel, and local prosecutors to pursue civil remedies under a variety of statutes and regulations, including the False Claims Act; Program Fraud Civil Remedies Act; and Financial Institutions Reform, Recovery, and Enforcement Act. HUD OIG also works with HUD's Departmental Enforcement Center to pursue debarments, suspensions, and limited denials of participation when appropriate.*

*HUD OIG's internal joint efforts, in conjunction with partnerships with other enforcement groups, result in civil outcomes that are meant to help HUD recover from unwarranted damages sustained due to fraud. Some of the highlights from this semiannual period, resulting from these joint civil fraud efforts, are noted below.*

### STRATEGIC INITIATIVE 1: CONTRIBUTE TO THE REDUCTION OF FRAUD IN SINGLE-FAMILY INSURANCE PROGRAMS

#### PROGRAM RESULTS

|  |                             |
|--|-----------------------------|
| Recoveries and receivables to HUD programs or HUD program participants | \$396,935,478               |
| Recoveries and receivables for other entities                          | \$181,285,522 <sup>11</sup> |
| Civil actions  | 5                           |
| Administrative sanctions   | 1                           |

<sup>11</sup> This amount represents funds that relate to HUD programs but were paid to other entities rather than to HUD for its benefit, such as funds paid to the U.S. Treasury for general government purposes. This amount does not include \$540 million from the Suntrust Mortgage settlement that was designated for general consumer relief.

## SINGLE FAMILY

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### SUNTRUST MORTGAGE, INC., SETTLED ALLEGATIONS OF FAILING TO COMPLY WITH FHA LOAN REQUIREMENTS

HUD OIG assisted DOJ in conducting an investigation of SunTrust Mortgage, Inc.'s underwriting practices for Federal Housing Administration (FHA)-insured loans. SunTrust, based in **Richmond, VA**, has participated in the FHA program as a direct endorsement lender since 1984.

On June 17, 2014, DOJ and the Consumer Financial Protection Bureau, along with 49 State attorneys general and the District of Columbia's attorney general, filed suit against SunTrust for misconduct related to the origination and servicing of single-family residential mortgages, based in part on OIG's review of the underwriting of FHA loans. The lawsuit alleged that during the period January 2006 through March 2012, SunTrust knowingly failed to comply with HUD regulations and requirements of the direct endorsement lender program governing the origination and underwriting of FHA-insured loans. FHA insured loans based on annual and per loan certifications submitted by SunTrust that it had complied with FHA requirements. When the borrowers defaulted on the loans, FHA incurred substantial losses.

On the same day, June 17, 2014, SunTrust entered into a settlement agreement to pay \$968 million to end the lawsuit. Of the settlement total, the FHA insurance fund was to receive \$300 million, and the remaining \$668 million was to be remitted to other entities involved in the suit. As part of the settlement, SunTrust admitted certain conduct, including endorsing for FHA insurance particular loans that did not meet underwriting requirements and self-reporting to FHA fewer deficient loans than required based on its internal quality control reports. On September 30, 2014, the United States District Court for the District of Columbia entered the consent judgment, which made SunTrust liable to pay the agreed settlement. (Memorandum: **2015-PH-1802**; Office of Audit Region 3, Joint Civil Fraud Division, and Office of Investigation Region 3 with the assistance of other offices)

### METLIFE BANK, N.A., SETTLED ALLEGATIONS OF FAILING TO COMPLY WITH FHA LOAN REQUIREMENTS

HUD OIG assisted DOJ, Washington, DC, and the U.S. Attorney's Office, District of Columbia, in the civil investigation of MetLife Bank, N.A. MetLife has its principal place of business in **Convent Station, NJ**. MetLife became an approved direct endorsement lender under HUD-FHA's direct endorsement program on April 5, 2007. The program authorizes private-sector mortgage lenders to approve mortgage loans for FHA insurance. Lenders approved for the program must follow various FHA requirements. When a borrower defaults on an FHA-insured loan underwritten and endorsed by a direct endorsement lender, the lender (or its representative) has the option of submitting a claim to HUD to compensate the lender for any loss sustained as a result of the default. Therefore, once a mortgage loan is endorsed for FHA insurance, HUD insures the risk of the borrower's defaulting on that mortgage, which is realized if an insurance claim is submitted.

On February 25, 2015, MetLife entered into a settlement agreement with the Federal Government to pay \$123.5 million to avoid the delay, uncertainty, inconvenience, and expense of lengthy litigation of certain civil claims the Government contended that it had against MetLife. As part of the settlement, MetLife agreed that it engaged in certain conduct in connection with its origination; underwriting; quality control; self-reporting of loans with unacceptable risk, fraud, or other serious violations; certification of compliance with program requirements; and endorsement of certain single-family residential mortgage loans insured by FHA. As a result of MetLife's conduct, HUD insured hundreds of loans approved by MetLife that were not eligible for FHA mortgage insurance under the direct endorsement program and that HUD-FHA would not otherwise have insured. HUD incurred substantial losses when it paid insurance claims on the loans covered by the

settlement agreement. Of the total settlement of \$123.5 million, FHA will receive about \$60.3 million, and other Federal entities will receive the remaining \$63.2 million. (Memorandum: **2015-CF-1803**; Joint Civil Fraud Division and Office of Investigation Region 8 with the assistance of other offices)

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## GOLDEN FIRST MORTGAGE CORPORATION SETTLED ALLEGATIONS OF FAILING TO COMPLY WITH FHA LOAN REQUIREMENTS

HUD OIG assisted in an investigation into alleged violations of FHA regulations applicable to the direct endorsement program by Golden First Mortgage Corporation and its owner. Golden First is a former FHA-approved mortgage lender, with its principal place of business located in **Great Neck, NY**. Golden First participated in the direct endorsement program from 1989 to 2010. As a direct endorsement lender, Golden First had the authority to approve mortgage loans for FHA insurance. On April 4 and August 13, 2013, the U.S. Attorney's Office of the Southern District of New York filed a complaint and an amended complaint, respectively, against Golden First and its owner for not complying with FHA requirements. The Government alleged that from 2002 to 2010, Golden First and its owner submitted false certifications to FHA and HUD concerning compliance with program rules and endorsed loans in violation of these rules. As a result, the Government incurred substantial losses in connection with loans that Golden First underwriters, including the owner, endorsed for FHA insurance during the covered period. The Government's complaint further alleged that Golden First and its owner were liable under the False Claims Act, 31 U.S.C. (United States Code) 3729 et seq.

On December 31, 2014, the U.S. District Judge approved a settlement, in which Golden First and its owner admitted, acknowledged, and accepted responsibility for failing to follow certain requirements of the direct endorsement program. To settle the matter, Golden First and its owner agreed to a judgment of \$36 million against Golden First and a \$300,000 payment from the owner. Additionally, the owner is permanently debarred from conducting business with the Federal Government. (Memorandum: **2015-CF-1802**; Joint Civil Fraud Division and Office of Investigation Region 2)

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## GROUP ONE MORTGAGE, INC., SETTLED ALLEGATIONS OF FAILING TO COMPLY WITH FHA LOAN REQUIREMENTS

HUD OIG assisted the U.S. Attorney's Office, Southern District of Florida, in the civil investigation of Group One Mortgage, Inc. Group One's principal place of business is located in **Jupiter, FL**. Group One has participated in the FHA insurance program since 2004 and became a direct endorsement lender in 2005.

Based on OIG's review of FHA loans underwritten by Group One, the United States contended that it had certain civil claims against the lender arising from false claims that Group One had made to FHA as a direct endorsement lender. The United States alleged that Group One approved four loans for FHA insurance but did not underwrite the loans in accordance with HUD-FHA regulations. It further alleged that Group One did not use due diligence to comply with HUD handbook requirements and ensure that the loans it approved on behalf of HUD were eligible for FHA insurance. Group One denied the allegations.

On November 19, 2014, Group One entered into a settlement agreement to pay \$406,000 to settle allegations that it had submitted false claims to FHA in violation of the False Claims Act, 31 U.S.C. 3729-3733, and common law causes of action. Of the settlement total, the FHA insurance fund was to receive nearly \$377,000, and the remaining more than \$29,000 was to be paid to other Federal entities. The parties to the settlement agreement entered into the agreement to avoid the delay, uncertainty, inconvenience, and expense of lengthy litigation of the alleged claims. The parties also agreed that the settlement was neither an admission of liability by Group One nor a concession by the United States that its claims were not well founded. (Memorandum: **2015-CF-1801**; Joint Civil Fraud Division)

*During this reporting period, the U.S. Department of Housing and Urban Development, Office of Inspector General (HUD OIG), Office of Evaluation (OE), expanded its capacity to evaluate HUD programs. The Integrated Data Analytics Division was realigned within OE to allow for greater integration between data analysis specialists and evaluators. This combination of personnel will better enable OE to use data from HUD's major program management information systems to identify areas of interest and conduct detailed assessments to determine the root causes of trends and patterns. Ultimately, this joining of forces will increase OE's operational intelligence concerning HUD programs and associated data systems, thereby accelerating and expanding OIG's predictive analytic capability.*

*OE is headed by an Assistant Inspector General, and the office consists of three divisions and an internal quality assurance evaluator. The Integrated Data Analytics Division, Information Technology Evaluations Division, Program Evaluation Division, and Management Assistance Review together form a robust office focused on identifying, assessing, and making recommendations to address some of the greatest challenges and risks facing HUD.*

*OE uses a multidisciplinary, collaborative approach to review specific issues in HUD programs and operations. Evaluation results will help HUD improve the efficiency and effectiveness of its programs and operations and contribute to its success.*

#### ADDITIONAL RESPONSIBILITIES OF OE INCLUDE

- Providing data statistical sampling and analytics to support audits, evaluations, and investigations;
- Conducting HUD's annual Federal Information Security Management Act evaluation;
- Evaluating HUD's information technology (IT) initiatives;
- Evaluating HUD's privacy program;
- Monitoring departmental conference spending;
- Evaluating disaster recovery efforts;
- Reviewing and commenting on draft departmental issuances of policy and guidance; and
- Performing internal reviews of OIG products and processes to ensure that they follow standards, policies, and procedures.

HUD's IT security and privacy programs continue to have significant noncompliance with Federal guidance, and the vulnerabilities impose risks to the HUD mission. OE has an evaluation in progress to determine the accuracy of the IT investment information reported by HUD on the Office of Management and Budget's public-facing IT dashboard Web site. OE found that the HUD processes were not consistently followed and the reported information was not verifiable. Additionally, OE evaluated HUD's IT modernization efforts and identified weaknesses in its enterprise architecture, IT capital planning, and investment control processes. Those deficiencies compound the complexity of HUD's efforts to modernize its infrastructure and hinder its ability to address duplicative and legacy applications supporting HUD programs and operations.

As of the end of this reporting period, OE had completed preliminary research on the departmental acquisition process. HUD's Office of the Chief Procurement Officer (OCPO) has been working with program offices to improve the acquisition process. During fieldwork, OE will compare OCPO's ongoing acquisition initiatives to program offices' concerns, identify gaps, and make recommendations to increase the likelihood that efforts to improve the acquisition process will be successful.

During its preliminary review of public housing agencies' (PHA) needs following a disaster, OE identified five options for future fieldwork. The anticipated outcome of those evaluations will be to improve the resilience, preparedness, and mitigation activities of PHAs.

## NINE

LEGISLATION, REGULATION,  
AND OTHER DIRECTIVES

*Reviewing and making recommendations on legislation, regulations, and policy issues is a critical part of the Office of Inspector General's (OIG) responsibilities under the Inspector General Act. During this 6-month reporting period, OIG has committed approximately 623 hours to reviewing 99 issuances. The draft directives consisted of 47 notices, 21 mortgagee letters, and 31 other directives. OIG provided comments on 28 (or 28 percent) of the issuances, provided 5 nonconcurrences, and was able to resolve 3. A summary of selected reviews for this 6-month period is below.*

## NOTICES, POLICY ISSUANCES, AND FINAL RULES

## SINGLE-FAMILY HOUSING

Reverse mortgages – The Federal Housing Administration (FHA) has been making needed changes to the reverse mortgage program to strengthen the Mutual Mortgage Insurance Fund. FHA issued various mortgagee letters, (1) requiring lenders to perform a financial assessment of prospective borrowers for all reverse mortgage transaction types and announcing property charge funding options for the payment of certain property charges, (2) addressing the due and payable status when there is a nonborrowing spouse at the time of closing, (3) prohibiting misleading or deceptive advertising, (4) limiting the insurability of fixed interest rate mortgages with the single disbursement lump-sum payment option, and (5) announcing new principal limit factors.

Of these five program changes, FHA used the authority granted to it in the Reverse Mortgage Stabilization Act of 2013 to immediately implement protections to a nonborrowing spouse and also limited the insurability of fixed rate mortgages. Since the inception of the reverse mortgage program, FHA has interpreted provisions of the National Housing Act to require the reverse mortgage to be due and payable upon the death of the last surviving borrower, sale of the home, and other conditions, including failure to reside in the property and failure to pay required taxes and insurance. Mortgagee Letter 2014-07 was issued to provide another interpretation of the Act to extend the mortgage insurance eligibility requirements to any nonborrowing spouse of the borrower at the time of origination. This measure eliminated the need for these nonborrowing spouses, including common law spouses, to refinance the reverse mortgage upon the death of the borrower.

In January 2015, FHA issued Mortgagee Letters 2015-02 and 2015-03 regarding requirements for a nonborrowing spouse. Mortgagee Letter 2015-02 defined an ineligible nonborrowing spouse and provided guidance and model certification language. Mortgagee Letter 2015-03 provided an alternative option for claim payment for an eligible reverse mortgage with an eligible surviving nonborrowing spouse. Through the clearance process, OIG recommended that FHA require certifications from both the borrower and the nonborrowing spouse at closing and annually thereafter to ensure that the interests of both the U.S. Department of Housing and Urban Development (HUD) and the lender are adequately protected. OIG

continues to monitor FHA's changes in this program.

Single-family lender handbook – OIG reviewed FHA's updated and consolidated single-family housing policy handbook. This update is part of an FHA initiative to provide borrowers with greater access to credit and to make working with FHA more efficient and effective for lenders. This handbook reconciled more than 900 mortgagee letters and other policy guidance into a single, authoritative document to serve as the definitive guide on all aspects of FHA's single-family programs.

During this period, OIG reviewed handbook sections “Doing Business with FHA,” “Origination through Post Closing and Endorsement,” and “Quality Control, Oversight and Compliance.” It nonconcurred on several issues. For example, OIG disagreed on the description of how an employee's misconduct is attributed to the lender as a whole. OIG was concerned that the handbook made references to multiple enforcement actions and also did not define the term “seriously improper conduct.” HUD maintained that the description was already contained in Handbook 4155.2. OIG lifted the nonconcurrence based on HUD's agreeing to modify the current handbook to expressly limit the enforcement action to administrative sanctions. Further, HUD will clarify that in addition to imposing administrative sanctions, it may refer findings to the Mortgagee Review Board and the U.S. Department of Justice.

In another example, OIG did not agree with several subsections of chapters stating “Pending, Under Construction.” OIG was concerned about whether it and other offices would have the opportunity to review and comment on those sections before issuance and, more importantly, what policies and requirements are to be used while those subsections are pending. The nonconcurrence was resolved by inserting the current requirements while the subsections are under construction. These sections were published March 18, 2015, with an implementation date of June 15, 2015, which was later extended to September 14, 2015.

## PUBLIC AND INDIAN HOUSING

Standards for internal controls – On September 10, 2014, the U.S. Government Accountability Office (GAO) issued its revision of Standards for Internal Control in the Federal Government (Green Book). The revision superseded the standards issued in November 1999. The Federal Managers' Financial Integrity Act (FMFIA) requires that Federal agency executives periodically review and annually report on the agency's internal control systems. FMFIA requires the Comptroller General to prescribe internal control standards for both program and financial management. The standards may also be adopted by State, local, and quasi-governmental entities, as well as public housing agencies, as a framework for their internal control system. GAO's 2014 revision will be effective for fiscal year 2016 and the FMFIA reports covering that year. Management, at its discretion, may elect early adoption. OIG has suggested, but HUD has not agreed that the Office of Public and Indian Housing should issue a policy statement directing the use of the new internal control process to improve the effectiveness of implementing the programs and as a means to safeguard limited resources.

## MULTIFAMILY HOUSING

Required actions for projects receiving failing inspection scores – In March 2015, HUD issued Notice H 2015-2, which applies to insured and noninsured projects with project-based assistance under Section 8 of the United States Housing Act of 1937 or a contract for similar project-based assistance. The Notice states that Section 230 of the Consolidated Appropriations Act of 2014 and Section 226 of HUD's Fiscal Year 2015 Appropriations Act require HUD to take certain steps in cases when a multifamily housing property receives a score of 59 or below on a Real Estate Assessment Center physical inspection report. In addition to the actions imposed in this Notice, HUD may consider proceeding with assignment or foreclosure of the loan or capital advance or may exclude the owner from further participation in HUD programs using a limited denial of participation, a suspension, or a debarment.

## COMMUNITY PLANNING AND DEVELOPMENT

Various waivers – OIG reviewed two Federal Register notices related to the allocation of disaster funding. The first notice was the Third Allocation, Waivers, and Alternative Requirements for Grantees Receiving Community Development Block Grant Disaster Recovery Funds in Response to Hurricane Sandy. HUD published this Federal Register notice on October 16, 2014, announcing additional allocations for assisting recovery in the most impacted and distressed areas identified in major disaster declarations due to Hurricane Sandy and other eligible events in calendar years 2011, 2012, and 2013. This allocation provided \$2.5 billion to assist Hurricane Sandy recovery, including \$930 million to implement projects from the HUD-sponsored Rebuild by Design competition. Rebuild by Design was a planning and design competition to increase resilience in the Sandy-affected region as part of recovery from the storm. This third allocation brings total funding to recover from the impacts of Hurricane Sandy and other eligible events in the Sandy-affected region to \$13 billion.

OIG also reviewed the Third Allocation, Waivers, and Alternative Requirements for Grantees Receiving Community Development Block Grant Disaster Recovery Funds in Response to Disasters Occurring in 2013. HUD published this Federal Register notice on January 8, 2015, announcing additional allocations for assisting recovery in the most impacted and distressed areas identified in major disaster declarations in calendar year 2013. Based on further review of the impacts from presidentially declared disasters that occurred in 2013 and estimates of remaining unmet need, this notice allocated more than \$89.7 million in funding to the State of Colorado, State of Illinois, City of Chicago, IL, Cook County, IL, Du Page County, IL, State of Oklahoma, and City of Moore, OK.

## FAIR HOUSING AND EQUAL OPPORTUNITY

Increasing awareness of the Equal Access Rule requirements – In February 2015, HUD published a notice to increase the awareness of Office of Housing program participants and stakeholders of the requirements of the HUD Equal Access Rule for actual or perceived discrimination based on sexual orientation, gender identity, or marital status. The Equal Access Rule ensures that housing across HUD programs is open to all eligible individuals, regardless of actual or perceived sexual orientation, gender identity, or marital status. HUD's general program requirements now provide, at 24 CFR (Code of Federal Regulations) 5.105(a)(2), that a determination of eligibility for housing that is assisted by HUD or subject to a mortgage insured by FHA must be made in accordance with the eligibility requirements provided for such program by HUD; such housing must be made available without regard to actual or perceived sexual orientation, gender identity, or marital status; and no owner or administrator of HUD-assisted or FHA-insured housing, approved lender in an FHA mortgage insurance program, or any other recipient or subrecipient of HUD funds may inquire about the sexual orientation or gender identity of an applicant for or occupant of HUD-assisted or FHA-insured housing for purposes of determining eligibility or otherwise making such housing available. However, inquiries into sex are permissible for temporary, emergency shelter with shared sleeping areas or bathrooms or to determine the number of bedrooms to which a household may be entitled.



*In the audit resolution process, Office of Inspector General (OIG) and U.S. Department of Housing and Urban Development (HUD) management agree upon needed actions and timeframes for resolving audit recommendations. Through this process, OIG strives to achieve measurable improvements in HUD programs and operations. The overall responsibility for ensuring that the agreed-upon changes are implemented rests with HUD managers. This chapter describes significant management decisions with which OIG disagrees. It also contains a status report on HUD's implementation of the Federal Financial Management Improvement Act of 1996 (FFMIA). In addition to this chapter on audit resolution, see appendix 3, table B, "Significant Audit Reports for Which Final Action Had Not Been Completed Within 12 Months After the Date of the Inspector General's Report."*

## **AUDIT REPORTS ISSUED BEFORE THE START OF PERIOD WITH NO MANAGEMENT DECISION AS OF MARCH 31, 2015**

### **ADDITIONAL DETAILS TO SUPPLEMENT OUR REPORT ON HUD'S FISCAL YEARS 2013 AND 2012 (RESTATED) FINANCIAL STATEMENTS, ISSUE DATE: DECEMBER 16, 2013**

HUD OIG audited the Office of Public and Indian Housing's (PIH) implementation of U.S. Department of the Treasury cash management regulations as part of the annual audit of HUD's consolidated financial statements for fiscal years 2013 and 2012. The OIG report found that HUD's implementation of the new cash management process for the Housing Choice Voucher program departed from Treasury cash management requirements and Federal generally accepted accounting principles. HUD OIG also reported that the internal controls over the process in place were not sufficient to ensure accurate and reliable financial reporting. The weaknesses in the process failed to ensure that material financial transactions were included in HUD's consolidated financial statements and allowed public housing agencies (PHA) to continue to hold funds in excess of their immediate disbursing needs, which is in violation of Treasury cash management regulations.

The OIG report included a recommendation that HUD PIH implement a cost-effective method for automating the cash management process to include an electronic interface of transactions to the standard general ledger.

Since the report's issuance, HUD issued three proposals on how to address recommendation 2C on March 31, April 17, and May 28, 2014. However, OIG rejected all three proposals because they were too vague and did not include a high-level plan showing the actions PIH will take from now until the final action date to implement corrective action. Further, the proposals included several contingencies; therefore, OIG has no reasonable way to determine PIH's progress in addressing the recommendation.

This issue was referred to the Assistant Secretary on June 19 and September 30, 2014; however, a new proposal had not been made as of March 31, 2015. Therefore, this issue was referred to the Deputy Secretary on March 31, 2015. (Audit Report: **2014-FO-0003**)

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U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT, WASHINGTON, DC,  
IMPROPER PAYMENTS ELIMINATION AND RECOVERY ACT OF 2012, ISSUE DATE:  
APRIL 15, 2014

HUD OIG audited HUD's fiscal year 2013 compliance with the Improper Payments Information Act of 2002 as amended by the Improper Payments Elimination and Recovery Act of 2010 (IPERA). The OIG report found that HUD did not comply with IPERA reporting requirements because it did not sufficiently and accurately report its (1) billing and program component improper payment rates; (2) actions to recover improper payments; (3) accountability; or (4) corrective actions, internal controls, human capital, and information systems as required by IPERA. In addition, HUD's supplemental measures and associated corrective actions did not sufficiently target the root causes of its improper payments because they did not track and monitor processing entities to ensure prevention, detection, and recovery of improper payments due to rent component and billing errors, which are root causes identified by HUD's contractor studies.

The OIG report included several recommendations that required the Office of the Chief Financial Officer (OCFO) to work with PIH and the Office of Multifamily Housing Programs to ensure sufficient and accurate IPERA reporting in its agency financial report. The report also recommended that OCFO conduct a current billing study and if it is not performed annually in future years, report the reason in the agency financial report and update the previous study to reflect program and inflationary changes. Similarly, the report recommended a study to assess improper payments arising from the Housing Choice Voucher program. Finally, the report recommended that OCFO report on multifamily, public housing, and Section 8 program improper payment rates separately in the agency financial reports.

OCFO disagreed with several of OIG's recommendations, citing (1) funding issues to conduct current billing studies, which it believes do not produce tangible results; (2) disagreement regarding the need to determine whether improper payments exist due to changes in the funding of the Housing Choice Voucher program; and (3) management's position that formal policies and procedures for the IPERA reporting process are not necessary. OIG generally disagrees with OCFO's management decisions because they disregard IPERA reporting requirements and Office of Management and Budget (OMB) guidance and the management decisions do not reflect OCFO's responsibility as the lead official for directing and overseeing HUD's actions to address improper payments. OIG sent a referral memorandum to the Acting Chief Financial Officer on September 23, 2014, regarding its disagreement, along with an untimely referral memorandum for two recommendations that had not had management decisions entered. Following OIG's memorandum, OCFO entered management decisions for seven of its nine recommendations, of which OIG agreed with only one. The remaining six recommendations, along with two recommendations for which management had not entered a management decision, were referred to the Deputy Secretary on March 31, 2015. (Audit Report: **2014-FO-0004**)

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HUD COULD NOT SUPPORT THE REASONABLENESS OF THE OPERATING AND  
CAPITAL FUND PROGRAMS' FEES AND DID NOT ADEQUATELY MONITOR CENTRAL  
OFFICE COST CENTERS, ISSUE DATE: JUNE 30, 2014

HUD OIG audited HUD's Public Housing Operating and Capital Fund program asset management safe harbor fees and HUD's monitoring of central office cost centers.

The OIG report found that HUD could not adequately support the reasonableness of the Operating Fund management, bookkeeping, and asset management fees and Capital Fund management fee limits. Since HUD determined that the fee income earned by PHAs was not Federal funds, around \$353 million in public housing operating funds was defederalized annually. HUD also lacked adequate justification for allowing PHAs to charge an asset management fee, resulting in more than \$81 million of the above amount being unnecessary. Finally, HUD did not adequately monitor PHAs' central office cost center fee charges.

Among other things, the OIG report included recommendations that PIH revise its asset management fee policy to refederalize the Operating Fund program's management and bookkeeping fees and the Capital Fund program's management fees (recommendation 1A), eliminate the asset management fee (recommendation 1B), and implement written procedures to ensure that fees and central office cost center expenses are used to support HUD's mission (recommendation 1H).

Since the report's issuance, management has issued two responses to address the three recommendations, with the latest issued on February 13, 2015. OIG rejected the latest management decisions proposed by the Office of Public Housing to address the recommendations on March 23, 2015. Although the proposed management decisions appeared to agree with some aspects of the OIG's recommendations, they did not fully and clearly explain how PIH will address the recommendations. OIG referred this issue to the Deputy Secretary on February 12, 2015, and had not received a decision as of March 31, 2015. (Audit Report: **2014-LA-0004**)

#### THE DATA IN CAIVRS DID NOT AGREE WITH THE DATA IN FHA'S DEFAULT AND CLAIMS SYSTEMS, ISSUE DATE: JULY 2, 2014

HUD OIG audited the Credit Alert Verification Reporting System (CAIVRS) to determine whether the default and claims data in CAIVRS agreed with the data in the Federal Housing Administration's (FHA) default and claim systems. OIG determined that CAIVRS did not contain information on all borrowers' default, foreclosure, and claim activity. It would incorrectly return accept codes for more than 260,000 borrowers who had been in default, foreclosure, or claim within the past 3 years. In addition, CAIVRS did not contain information for FHA borrowers with claims older than 3 years. Therefore, HUD did not provide other Federal agencies with sufficient information on FHA borrowers with delinquent Federal debt to meet the requirements of the Debt Collection Improvement Act of 1996 (DCIA).

Among other things, OIG recommended that HUD notify the users of CAIVRS that the system may have incomplete information for FHA delinquent debtors. In its October 17, 2014, management decision, HUD disagreed in part with this recommendation; however, it agreed to consult with the users of CAIVRS to determine their need for information on individuals with defaults or claims on FHA loans that do not result in delinquent Federal debt. On February 2, 2015, HUD submitted another management decision, stating that CAIVRS was being updated to ensure that it reports all delinquent Federal debt resulting from FHA insurance claims until such debt is resolved as provided for in DCIA. In connection with this revision to the system, the Office of Single Family Program Development agreed that it should consult with the users of CAIVRS, including Treasury, to ensure that they were aware that CAIVRS was being updated and would no longer report credit worthiness information – the mere existence of defaults and claims on FHA-insured loans – in addition to any actual delinquent Federal debt that has resulted from such defaults and claims. HUD will revise FHA's computer matching agreements with relevant agency users of CAIVRS to ensure that these agreements accurately reflect the delinquent Federal debt being reported by FHA and the revised period for such reports.

OIG also recommended that HUD obtain a determination from the Secretary of the Treasury of whether defaulted FHA-insured loans meet the definition of delinquent Federal debt that should be reported in CAIVRS. In its October 17, 2014, management decision, HUD disagreed with this recommendation. After discussions with OIG, HUD submitted another management decision on February 2, 2015, stating that HUD

believes DCIA and pertinent regulations provide for the Secretary of HUD to determine the existence of any debt owed to the agency. HUD believes it is clear that it is not left to the Secretary of the Treasury to make this determination. HUD believes it has significant discretion in determining whether money owed to HUD is a debt, whether the debt is delinquent, and whether the debt must be repaid.

OIG rejected these management decisions because they do not resolve the recommendations. Since HUD has not indicated that it will identify all past claims that constitute unresolved delinquent Federal debt and update the system accordingly, certain Federal delinquent debts may be omitted based on HUD's prior policy. Therefore, OIG continues to recommend that HUD notify the users of CAIVRS that the system may have incomplete information for FHA delinquent Federal debtors so that these users do not unknowingly violate DCIA. For the second recommendation, OIG disagrees with HUD's position and continues to recommend that HUD seek a determination from the Secretary of the Treasury of whether FHA-insured loans meet the definition of delinquent Federal debt for the purposes of including or excluding them from CAIVRS. On March 23, 2015, OIG referred the recommendations to the Deputy Secretary because OIG could not resolve them with the Office of Housing. (Audit Report: **2014-KC-0002**)

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#### THE NIAGARA FALLS HOUSING AUTHORITY DID NOT ALWAYS ADMINISTER ITS HOPE VI GRANT PROGRAM AND ACTIVITIES IN ACCORDANCE WITH HUD REQUIREMENTS, ISSUE DATE: JULY 10, 2014

HUD OIG audited the Niagara Falls Housing Authority's HOPE VI grant program based on an OIG risk analysis and the amount of funding the Authority received. The objectives of the audit were to determine whether the Authority administered its HOPE VI grant program and activities in accordance with HUD and HOPE VI grant program requirements.

The Authority did not always administer its HOPE VI grant program and activities in accordance with requirements. Specifically, contrary to Federal regulations and the HOPE VI grant agreement, Authority officials drew more HOPE VI funds from HUD's Line of Credit Control System than were needed to cover project expenditures.

OIG recommended that HUD instruct Authority officials to (1) reimburse Treasury for nearly \$1.5 million in HOPE VI funds drawn in excess of need to cover project expenditures and (2) establish procedures to ensure that program funds are drawn in accordance with the grant agreement and regulations.

The Office of Public Housing Investments (OPHI) disagreed with recommendations 1A, 1B, and 1C and believed the funds questioned by OIG were non-Federal cost savings, which could be better used for HOPE VI-eligible activities in the Center Court neighborhood. OPHI believed there was no authority to require non-Federal cost savings to be returned to Treasury. OIG disagrees with the proposed management decisions for recommendations 1A, 1B, and 1C and believes that all of the questioned funds should be returned to Treasury absent a suitable legal opinion. As a result of November 25, 2014, discussions with OIG, OPHI agreed to obtain a legal determination from the Office of General Counsel regarding the proposed management decisions. On March 26, 2015, OIG referred the disagreement to the Acting Assistant Secretary for Public and Indian Housing as a legal determination had not been provided. (Audit Report: **2014-NY-1007**)

## HUD DID NOT ALWAYS RECOVER FHA SINGLE-FAMILY INDEMNIFICATION LOSSES AND ENSURE THAT INDEMNIFICATION AGREEMENTS WERE EXTENDED, ISSUE DATE: AUGUST 8, 2014

HUD OIG audited HUD's controls over its FHA loan indemnification recovery process to determine whether HUD had adequate controls in place to monitor indemnification agreements and recover losses on FHA single-family loans.

HUD did not always bill lenders for FHA single-family loans that had an indemnification agreement and a loss to HUD. Specifically, it did not bill lenders for any loans that were part of the Accelerated Claims Disposition (ACD) program or the Claims Without Conveyance of Title (CWCOT) program or loans that went into default before the indemnification agreement expired but were not in default on the expiration date. There were a total of 486 loans from January 2004 to February 2014 that had enforceable indemnification agreements and losses to HUD but were not billed. This condition occurred because HUD's Financial Operations Center was not able to determine loss amounts for loans that were part of the ACD program, was not aware of the CWCOT program, and considered the final default date for billing only. As a result, HUD did not attempt to recover a loss of \$37.1 million for 486 loans that had enforceable indemnification agreements.

In addition, HUD did not ensure that indemnification agreements were extended to 64 of 2,078 loans that were streamline refinanced. As a result, HUD incurred losses of more than \$373,000 for 5 loans, and 16 loans had a potential loss to HUD of nearly \$1 million. The remaining 43 loans were either terminated or did not go into delinquency before the indemnification agreement expired, or the agreement did not state that it would extend to loans that were streamline refinanced.

OIG rejected three management decisions proposed by the Offices of Single Family Housing and Finance and Budget because they did not follow the plain language explicitly stated in signed indemnification agreements. The Offices of Single Family Housing and Finance and Budget disagree with OIG's determination that HUD should have billed lenders for FHA loans that either were in default or went into default during the indemnification agreement period.

OIG referred the matter to the Assistant Secretary for Housing – Federal Housing Commissioner on January 8, 2015. OIG met with the HUD Offices of General Counsel, Housing, Single Family Housing, and Finance and Budget on January 30, 2015. The meeting ended in disagreement; however, the HUD Office of General Counsel and OIG Office of Legal Counsel continued discussions.

The Office of Single Family Housing received two legal opinions from HUD's Office of General Counsel, dated January 26 and February 24, 2015, respectively. Combined, the legal opinions support the Offices of Single Family Housing and Finance and Budget's position that they have collected in a manner consistent with longstanding policy that emphasized the definition of the "date of default." The Office of Single Family Housing maintains that its collection practice is consistent with FHA's regulatory definition of "date of default" found in 24 CFR (Code of Federal Regulations) 203.331, which refers to the first "uncorrected" failure and the first failure to pay that is not satisfied by later payments.

OIG disagrees and believes that the Offices of Single Family Housing and Finance and Budget have adopted a collection practice not supported by the plain language of the indemnification agreements or required by HUD regulations. Based on the plain language explicitly stated in signed indemnification agreements, OIG believes that the indemnification agreement should be enforced for any loan that "goes into default" during the indemnification agreement term, regardless of whether the loan emerged from a default status after the agreement expired. In response to HUD's legal opinions, OIG received its own legal opinion from the OIG Office of Legal Counsel that supports OIG's position.

OIG has had discussions with HUD's Offices of General Counsel, Single Family Housing, and Finance and Budget regarding the recommendations in question but has not reached agreeable management decisions. On March 31, 2015, OIG referred the recommendations to the Deputy Secretary for a decision. (Audit Report: 2014-LA-0005)

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## THE STATE OF NEW JERSEY, TRENTON, NJ, COMMUNITY DEVELOPMENT BLOCK GRANT DISASTER RECOVERY-FUNDED TOURISM MARKETING PROGRAM, ISSUE DATE: AUGUST 29, 2014

HUD OIG audited the State of New Jersey's Community Development Block Grant Disaster Recovery (CDBG-DR)-funded tourism marketing program to determine whether the content of the marketing campaign was proper and whether the State procured services and products for its tourism marketing program in accordance with applicable Federal procurement and cost principle requirements.

While the audit found nothing improper in the content of the State's marketing campaign, the State did not procure services and products for its tourism marketing program in a manner that fully met the intent of the Federal procurement requirements. It did not address the need for a required independent cost estimate and cost analysis before awarding a contract with a budget of up to \$25 million for marketing and outreach services. The regulations required the State to make independent estimates before receiving bids or proposals. They also required the State to perform a cost analysis. Also, the State could not demonstrate that purchases of marketing services and products were made competitively and that the winning contractor had timesheets to support wages and salaries it charged to the program. These deficiencies occurred because the State was not fully aware of Federal procurement and cost principle requirements. As a result, the State needed to fully demonstrate that the budgeted contract amount was fair and reasonable and that \$23 million it had disbursed under the contract was adequately supported. The State began taking corrective actions at the end of the audit and began providing some documentation to resolve these deficiencies. HUD needed to assess the documentation to determine the appropriateness of all contract costs.

OIG recommended that HUD (1) determine whether the documentation the State provided was adequate to show that the overall contract price was fair and reasonable and if not, direct the State to repay HUD from non-Federal funds any amount that it cannot support (excluding any amounts repaid as a result of recommendations 1B and 1C) (recommendation 1A); (2) determine whether the documentation the State provided was adequate to show that \$19.5 million disbursed for marketing costs was fair and reasonable and if not, direct the State to repay HUD from non-Federal funds any amount that it cannot support (recommendation 1B); and (3) determine whether the documentation the State provided was adequate to support \$3.5 million disbursed for wages and salaries charged to the program by the contractors' employees and if not, direct the State to repay HUD from non-Federal funds any amount that it cannot support (recommendation 1C). OIG also recommended that HUD direct the State to update its procurement processes and standards to ensure that they are fully aligned with applicable Federal procurement and cost principle requirements (recommendation 1D).

HUD disagreed with OIG on recommendations 1A, 1B, 1C, and 1D. Regarding recommendation 1A, HUD stated that it concurred with the State's position that the provisions of 24 CFR 85.36 did not apply, specifically the requirement to perform a cost estimate as required by 24 CFR 85.36(f). HUD contended that the State's contract price for tourism marketing services appeared fair and reasonable based on the open competitive process that it used to select the winning bidder. There were four bids within a similar range, and the State selected the lowest bidder. HUD also said that the cost estimate supplied by the State to OIG and HUD in response to the audit confirmed the four bids and the State's selection of the lowest bidder. HUD recommended that OIG close the recommendation. OIG maintains the position that the State needed to perform a cost estimate and cost analysis. For this disaster recovery effort, unlike previous efforts, a HUD notice<sup>12</sup> required the State to either adopt the specific procurement standards identified in 24 CFR 85.36 or have a procurement process and standards that were equivalent to the procurement standards at 24 CFR 85.36. The State certified that its policies and procedures were equivalent to the procurement standards at 24 CFR 85.36.

<sup>12</sup> 78 FR 14336, dated March 5, 2013

While it made this certification, it also acknowledged in its procurement policy for CDBG-DR grants that it was required as a grantee to follow the requirements at 24 CFR 85.36. Further, a HUD monitoring letter from its March 2014 onsite monitoring review noted that the State had adopted 24 CFR 85.36 with regard to Federal procurement standards.

Federal regulations at 24 CFR 85.36(f) state that a cost analysis is necessary when price competition is lacking; however, the regulations also state that a cost analysis must be performed when the offeror is required to submit the elements (for example, labor, materials, etc.) that make up the offeror's total cost proposal to determine whether they are allowable, directly related to the requirement, and reasonable. In this case, the bids the State received from contractors included the elements of their total costs. Therefore, the State should have performed a cost analysis. Ultimately, the State was responsible for the accuracy of its certification to HUD and needed to ensure that its alternate policies and procedures met the intent of the Federal requirements. Therefore, it needed to demonstrate that it had developed a measure for evaluating the reasonableness of contractors' proposed costs or prices and evaluate the separate elements that made up the contractors' total costs.

HUD stated that the independent cost estimate supplied by the State confirmed its selection of the lowest bidder. However HUD did not provide details on how it assessed the adequacy of the cost estimate. Therefore, to close the audit recommendation, HUD needs to provide the details on how it determined that the independent cost estimate the State provided was adequate to show that the overall contract price was fair and reasonable.

Regarding recommendation 1B, HUD maintains that States are not required to follow the standards at 24 CFR 85.36(b) through (i). While the State's contract with the vendor originally called for three quotes when submitting invoices for payment, the State waived this requirement when it determined that requiring that number of quotes was a higher standard than State law required. Pursuing additional quotes would have also precluded the State from advertising in areas with smaller populations that did not have a sufficient number of advertising firms in the region. Further, the marketing venues were procured by a vendor chosen by the State specifically for its ability to procure these venues in a cost-effective manner. HUD recommended that OIG close the recommendation since there was no requirement for the State to adopt the provisions of 24 CFR 85.36(b) through (i). OIG maintains its position regarding the audit recommendation. For this disaster recovery effort, HUD required the State to either adopt the specific procurement standards identified in 24 CFR 85.36 or have a procurement process and standards that were equivalent. HUD implemented these new requirements because of prior OIG recommendations that were based on lessons learned from prior audits of disaster recovery activities and a review of program data. The State certified that its policies and procedures were equivalent to the procurement standards at 24 CFR 85.36.

Regulations at 24 CFR 85.36(c) required the State to conduct all procurement transactions in a manner providing full and open competition. Also, regulations at 24 CFR 85.36(d) required the State to obtain bids from an adequate number of sources regardless of the procurement method unless the noncompetitive proposal method was selected.

The State failed to properly document justifications for deviating from key requirements during its procurement process. Since the State did not perform a prebid cost estimate or postbid cost analysis in relation to its tourism marketing program, it is particularly important for HUD to assess whether the documentation the State provided at the end of the audit and any additional documentation it provides after the audit are sufficient to demonstrate that the prices the contractor paid for marketing services and products were fair and reasonable.

Regarding recommendation 1C, HUD stated that it had reviewed signed timesheets for the State's contractor and subcontractor and repeated to the State that timesheets should be signed and submitted weekly. HUD also stated that the State had described its voucher review process and that it noted that the vouchers were subjected to three levels of review before the State made payment. HUD stated that it was in

the process of acquiring and reviewing the invoices and source documentation associated with the timesheets that were submitted to the State to ensure that the invoices met the requirements of Federal cost principles. HUD stated that it would provide a status update to OIG by March 30, 2015. OIG maintains that HUD needed to fully address the audit recommendation by indicating what action it would take if the documentation the State provided was not adequate to support the \$3.5 million disbursed for wages and salaries charged to the program by the contractors' employees. HUD also needed to indicate what evidence it proposed to submit for closure of the audit recommendation and the related final action target date. HUD did not provide the status update by March 30, 2015.

Regarding recommendation 1D, HUD stated that it had reviewed the State's procurement policies and procedures as part of a statutorily required certification before execution of the State's grant agreement and found those policies and procedures to comply with all applicable procurement and cost principle requirements. Also, HUD stated that it monitors the State's procurements to ensure that those policies and procedures are followed. HUD recommended that OIG close the recommendation since it had certified that the State had proficient financial controls and procedures, including procurement. OIG maintains its position regarding the audit recommendation. The State certified that its policies and procedures were equivalent to the procurement standards at 24 CFR 85.36. The State was responsible for the accuracy of its certification to HUD. The audit found that that the State did not procure services and products for its tourism marketing program in a manner that met the intent of all Federal procurement requirements because its procedures were not fully aligned with those requirements. Therefore, the State needs to develop and implement procedures to ensure that it complies with all applicable procurement and cost principle requirements.

HUD stated that it had reviewed the State's procurement policies and procedures as part of a statutorily required certification before execution of the State's grant agreement and found those policies and procedures to comply with all applicable procurement and cost principle requirements. If the State's policies and procedures had complied with all applicable procurement and cost principle requirements and it had followed them, the State would have conducted an independent cost estimate and had documentation to demonstrate that the prices the contractor paid for marketing services and products were fair and reasonable.

Since management decisions could not be reached, these issues were referred to the Acting Assistant Secretary for Community Planning and Development. (Audit Report: **2014-PH-1008**)

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## THE STATE OF NEW JERSEY, TRENTON, NJ, COMMUNITY DEVELOPMENT BLOCK GRANT DISASTER RECOVERY-FUNDED HOMEOWNER RESETTLEMENT PROGRAM, ISSUE DATE: SEPTEMBER 5, 2014

HUD OIG audited the State of New Jersey's CDBG-DR-funded Homeowner Resettlement program to determine whether the State used CDBG-DR funds for its Homeowner Resettlement program to assist eligible homeowners in accordance with applicable HUD and Federal requirements.

The State demonstrated that it used CDBG-DR funds to assist eligible homeowners for its program. Although the State obtained and provided documentation to demonstrate that homeowners in OIG's sample occupied damaged residences as their primary residence at the time of the storm, it can strengthen its controls over this requirement for future homeowner grants.

OIG recommended that HUD require the State to strengthen its controls over homeowner eligibility for future homeowner grants by maintaining documentation in its files to fully demonstrate compliance with the primary residency requirement before disbursing funds.

HUD provided a proposed management decision via email on January 15, 2015. On January 21, 2015, OIG informed HUD of concerns that the proposed management decision was not fully responsive to the audit recommendation. The proposed management decision did not indicate what action HUD would take if, based



on its review of sample files, it determined that the State's process for determining residency was not adequate. Further, it did not indicate whether any changes it required of the State would apply to future homeowner grants in all relevant programs or only for grants through the State's Homeowner Resettlement program. Lastly, the proposed management decision did not address the evidence necessary to provide closure of the audit recommendation and include a final action target date.

As of March 31, 2015, HUD had not provided a responsive proposed management decision. Since a timely management decision could not be reached, this issue was referred to the Acting Assistant Secretary for Community Planning and Development. (Audit Report: **2014-PH-1009**)

## SIGNIFICANTLY REVISED MANAGEMENT DECISIONS

Section 5(a)(11) of the Inspector General Act, as amended, requires that OIG report information concerning the reasons for any significantly revised management decisions made during the reporting period. During the current reporting period, there were significantly revised management decisions on six audits.

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### THE LAFAYETTE PARISH HOUSING AUTHORITY VIOLATED HUD PROCUREMENT REQUIREMENTS AND EXECUTED UNREASONABLE AND UNNECESSARY CONTRACTS, ISSUE DATE: JUNE 22, 2011

OIG issued an audit report entitled "The Lafayette Parish Housing Authority Violated HUD Procurement Requirements and Executed Unreasonable and Unnecessary Contracts." For recommendation 1K, the New Orleans Office of Public Housing agreed with the recommendation that the Authority should remain under HUD receivership for at least a year or until it can demonstrate to HUD that its procurement and other practices consistently meet Federal requirements. After the HUD receivership was lifted and an executive director was hired, HUD agreed to place the Authority on a zero dollar threshold for at least a year or until it can demonstrate to HUD that its procurement and other practices consistently meet Federal requirements. In September of 2012, HUD placed the Authority under HUD receivership with HUD staff assigned as the receiver, and the Authority hired a chief operating officer. It was the intent that the chief operating officer would benefit from the receiver's presence and ultimately be considered as the potential executive director of the Authority when it was returned to local control. However, resolution had not been reached by September of 2012, and HUD requested OIG approval to extend the final action target date until September 30, 2014. OIG denied this request due to a lack of adequate information to justify an extension.

In March of 2013, HUD again requested OIG approval to extend the final action target date until December 31, 2013. At that time, the next board of commissioners could not be appointed by the mayor of Lafayette until after a court hearing, scheduled for March 27, 2013. The purpose for the hearing was for the court to render a decision on the mayor's appeal to a contempt of court citation against him by the deciding judge. The court's decision was needed to determine whether the mayor would be required to reappoint the removed board members or to appoint new board members. After the court hearing, HUD planned to request that the mayor appoint a new board and require the board to participate in 3 months of training before HUD could determine when the Authority would be released from receivership. OIG agreed to extend the final action target date to December 31, 2013.

By December 24, 2013, HUD's many attempts to get the parish president or mayor to appoint a new board had failed, thereby making it impossible for HUD to return the Authority to local control and meet the December 31, 2013, final action target date. Therefore, on December 27, 2013, HUD proposed to change the management decision to (1) request that HUD's Assistant Secretary-General Deputy Assistant Secretary reach

out to the parish president to discuss the urgency of making the appointments and give the parish president 60 days to have the advisory board in place and (2) if the parish president continues to refuse to appoint the advisory board, notify the parish president that HUD may consider taking alternate actions, such as withholding HUD funding, including CDBG and HOME Investment Partnerships Program funding, or merging the PHA with another PHA. HUD also proposed extending the final action target date to December 31, 2014. OIG concurred with the revised management decision and extended the final action target date to December 31, 2014, effective December 31, 2013.

By December 16, 2014, HUD's many attempts to get the parish president or mayor to appoint a new board had failed, thereby making it impossible for HUD to return the Authority to local control and meet the December 31, 2014, final action target date. HUD stated that the appointment of a board was outside of HUD's authority. The appointment of the board is under the authority of the appointing official of the jurisdiction, which is the Lafayette Parish government. The current appointing official term is set to expire within 2 years, and HUD believed that it would receive the cooperation of the newly elected official. Therefore, on January 26, 2015, HUD submitted a revised management decision, proposing to await the appointment of the new mayor to influence the appointment of a board and extend the management decision to May 31, 2016, to allow the new mayor to take office, HUD to engage in conversation regarding the appointment of a board, and a new board to be seated. OIG concurred with the revised management decision and extended the final action target date to May 31, 2016, effective January 27, 2015. (Audit report: **2011-AO-0001**)

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#### THE MANAGEMENT AND BOARD OF COMMISSIONERS OF THE HARRIS COUNTY HOUSING AUTHORITY MISMANAGED THE AUTHORITY, ISSUE DATE: JUNE 19, 2013

OIG issued an audit report entitled "The Management and Board of Commissioners of the Harris County Housing Authority Mismanaged the Authority." For recommendation 3G, OIG recommended that the Director of the Houston Office of Community Planning and Development (CPD) recapture \$320,000 in Neighborhood Stabilization Program (NSP) funds that was to be spent for a local development using an ineligible cost plus contract. CPD agreed to recapture the funds if it determined that they were ineligible. CPD reviewed all of the development invoices and determined that the Authority spent only \$315,000 in NSP funds for the property. Further, more than \$74,000 was used as an ineligible contract incentive, while the remaining nearly \$241,000 was an eligible use of the funds. CPD recaptured the more than \$74,000 and submitted a revised management decision requesting reversal of the remaining funds. OIG concurred with the revised management decision on March 31, 2015. (Audit report: **2013-FW-1006**)

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#### THE CITY OF BRACKETTVILLE HOUSING AUTHORITY, BRACKETTVILLE, TX, FAILED TO PROPERLY OPERATE ITS LOW-RENT PROGRAM BUT GENERALLY OVERSAW ITS CAPITAL FUND GRANTS PROPERLY, ISSUE DATE: SEPTEMBER 18, 2013

The September 2013 audit memorandum on the City of Brackettville Housing Authority, Brackettville, TX, found that the Authority failed to properly operate its low-rent program. The memorandum contained 12 recommendations and questioned costs and funds put to better use totaling nearly \$32,000. After working with the Authority, the San Antonio Office of Public Housing asked OIG in January 2015 to write off more than \$16,000 for three recommendations (1C, 1E, and 1F) since the Authority lacked non-Federal funds to repay the remaining questioned amounts after it had taken recovery actions. Since the former executive director and maintenance employee had left the Authority, OIG agreed to the reductions in the outstanding finding balances. As of January 2015, the Office of Public Housing had taken action to close all recommendations on the memorandum. (Audit memorandum: **2013-FW-1803**)

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THE KENNER HOUSING AUTHORITY, KENNER, LA, DID NOT ADMINISTER ITS HOUSING CHOICE VOUCHER PROGRAM IN COMPLIANCE WITH PORTABILITY REQUIREMENTS, ISSUE DATE: SEPTEMBER 24, 2013

OIG issued an audit report entitled “The Kenner Housing Authority Did Not Administer Its Housing Choice Voucher Program in Compliance With Portability Requirements.” For recommendation 1A, the New Orleans Office of Public Housing agreed with the recommendation that the Authority should repay its program more than \$13,000 from non-Federal funds for ineligible housing assistance paid on behalf of one family. For recommendation 1B, the New Orleans Office of Public Housing agreed with the recommendation that the Authority support or repay its program nearly \$172,000 from non-Federal funds for unsupported housing assistance paid on behalf of four program families. The concurrence date on these recommendations was December 31, 2013, and the final action target date was December 31, 2014.

In December of 2014, OIG met with HUD, and HUD agreed that the Authority incurred these questioned costs and should repay. However, HUD’s initial review of the Authority’s ability to repay the questioned costs showed that the Authority had neither non-Federal funds nor assets that could be sold in an effort to repay a portion or all of the questioned costs. HUD considered requesting a writeoff of the funds but did not submit the request to OIG.

On March 25, 2015, HUD submitted a revised management decision, stating that it had issued a demand letter to the Authority for all ineligible funds. In response, the Authority agreed to repay all ineligible and unsupported funds. HUD stated that once it received an official response from the Authority, it would enter into a repayment agreement with the Authority. The final action date proposed for these recommendations is June 30, 2015. OIG concurred with the revised management decision, effective March 25, 2015. (Audit memorandum: **2013-FW-1804**)

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THE MALAKOFF HOUSING AUTHORITY, MALAKOFF, TX, DID NOT HAVE SUFFICIENT CONTROLS OVER ITS PUBLIC HOUSING PROGRAMS, INCLUDING ITS RECOVERY ACT FUNDS, ISSUE DATE: SEPTEMBER 26, 2013

OIG’s September 2013 audit memorandum on the Malakoff Housing Authority found that it did not have sufficient controls over its public housing programs, including its American Recovery and Reinvestment Act funds. The Authority incurred more than \$577,000 in questioned costs and could not support that it properly spent or managed the more than \$981,000 in HUD funds provided. The Fort Worth Office of Public Housing agreed with the 14 recommendations. Public Housing worked with the Authority and recovered funds from various sources, such as the Authority’s bonding company. In January 2015, five recommendations (1A, 1B, 1C, 1D, and 1G) with questioned costs totaling more than \$500,000 remained unresolved, and the Authority does not have non-Federal or other sources of funds to repay the amounts to HUD. Since the individuals who caused the ineligible amounts had left, Public Housing revised the remaining management decisions in February 2015 to indicate that it would seek permission to write off the remaining balances as nonrecovered from HUD’s Chief Financial Officer and OIG’s Assistant Inspector General for Audit. OIG concurred with the revised management decisions. (Audit memorandum: **2013-FW-1805**)

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THE COLFAX HOUSING AUTHORITY, COLFAX, LA, DID NOT PROPERLY ADMINISTER ITS PROGRAMS, INCLUDING ITS 2009 AMERICAN RECOVERY AND REINVESTMENT ACT GRANT, ISSUE DATE: NOVEMBER 13, 2013

OIG issued an audit report entitled “The Colfax Housing Authority, Colfax, LA, Did Not Properly Administer Its Programs, Including Its 2009 American Recovery and Reinvestment Act Grant.” Effective February 5, 2015, OIG and HUD concurred on the proposed management decision for recommendations 1A, 1B, 1D, 1E, 1F, 1G, and 1K.

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The final action target date on these recommendations was October 31, 2014, for recommendation 1A and December 31, 2014, for the remaining recommendations.

In December 2014, OIG met with HUD, and HUD requested an extension of the final action target date on recommendations 1D, 1E, 1G, and 1K. HUD stated that it had made many attempts to resolve the recommendations to no avail and requested that OIG extend the final action target date from December 31, 2014, to March 31, 2015, in an effort to resolve the recommendations or take further action against the Authority, the executive director, or both. However, since the original management decision agreement date was February 5, 2014, HUD had until February 5, 2015, to resolve the recommendations and still meet its goal of completing final actions within 1 year. Therefore, OIG believed that HUD had ample time to determine what action it planned to take against the Authority, based upon its noncompliance, and denied the extension request.

On March 13, 2015, HUD proposed to revise the recommendations. HUD stated that it had worked with the Authority to resolve the recommendations. However, the Authority was not able to produce records to show that proper procedures were followed before the award of contracts. HUD also stated that it knew that in many cases, otherwise eligible work items were completed using these funds. In its revised management decision for recommendations 1A, 1B, 1D, 1E, 1F, 1G, and 1K, HUD proposed having its staff or another third party approved by HUD perform an after-the-fact cost estimate to identify a conservative estimate of the value of the actual work completed. Thereafter, HUD will work with HUD headquarters staff to take action to offset future funding for any funds spent in excess of the value of work completed or any other expenditures deemed unsupported or ineligible. The third-party procurement review is applicable to 1E, 1G, and 1K. However, the offset of funds applies to all recommendations, which, in effect, revised the management decision from repay to offset. The amounts to be offset for the recommendations would be finalized based upon the third-party review and the review of additional documentation provided by the Authority. The final action target date proposed for the recommendations is September 30, 2015. OIG concurred with the revised management decision, effective March 17, 2015. (Audit memorandum: **2014-FW-1801**)

## SIGNIFICANT MANAGEMENT DECISION WITH WHICH OIG DISAGREES

During the reporting period, OIG did not have any reports in which OIG disagreed with the significant management decision.

## FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT OF 1996

HUD did not substantially comply with FFMIA during fiscal year 2014. HUD's continued noncompliance is largely due to a reliance on legacy financial systems and information security weaknesses. While HUD has continued to work toward financial management system modernization and FFMIA compliance, significant challenges remain. Section 803(A) of FFMIA requires that each agency establish and maintain financial management systems that comply with (1) Federal financial management system requirements, (2) Federal accounting standards, and (3) the U.S. Standard General Ledger at the transaction level. While OIG has long reported on HUD's lack of an integrated "core financial system" as FFMIA noncompliance, OMB made substantial changes to the FFMIA framework, which took effect in 2014, eliminating the term. With its issuance of appendix D to Circular A-123, OMB noted the need to reduce the cost, risk, and complexity of financial system modernizations and add flexibility to a burdensome framework, which often led to costly and ineffective solutions.

Like many other agencies, HUD struggled to modernize its legacy financial systems within the context of the previous FFMIA framework. HUD's financial systems, many of which were developed and implemented before the issue date of current standards, were not designed to provide the range of financial and performance data currently required. HUD has been working to modernize its legacy financial management system since fiscal year 2003. The previous project, the HUD Integrated Financial Management Improvement Project, was based on plans to implement a solution that replaced two of the applications currently used for core processing. In March 2012, work on the project was stopped, and it was later canceled. HUD spent more than \$35 million on the failed project. In the fall of 2012, the New Core Project was created to move HUD forward in implementing a new core financial system. The project migrates HUD's financial transactions and systems to a shared service provider, Treasury's Bureau of Fiscal Services' Administrative Resource Center. The Center will provide support for (1) funds management, (2) purchasing, (3) accounts payable, (4) accounts receivable, (5) cash management, (6) cost accounting, (7) the core financial system, (8) the general ledger, (9) financial reporting, (10) grants management, and (11) loans management.

The project includes three phases. Phase 1 of the project has been separated into four different releases. Each release defines a particular function that will be transferred to Treasury's shared services platform. Release 1 transferred the travel and relocation functions to Treasury on October 1, 2014. Release 2, which covers time and attendance, was implemented on February 8, 2015. Release 3 will cover migration of the core financial services that are owned by OCFO. This release includes the migration of accounting system services associated with budget execution, accounting, finance, data warehouse reporting, and an interface solution. Release 3 is scheduled for implementation in the fourth quarter of fiscal year 2015 or the first quarter of fiscal year 2016. Release 4 will address HUD's grant and loan accounting systems. Details regarding this release have not been finalized, and there is no scheduled date for implementation. Phase 2 of the project will address managerial cost accounting, budget formulation, and a fixed assets system. Phase 3 of the project will address the consolidation of FHA and the Government National Mortgage Association as well as the migration of the functionality of HUD's Line of Credit Control System. Details regarding phases 2 and 3 have not been finalized, and there are no scheduled dates for implementation.

FFMIA requires OIG to report in its Semiannual Reports to the Congress instances and reasons when an agency has not met the intermediate target dates established in its remediation plan required by FFMIA. At the end of 2014, HUD reported that 4 of 40 financial systems were not in substantial compliance with FFMIA. These four systems are the (1) Integrated Disbursement and Information System (IDIS), (2) Facilities Integrated Resources Management System (FIRMS), (3) HUD Procurement System (HPS), and (4) Small Purchase System (SPS).

IDIS does not comply with applicable Federal accounting standards or the U.S. Standard General Ledger at the transaction level. IDIS uses the first-in, first-Out (FIFO) method to account for the disbursement of formula grant obligations and lacks key data elements essential to properly track or account for grant disbursement. In addition to eliminating FIFO for fiscal year 2015 grant year funds and later, HUD plans to add new data elements and configure new automated controls and accounting logic to achieve FFMIA compliance.

The FIRMS application does not comply with Federal financial management systems requirements. While HUD had identified FIRMS as FFMIA noncompliant since 2010, technical issues, including a lapsed maintenance contract, have rendered FIRMS nonfunctional. As a result, HUD did not have a functional, automated property management system during fiscal year 2014. While HUD had initially hoped to remediate the issue by February 2014, resource constraints have resulted in significant delays. To achieve eventual FFMIA compliance and meet business requirements regarding property management, HUD plans to

decommission FIRMS and transition to a shared service provider, the Federal Aviation Administration.

HUD's legacy procurement applications, HPS and SPS, do not comply with Federal financial management systems requirements. During fiscal year 2012, the Office of the Chief Procurement Officer (OCPO) implemented a new procurement system, the HUD Integrated Acquisition Management System (HIAMS), to replace these noncompliant systems. With the implementation of HIAMS in January 2012, no new contract actions were entered into HPS, but modification and deobligation actions were being created to perform closeout of the contracts in the system. SPS was still being used by HUD to modify purchase orders open as of January 2012, while HIAMS was enabled to use the contracting number system for the few existing purchase orders. In fiscal year 2014, OCPO was working to migrate the data in HPS and SPS to the HIAMS Enterprise Acquisition Reporting Tool so that historical data can be reported. HUD hopes to decommission the HPS and SPS procurement applications once technical issues associated with the migration have been addressed and the data transfer is complete.

In fiscal year 2014, OIG determined that HUD's information security program had significant deficiencies and many areas of the program did not comply with the Federal Information Security Management Act (FISMA). Collectively and in the aggregate, systems deficiencies continued to exist.

In addition to the information security deficiencies (such as FISMA) and specific financial system weaknesses identified above, financial process weaknesses will need to be remediated for HUD to achieve FFMIA compliance; for example, manual cash management processes implemented by PIH that do not comply with FFMIA requirements. OIG will continue to assess HUD's ongoing efforts to modernize its legacy systems and financial processes.

## APPENDIX 1

## PEER REVIEW REPORTING

**OFFICE OF AUDIT****BACKGROUND**

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Public Law No. 111-203), section 989C, requires inspectors general to report the latest peer review results in their semiannual reports to Congress. The purpose in doing so is to enhance transparency within the government. Both the Office of Audit and Office of Investigation are required to undergo a peer review of their individual organizations every 3 years. The purpose of the review is to ensure that the work completed by the respective organizations meets the applicable requirements and standards. The following is a summary of the status of the latest round of peer reviews for the organization.

**PEER REVIEW CONDUCTED ON HUD OIG**

The U.S. Department of Housing and Urban Development, Office of Inspector General (HUD OIG), received a grade of pass (the highest rating) on the peer review report issued by the U.S. Department of Education Inspector General on September 28, 2012. There were no recommendations included in the System Review Report. The report stated:

*In our opinion, the system of quality control in effect for the year ended March 31, 2012, for the audit organization of the HUD OIG has been suitably designed and complied with to provide the HUD OIG with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Federal audit organizations can receive a rating of pass, pass with deficiencies, or fail. The HUD OIG has received a peer review rating of pass.*

**PEER REVIEW CONDUCTED BY HUD OIG ON DOD**

HUD OIG conducted an external peer review of the U.S. Department of Defense (DoD), OIG's Office of Audit and issued a final report November 13, 2012. DoD OIG received a peer review rating of pass (with a scope limitation). There are no outstanding recommendations. A copy of the external quality control review report can be viewed at [www.dodig.mil/pubs/reviews.html](http://www.dodig.mil/pubs/reviews.html).

## OFFICE OF INVESTIGATION

### PEER REVIEW CONDUCTED BY HUD OIG ON SSA OIG

HUD OIG conducted an external peer review of the U.S. Social Security Administration (SSA) OIG, Office of Investigation, and issued a final report on August 12, 2013. HUD OIG determined that SSA OIG complied with applicable quality standards.

### PEER REVIEW CONDUCTED ON HUD OIG BY DOJ OIG

The U.S. Department of Justice (DOJ) OIG conducted a peer review of HUD OIG's Office of Investigation and issued a final report on April 28, 2014. DOJ OIG determined that HUD OIG was in compliance with the quality standards established by the Council of Inspectors General on Integrity and Efficiency and the Attorney General's guidelines.



## APPENDIX 2

## AUDIT REPORTS ISSUED

## INTERNAL REPORTS

## AUDIT REPORTS

## CHIEF FINANCIAL OFFICER

|              |   |
|--------------|---|
| 2015-DP-0004 | Office of the Chief Financial Officer Loan Accounting System, 12/09/2014.   |
| 2015-FO-0002 | Interim Report on HUD's Internal Controls Over Financial Reporting, 12/08/2014. Better use: \$660,810,336.  |
| 2015-FO-0004 | Independent Auditor's Report on HUD's Consolidated Financial Statements and Reports on Internal Controls Over Financial Reporting and Compliance With Laws and Regulations, 03/06/2015. |

## CHIEF INFORMATION OFFICER

|              |   |
|--------------|---|
| 2015-DP-0005 | Fiscal Year 2014 Review of Information Systems Controls in Support of the Financial Statements Audit, 02/24/2015. |
|--------------|---|

## CHIEF PROCUREMENT OFFICER

|              |   |
|--------------|---|
| 2015-NY-0001 | HUD Did Not Always Follow Applicable Requirements or Use Best Practices in the Procurement and Administration of Its Multifamily Servicing Contract, 12/02/2014. Better use: \$9,975,696. |
|--------------|---|

## COMMUNITY PLANNING AND DEVELOPMENT

|              |   |
|--------------|---|
| 2015-AT-0001 | HUD's Office of Community Planning and Development Did Not Always Pursue Remedial Actions but Generally Implemented Sufficient Controls for Administering Its Neighborhood Stabilization Program, 03/31/2015. Better use: \$22,054,256. |
| 2015-DP-0002 | Information System Control Weaknesses Identified in the Ginnie Mae Financial Accounting System, 10/29/2014.   |
| 2015-FO-0003 | Fiscal Years 2014 and 2013 Financial Statements Audit, 02/27/2015.  |

| <b>HOUSING</b>                                |   |
|---|---|
| 2015-DP-0001                                  | Information System Control Weaknesses Identified in the Single Family Housing Enterprise Data Warehouse, 10/21/2014.  |
| 2015-DP-0003                                  | Information System Control Weaknesses Identified in the FHA Subsidiary Ledger, 11/07/2014.  |
| 2015-FO-0001                                  | Audit of the Federal Housing Administration's Financial Statements for Fiscal Years 2014 and 2013, 11/14/2014. Questioned: \$1,486,544,478; unsupported: \$1,486,544,478; better use: \$5,500,000.                      |
| <b>PUBLIC AND INDIAN HOUSING</b>              |   |
| 2015-KC-0001                                  | HUD Subsidized More Than 106,000 Noncompliant Households, 02/13/2015. Better use: \$448,580,654.  |
| 2015-PH-0001                                  | HUD Lacked Adequate Oversight To Ensure That Public Housing Agencies Complied With Federal Lobbying Disclosure Requirements and Restrictions, 01/30/2015.   |
| <b>AUDIT-RELATED MEMORANDUMS<sup>13</sup></b> |   |
| <b>DEPUTY SECRETARY</b>                       |   |
| 2015-FW-0801                                  | Intergovernmental Personnel Act Appointment Created an Inherent Conflict of Interest in the Office of Public and Indian Housing, 01/20/2015.  |
| <b>EXTERNAL REPORTS</b>                       |   |
| <b>AUDIT REPORTS</b>                          |   |
| <b>COMMUNITY PLANNING AND DEVELOPMENT</b>     |   |
| 2015-AT-1001                                  | The Office of the Commissioner for Municipal Affairs Needs To Make Improvements in Administering Its Section 108 Loan Guarantee Program, San Juan, PR, 12/05/2014. Questioned: \$21,301,734; unsupported: \$20,221,492. |
| 2015-BO-1002                                  | Rhode Island Housing Did Not Always Adequately Support HOME Fund Expenditures, Providence, RI, 02/04/2015. Questioned: \$1,967,220; unsupported: \$1,084,128; better use: \$500,000.                                    |
| 2015-BO-1003                                  | The State of Rhode Island Did Not Always Operate Its NSP in Compliance With HUD Regulations, Providence, RI, 03/04/2015. Questioned: \$5,907,800; unsupported: \$4,501,345; better use: \$489,518.                      |
| 2015-KC-1002                                  | The City of Minot Did Not Fully Comply With Federal and Local Procurement Requirements, Minot, ND, 03/13/2015. Questioned: \$11,671,037; unsupported: \$11,671,037.   |

13 The memorandum format is used to communicate the results of reviews not performed in accordance with generally accepted government auditing standards, to close out assignments with no findings and recommendations, to respond to requests for information, or to report the results of civil or administrative outcomes from civil fraud efforts.

|   |   |
|---|---|
| 2015-LA-1001                                  | New Image Emergency Shelter Did Not Adequately Support HOPWA Salary and Operating Expenses, Long Beach, CA, 01/30/2015. Questioned: \$266,205; unsupported: \$266,205.  |
| 2015-NY-1001                                  | The City of New York Did Not Always Disburse CDBG Disaster Recovery Assistance Funds to Its Subrecipient in Accordance With Federal Regulations, New York, NY, 11/24/2014. Questioned: \$183,000,000; unsupported: \$183,000,000; better use: \$40,000,000. |
| 2015-PH-1001                                  | The County of Beaver Did Not Always Administer Its HOME Program in Accordance With Applicable HUD and Federal Requirements, Beaver Falls, PA, 01/30/2015. Questioned: \$519,284; unsupported: \$519,284.  |
| <b>HOUSING</b>                                |   |
| 2015-BO-1001                                  | Glenbrook Manor Could Not Always Show That Project Costs Were Eligible and Supported in Accordance With HUD Requirements, Stamford, CT, 12/16/2014. Questioned: \$496,980; unsupported: \$496,980; better use: \$61,067.                                    |
| 2015-KC-1001                                  | Breakthrough Living Program Did Not Administer Its Program in Accordance With HUD Rules and Regulations, Topeka, KS, 03/05/2015. Questioned: \$122,909.   |
| <b>PUBLIC AND INDIAN HOUSING</b>              |   |
| 2015-CH-1001                                  | The Chicago Housing Authority Moving to Work Housing Choice Voucher Program, Chicago, IL, 02/24/2015. Better use: \$4,877,592.  |
| 2015-NY-1002                                  | The Freeport Housing Authority Did Not Administer Its Low-Rent Housing and Homeownership Programs in Accordance With HUD's Regulations, Freeport, NY, 12/01/2014. Questioned: \$1,270,102; unsupported: \$1,270,102; better use: \$3,919.                   |
| 2015-NY-1003                                  | The Buffalo Municipal Housing Authority Did Not Always Adequately Support Legal Expenses and Police Service Cost Allocation, Buffalo, NY, 02/24/2015. Questioned: \$290,460; unsupported: \$290,460.  |
| <b>AUDIT-RELATED MEMORANDUMS<sup>14</sup></b> |   |
| <b>COMMUNITY PLANNING AND DEVELOPMENT</b>     |   |
| 2015-FW-1803                                  | The City of Albuquerque Generally Administered Its Continuum of Care Program in Accordance With Applicable HUD Regulations and Grant Agreements, Albuquerque, NM, 01/13/2015.   |
| <b>GENERAL COUNSEL</b>                        |   |
| 2015-CF-1801                                  | Group One Mortgage, Inc., Settled Allegations of Failing To Comply With Federal Housing Administration Underwriting Requirements, Jupiter, FL, 03/27/2015. Questioned: \$376,523.   |
| 2015-CF-1802                                  | Golden First Mortgage Corporation and Its Owner Settled Alleged Violations of Failing To Comply With Federal Housing Administration Underwriting Requirements (FHA #34475), Great Neck, NY, 03/27/2015. Questioned: \$300,000.                              |

14 The memorandum format is used to communicate the results of reviews not performed in accordance with generally accepted government auditing standards, to close out assignments with no findings and recommendations, to respond to requests for information, or to report the results of civil or administrative outcomes from civil fraud efforts.

|                                  |   |
|----------------------------------|---|
| 2015-CF-1803                     | MetLife Home Loans, LLC, Settled Allegations of Failing To Comply With HUD's Federal Housing Administration Loan Requirements, Convent Station, NJ, 03/27/2015. Questioned: \$60,258,955.   |
| 2015-CF-1804                     | Borrower Settled Allegations of Not Complying With the Primary Residence Requirement of the Federal Housing Administration Program, Tempe, AZ, 03/27/2015. Questioned: \$15,000.  |
| 2015-PH-1801                     | Wells Fargo Bank, NA, Lender Settled Alleged Violations of Home Equity Conversion Mortgage Program, Washington, DC, 10/21/2014. Better use: \$7,500.  |
| 2015-PH-1802                     | SunTrust Mortgage, Inc., Settled Allegations of Failing To Comply With HUD's FHA Loan Requirements, Washington, DC, 12/09/2014. Questioned: \$300,000,000.  |
| 2015-PH-1803                     | Borrower Settled Alleged Violations of Home Equity Conversion Mortgage Program, Washington, DC, 01/30/2015. Better use: \$3,000.  |
| 2015-PH-1804                     | Court Ordered a Former Executive Director of the Philadelphia Housing Authority To Pay Civil Penalties for Violating Federal Lobbying Disclosure Requirements and Restrictions, Washington, DC, 02/19/2015. Better use: \$75,000.             |
| 2015-SE-1801                     | Civic Construction, LLC, Settled Allegations of Making False Claims to the Seattle Housing Authority, Portland, OR, 03/30/2015. Better use: \$34,000.   |
| <b>PUBLIC AND INDIAN HOUSING</b> |   |
| 2015-FW-1801                     | The Management of the Housing Authority of the City of Taylor Did Not Exercise Adequate Oversight of Its Programs, Taylor, TX, 10/02/2014. Questioned: \$392,059; unsupported: \$272,256; better use: \$2,032,266.                            |
| 2015-FW-1802                     | The Rotan Housing Authority Did Not Administer Its Public Housing and Recovery Act Programs in Accordance With Regulations and Other Requirements, Rotan, TX, 10/31/2014. Questioned: \$89,397; unsupported: \$89,397; better use: \$382,217. |

## TABLE A

## Audit reports issued before the start of period with no management decision at 03/31/2015

\*Significant audit reports described in previous semiannual reports

| REPORT NUMBER & TITLE   | REASON FOR LACK OF MANAGEMENT DECISION | ISSUE DATE |
|---|--|------------|
| * 2014-FO-0003 Additional Details To Supplement Our Report on HUD's Fiscal Years 2013 and 2012 (Restated) Financial Statements                                      | See chapter 10, page 41                | 12/16/2013 |
| * 2014-FO-0004 HUD's Fiscal Year 2013 Compliance With the Improper Payments Elimination and Recovery Act of 2010  | See chapter 10, page 42                | 04/15/2014 |
| * 2014-LA-0004 HUD Could Not Support the Reasonableness of the Operating and Capital Fund Programs' Fees and Did Not Adequately Monitor Central Office Cost Centers | See chapter 10, page 42                | 06/30/2014 |
| * 2014-KC-0002 The Data in CAIVRS Did Not Agree With the Data in FHA's Default and Claims Systems   | See chapter 10, page 43                | 07/02/2014 |
| * 2014-NY-1007 The Niagara Falls Housing Authority Did Not Always Administer Its HOPE VI Grant Program and Activities in Accordance With HUD Requirements           | See chapter 10, page 44                | 07/10/2014 |
| * 2014-LA-0005 HUD Did Not Always Recover FHA Single-Family Indemnification Losses and Ensure That Indemnification Agreements Were Extended                         | See chapter 10, page 45                | 08/08/2014 |
| 2014-PH-1008 The State of New Jersey Did Not Fully Comply With Federal Procurement and Cost Principle Requirements in Implementing Its Tourism Marketing Program    | See chapter 10, page 46                | 08/29/2014 |
| 2014-PH-1009 The State of New Jersey Demonstrated Homeowner Eligibility for Its Homeowner Resettlement Program  | See chapter 10, page 48                | 09/05/2014 |

**TABLE B**

Significant audit reports for which final action had not been completed within 12 months after the date of the Inspector General's report

| REPORT NUMBER | REPORT TITLE   | ISSUE DATE | DECISION DATE | FINAL ACTION |
|---------------|--|------------|---------------|--------------|
| 2002-AT-1002  | Housing Authority of the City of Tupelo, Housing Programs Operations, Tupelo, MS   | 07/03/2002 | 10/31/2002    | 07/01/2015   |
| 2005-AT-1013  | Corporacion Para el Fomento Economico de la Ciudad Capital Did Not Administer Its Independent Capital Fund in Accordance With HUD Requirements, San Juan, PR | 09/15/2005 | 01/11/2006    | Note 1       |
| 2006-NY-0001  | HUD's Controls over the Reporting, Oversight, and Monitoring of the Housing Counseling Assistance Program Were Not Adequate                                  | 06/08/2006 | 01/08/2007    | 10/01/2015   |
| 2007-AT-1010  | The Cathedral Foundation of Jacksonville Used More Than \$2.65 Million in Project Funds for Questioned Costs, Jacksonville, FL                               | 08/14/2007 | 12/03/2007    | 04/10/2017   |
| 2008-AO-1002  | State of Louisiana, Road Home Program, Funded 418 Grants Coded Ineligible or Lacking an Eligibility Determination, Baton Rouge, LA                           | 01/30/2008 | 05/12/2008    | Note 1       |
| 2008-DP-0004  | Review of Selected FHA Major Applications' Information Security Controls   | 06/12/2008 | 10/08/2008    | Note 1       |
| 2009-AO-1001  | State of Louisiana, Road Home Program, Did Not Ensure That Road Home Employees Were Eligible To Receive Additional Compensation Grants, Baton Rouge, LA      | 05/05/2009 | 09/16/2009    | Note 1       |
| 2009-AO-1002  | State of Louisiana, Road Home Program, Did Not Ensure That Multiple Disbursements to a Single Damaged Residence Address Were Eligible, Baton Rouge, LA       | 05/05/2009 | 09/16/2009    | Note 1       |
| 2009-NY-1012  | The City of Rome Did Not Administer Its Economic Development Activity in Accordance With HUD Requirements, Rome, NY  | 05/20/2009 | 09/23/2009    | 01/30/2032   |

| REPORT NUMBER | REPORT TITLE   | ISSUE DATE | DECISION DATE | FINAL ACTION |
|---------------|--|------------|---------------|--------------|
| 2009-DP-0005  | Review of Implementation of Security Controls Over HUD's Business Partners   | 06/11/2009 | 11/17/2009    | Note 2       |
| 2009-CH-1011  | The Housing Authority of the City of Terre Haute Failed To Follow Federal Requirements and Its Employment Contract Regarding Nonprofit Development Activities, Terre Haute, IN   | 07/31/2009 | 11/24/2009    | 10/01/2015   |
| 2009-AT-0001  | HUD Lacked Adequate Controls To Ensure the Timely Commitment and Expenditure of HOME funds   | 09/28/2009 | 03/18/2011    | Note 1       |
| 2010-AT-1003  | The Housing Authority of Whitesburg Mismanaged Its Operations, Whitesburg, KY  | 04/28/2010 | 08/26/2010    | 11/29/2035   |
| 2010-PH-1008  | Sasha Bruce Youthwork, Incorporated, Did Not Support More Than \$1.9 Million in Expenditures, Washington, DC   | 05/11/2010 | 11/03/2010    | Note 2       |
| 2010-CH-1008  | The DuPage Housing Authority Inappropriately Administered Its Section 8 Project-Based Voucher Program, Wheaton, IL   | 06/15/2010 | 10/08/2010    | 07/31/2015   |
| 2011-CH-1001  | The City of Flint Lacked Adequate Controls Over Its HOME Program Regarding Community Housing Development Organizations' Home-Buyer Projects, Subrecipients' Activities, and Reporting Accomplishments in HUD's System, Flint, MI | 10/13/2010 | 02/03/2011    | Note 2       |
| 2011-FO-0003  | Additional Details To Supplement Our Report on HUD's Fiscal Years 2010 and 2009 Financial Statements   | 11/15/2010 | 08/08/2011    | 06/15/2015   |
| 2011-PH-1005  | The District of Columbia Did Not Administer Its HOME Program in Accordance With Federal Requirements, Washington, DC   | 12/23/2010 | 04/22/2011    | Note 1       |
| 2011-CH-1003  | The City of Cleveland Lacked Adequate Controls Over Its HOME Investment Partnerships Program and American Dream Downpayment Initiative-Funded Afford-A-Home Program, Cleveland, OH   | 12/27/2010 | 04/26/2011    | Note 2       |

| REPORT NUMBER | REPORT TITLE   | ISSUE DATE | DECISION DATE | FINAL ACTION |
|---------------|--|------------|---------------|--------------|
| 2011-CH-1004  | The State of Indiana's Administrator Lacked Adequate Controls Over the State's HOME Investment Partnerships Program and American Dream Downpayment Initiative-Funded First Home/PLUS Program, Indianapolis, IN | 01/31/2011 | 05/25/2011    | 04/30/2015   |
| 2011-CH-1006  | The DuPage Housing Authority Inappropriately Administered Its Section 8 Housing Choice Voucher Program, Wheaton, IL  | 03/23/2011 | 07/28/2011    | 07/31/2015   |
| 2011-NY-1009  | The East Orange Revitalization and Development Corporation Did Not Always Comply With HOME Program Requirements and Federal Regulations, East Orange, NJ   | 04/07/2011 | 08/03/2011    | 07/01/2015   |
| 2011-AT-1006  | The Municipality of Mayaguez Did Not Ensure Compliance With HOME Program Objectives, Mayaguez, PR  | 04/08/2011 | 08/05/2011    | Note 1       |
| 2011-NY-1010  | The City of Buffalo Did Not Always Administer Its CDBG Program in Accordance With HUD Requirements, Buffalo, NY  | 04/15/2011 | 01/25/2012    | Note 2       |
| 2011-AO-1005  | The State of Mississippi Generally Ensured That Disbursements to Program Participants Were Eligible and Supported, Jackson, MS   | 04/18/2011 | 08/16/2011    | Note 1       |
| 2011-FW-0002  | The Office of Healthcare Programs Could Increase Its Controls To More Effectively Monitor the Section 232 Program  | 04/26/2011 | 08/17/2011    | 06/30/2015   |
| 2011-AO-0001  | The Lafayette Parish Housing Authority Violated HUD Procurement Requirements and Executed Unreasonable and Unnecessary Contracts   | 06/22/2011 | 10/13/2011    | 05/31/2016   |
| 2011-LA-1016  | The City of Compton Did Not Administer Its HOME Program in Compliance With HOME Requirements, Compton, CA  | 08/18/2011 | 12/15/2011    | Note 2       |
| 2011-NY-1016  | The City of Buffalo Did Not Always Disburse Homelessness Prevention and Rapid Re-Housing Program Funds in Accordance With Regulations, Buffalo, NY   | 09/22/2011 | 01/25/2012    | Note 1       |



| REPORT NUMBER | REPORT TITLE   | ISSUE DATE | DECISION DATE | FINAL ACTION |
|---------------|--|------------|---------------|--------------|
| 2011-AT-1018  | The Municipality of San Juan Did Not Properly Manage Its HOME Investment Partnerships Program, San Juan, PR  | 09/28/2011 | 01/12/2012    | Note 2       |
| 2011-CH-1014  | The City of Cleveland Lacked Adequate Controls Over Its HOME Investment Partnerships Program-Funded Housing Trust Fund Program Home-Buyer Activities, Cleveland, OH          | 09/29/2011 | 01/26/2012    | Note 1       |
| 2011-CH-1018  | The Pontiac Housing Commission Did Not Adequately Administer Its American Recovery and Reinvestment Act Capital Fund Grant, Pontiac, MI                                      | 09/30/2011 | 01/10/2012    | 12/31/2015   |
| 2012-NY-1002  | The City of New York Charged Questionable Expenditures to Its HPRP, New York, NY   | 10/18/2011 | 02/16/2012    | Note 1       |
| 2012-NY-1003  | The City of Syracuse Did Not Always Administer Its CDBG Program in Accordance With HUD Requirements, Syracuse, NY  | 10/25/2011 | 02/22/2012    | 06/01/2015   |
| 2012-PH-0001  | HUD Needed To Improve Its Use of Its Integrated Disbursement and Information System To Oversee Its CDBG Program  | 10/31/2011 | 02/28/2012    | Note 1       |
| 2012-FO-0003  | Additional Details To Supplement Our Report on HUD's Fiscal Years 2011 and 2010 Financial Statements   | 11/15/2011 | 05/10/2012    | Note 2       |
| 2012-LA-0001  | HUD Did Not Adequately Support the Reasonableness of the Fee-for-Service Amounts or Monitor the Amounts Charged  | 11/16/2011 | 03/27/2012    | 04/15/2015   |
| 2012-CH-1004  | The State of Indiana's Administrator Lacked Adequate Controls Over the State's HOME Investment Partnerships Program Regarding CHDOs' Activities and Income, Indianapolis, IN | 02/24/2012 | 06/22/2012    | 04/30/2015   |
| 2012-FW-1005  | The State of Texas Did Not Follow Requirements for Its Infrastructure and Revitalization Contracts Funded With CDBG Disaster Recovery Program Funds, Austin, TX              | 03/07/2012 | 07/05/2012    | Note 2       |

| REPORT NUMBER | REPORT TITLE  | ISSUE DATE | DECISION DATE | FINAL ACTION |
|---------------|---|------------|---------------|--------------|
| 2012-LA-1005  | The City of Los Angeles Did Not Expend Brownfields Economic Development Initiative and Section 108 Funds for the Goodyear Industrial Tract Project in Accordance With HUD Requirements, Los Angeles, CA | 03/13/2012 | 09/19/2012    | Note 2       |
| 2012-AT-1009  | The Municipality of Bayamón Did Not Always Ensure Compliance With HOME Investment Partnerships Program Requirements, Bayamon, PR  | 05/23/2012 | 09/18/2012    | Note 1       |
| 2012-LA-1008  | The City of Phoenix Did Not Always Comply With Program Requirements When Administering Its NSP1 and NSP2 Grants, Phoenix, AZ  | 06/15/2012 | 10/15/2012    | 10/30/2015   |
| 2012-CH-1009  | The Hammond Housing Authority Did Not Administer Its Recovery Act Grants in Accordance With Recovery Act, HUD's, and Its Own Requirements, Hammond, IN  | 08/03/2012 | 11/30/2012    | 11/30/2015   |
| 2012-PH-1011  | Prince George's County Generally Did Not Administer Its HOME Program in Accordance With Federal Requirements, Largo, MD   | 08/03/2012 | 11/30/2012    | Note 1       |
| 2012-NY-1011  | The City of Elizabeth Did Not Always Administer Its CDBG Program in Accordance With Regulations, Elizabeth, NJ  | 08/15/2012 | 12/07/2012    | Note 1       |
| 2012-AT-1015  | Little Haiti Did Not Fully Comply With Federal Rules When Administering NSP2, Miami, FL   | 09/06/2012 | 01/03/2013    | Note 1       |
| 2012-CH-1011  | The Stark Metropolitan Housing Authority Did Not Always Administer Its Grant in Accordance With Recovery Act, HUD's, and Its Own Requirements, Canton, OH   | 09/27/2012 | 01/15/2013    | 12/31/2018   |
| 2012-CH-1012  | The Saginaw Housing Commission Did Not Always Administer Its Section 8 Housing Choice Voucher Program in Accordance With HUD's and Its Own Requirements, Saginaw, MI                                    | 09/27/2012 | 01/07/2013    | 01/01/2023   |

| REPORT NUMBER | REPORT TITLE   | ISSUE DATE | DECISION DATE | FINAL ACTION |
|---------------|--|------------|---------------|--------------|
| 2012-CH-1013  | The Flint Housing Commission Did Not Always Administer Its Grants in Accordance With Recovery Act, HUD's, and Its Own Requirements, Flint, MI  | 09/27/2012 | 01/24/2013    | 09/30/2015   |
| 2012-FO-0006  | HUD's Oversight of Recovery Act-Funded Housing Programs  | 09/27/2012 | 03/05/2013    | Note 1       |
| 2012-DP-0005  | Review of Controls Over HUD's Mobile Devices   | 09/28/2012 | 12/18/2012    | 09/30/2015   |
| 2012-CH-1015  | Allen Mortgage, LLC, Did Not Comply With HUD Requirements for Underwriting FHA Loans and Fully Implement Its Quality Control Program in Accordance With HUD's Requirement, Centennial Park, AZ | 09/30/2012 | 02/04/2013    | 06/01/2015   |
| 2013-PH-1001  | Luzerne County Did Not Properly Evaluate, Underwrite, and Monitor a High-Risk Loan, Wilkes-Barre, PA   | 10/31/2012 | 01/31/2013    | Note 1       |
| 2013-FO-0003  | Additional Details To Supplement Our Report on HUD's Fiscal Years 2012 and 2011 Financial Statements   | 11/15/2012 | 05/15/2013    | 10/01/2015   |
| 2013-AT-1001  | The Municipality of Ponce Did Not Always Ensure Compliance With HOME Investment Partnerships Program Requirements, Ponce, PR   | 11/30/2012 | 03/29/2013    | Note 1       |
| 2013-NY-1001  | The City of Albany CDBG Recovery Act Program, Albany, NY   | 12/06/2012 | 04/03/2013    | Note 2       |
| 2013-PH-0002  | HUD Policies Did Not Always Ensure That Borrowers Complied With Program Residency Requirements   | 12/20/2012 | 04/19/2013    | Note 2       |
| 2013-SE-1001  | The Idaho Housing and Finance Association Did Not Always Comply With HOME Investment Partnerships Program Match and Compliance Monitoring Requirements, Boise, ID                              | 12/21/2012 | 12/21/2012    | Note 1       |
| 2013-FO-0004  | Information System Deficiencies Noted During Federal Housing Administration's Fiscal Year 2012 Financial Statement Audit   | 01/15/2013 | 08/22/2013    | Note 2       |

| REPORT NUMBER | REPORT TITLE  | ISSUE DATE | DECISION DATE | FINAL ACTION |
|---------------|---|------------|---------------|--------------|
| 2013-NY-1004  | The City of Paterson Had Weaknesses in the Administration of Its Housing Opportunities for Persons with AIDS Program, Paterson, NJ  | 02/25/2013 | 04/15/2013    | Note 2       |
| 2013-LA-1003  | Bay Vista Methodist Heights Violated Its Agreement With HUD When Administering Its Trust Funds, San Diego, CA   | 03/14/2013 | 05/15/2013    | Note 2       |
| 2013-AT-1003  | The Municipality of Arecibo Did Not Always Ensure Compliance With CDBG Program Requirements, Arecibo, PR  | 03/22/2013 | 06/14/2013    | Note 2       |
| 2013-IE-0803  | Follow-up of the Inspections and Evaluations Division on Its Inspection of the State of Louisiana's Road Home Elevation Incentive Program Homeowner Compliance (IED-09-002, March 2010) | 03/29/2013 | 09/29/2014    | 04/30/2015   |
| 2013-FW-1004  | The Housing Authority of the City of El Paso Did Not Follow Recovery Act Obligation Requirements or Procurement Policies, El Paso, TX   | 04/12/2013 | 08/27/2013    | Note 2       |
| 2013-LA-1803  | CTX Mortgage Company LLC Allowed the Recording of Prohibited Restrictive Covenants, Dallas, TX  | 04/18/2013 | 01/10/2014    | Note 2       |
| 2013-LA-1004  | The City of San Bernardino Did Not Administer Its CDBG and CDBG-Recovery Act Programs in Accordance With HUD Rules and Regulations, San Bernardino, CA                                  | 04/23/2013 | 09/06/2013    | 09/30/2017   |
| 2013-NY-1006  | Nassau County Did Not Administer Its HOME Investment Partnerships Program in Accordance With HUD Requirements, Nassau County, NY  | 05/13/2013 | 09/06/2013    | Note 2       |
| 2013-FW-1006  | The Management and Board of Commissioners of the Harris County Housing Authority Mismanaged the Authority, Houston, TX  | 06/19/2013 | 02/11/2014    | 08/13/2016   |
| 2013-KC-0002  | HUD Did Not Enforce the Reporting Requirements of Section 3 of the Housing and Urban Development Act of 1968 for Public Housing Authorities   | 06/26/2013 | 10/24/2013    | 07/31/2015   |

| REPORT NUMBER | REPORT TITLE  | ISSUE DATE | DECISION DATE | FINAL ACTION |
|---------------|---|------------|---------------|--------------|
| 2013-LA-1007  | The County of Santa Barbara Did Not Comply With HOME Investment Partnerships Program Requirements, Santa Barbara, CA  | 07/09/2013 | 11/04/2013    | 03/16/2016   |
| 2013-NY-0003  | HUD Officials Did Not Always Monitor Grantee Compliance With the CDBG Timeliness Spending Requirement   | 07/19/2013 | 11/26/2013    | Note 2       |
| 2013-AT-1006  | The Puerto Rico Housing Finance Authority Did Not Always Comply With HOME Requirements, San Juan, PR  | 07/23/2013 | 11/20/2013    | Note 2       |
| 2013-NY-1009  | Essex County's HOME Investment Partnerships Program Was Not Always Administered in Compliance With Program Requirements and Federal Regulations, Essex County, NJ | 08/09/2013 | 11/05/2013    | Note 2       |
| 2013-LA-1008  | The Lending Company, Inc., Did Not Always Comply With FHA Underwriting and Quality Control Program Requirements, Phoenix, AZ                                      | 08/20/2013 | 12/24/2013    | 06/24/2015   |
| 2013-AT-0003  | Economic Development Programs Lacked Adequate Controls To Ensure Program Effectiveness  | 09/03/2013 | 02/04/2014    | Note 2       |
| 2013-LA-0002  | FHA Paid Claims for Approximately 4,457 Preforeclosure Sales That Did Not Meet Minimum Net Sales Proceeds Requirements  | 09/05/2013 | 03/31/2014    | Note 2       |
| 2013-LA-1009  | The City of Hawthorne Inappropriately Used Nearly \$1.6 Million in HOME Funds for Section 8 Tenants, Hawthorne, CA  | 09/13/2013 | 01/06/2014    | Note 2       |
| 2013-CH-1006  | The State of Michigan Lacked Adequate Controls Over Its NSP Under the American Recovery and Reinvestment Act of 2009, Lansing, MI                                 | 09/15/2013 | 01/13/2014    | Note 2       |
| 2013-CH-1008  | Community Advocates Did Not Properly Administer Its Program and Recovery Act Grant Funds, Milwaukee, WI   | 09/17/2013 | 01/15/2014    | Note 2       |
| 2013-KC-0004  | HUD Paid Claims That Lacked Contact or Collection Activities With Coborrowers   | 09/18/2013 | 01/07/2014    | Note 2       |

| REPORT NUMBER | REPORT TITLE   | ISSUE DATE | DECISION DATE | FINAL ACTION |
|---------------|--|------------|---------------|--------------|
| 2013-LA-1010  | The City of Hawthorne Did Not Administer Its CDBG Program Cost Allocations in Accordance With HUD Rules and Requirements, Hawthorne, CA  | 09/20/2013 | 01/06/2014    | Note 2       |
| 2013-LA-0803  | Reviews of Six FHA Lenders Demonstrated That HUD Needs To Strengthen Its Oversight of Prohibited Restrictive Covenants   | 09/23/2013 | 03/27/2014    | 10/15/2015   |
| 2013-FW-1008  | The City of New Orleans Did Not Have Adequate Financial and Programmatic Controls To Ensure That It Expended and Reported Funds in Accordance With Program Requirements, New Orleans, LA | 09/24/2013 | 01/06/2014    | Note 2       |
| 2013-FW-1805  | The Malakoff Housing Authority Did Not Have Sufficient Controls Over Its Public Housing Programs, Including Its Recovery Act Funds, Malakoff, TX   | 09/26/2013 | 12/19/2013    | 12/01/2015   |
| 2013-NY-1010  | The City of Auburn Did Not Always Administer Its CDBG Program in Accordance With HUD Requirements, Auburn, NY  | 09/26/2013 | 01/24/2014    | 06/30/2015   |
| 2013-CH-1009  | The Flint Housing Commission Did Not Always Administer Its Grant in Accordance With Recovery Act, HUD's, and Its Own Requirements, Flint, MI   | 09/27/2013 | 01/14/2014    | 01/23/2016   |
| 2013-IE-0804  | Evaluation of HUD's Property Inventory System  | 09/27/2013 | 03/26/2014    | Note 2       |
| 2013-AT-1008  | The City of West Palm Beach Did Not Always Properly Administer Its HOME Program, West Palm Beach, FL   | 09/30/2013 | 01/17/2014    | 09/30/2015   |
| 2013-CH-1010  | The City of Toledo Did Not Always Administer Its CDBG-R Program in Accordance With HUD's and Its Own Requirements, Toledo, OH  | 09/30/2013 | 01/15/2014    | Note 2       |
| 2013-CH-1011  | The Michigan State Housing Development Authority Did Not Follow HUD's Requirements Regarding the Administration of Its Program, Lansing, MI  | 09/30/2013 | 01/15/2014    | 07/31/2029   |

| REPORT NUMBER | REPORT TITLE   | ISSUE DATE | DECISION DATE | FINAL ACTION |
|---------------|--|------------|---------------|--------------|
| 2013-CH-1012  | The Hamtramck Housing Commission Did Not Administer Its Grant in Accordance With Recovery Act, HUD's, and Its Own Requirements, Hamtramck, MI  | 09/30/2013 | 01/21/2014    | 01/23/2016   |
| 2013-DE-1005  | The Jefferson County Housing Authority Did Not Properly Use Its Disposition Sales Proceeds, Wheat Ridge, CO  | 09/30/2013 | 01/24/2014    | 02/28/2020   |
| 2014-DP-0001  | Information System Control Weaknesses Identified in the Line of Credit Control System  | 11/07/2013 | 01/30/2014    | 08/30/2015   |
| 2014-FW-1801  | The Colfax Housing Authority Did Not Properly Administer Its Programs, Including Its 2009 American Recovery and Reinvestment Act Grant, Colfax, LA   | 11/08/2013 | 02/05/2014    | 09/30/2015   |
| 2014-CH-1001  | The City of Flint Lacked Adequate Controls Over Its HOME Investment Partnerships Program, Flint, MI  | 11/15/2013 | 03/13/2014    | Note 2       |
| 2014-AT-1001  | The Municipality of Arecibo Did Not Properly Administer Its HOME Program, Arecibo, PR  | 12/03/2013 | 01/24/2014    | Note 2       |
| 2014-FO-0001  | Government National Mortgage Association Fiscal Years 2013 and 2012 Financial Statements Audit   | 12/06/2013 | 05/02/2014    | Note 2       |
| 2014-FO-0002  | Federal Housing Administration Fiscal Years 2013 and 2012 Financial Statements Audit   | 12/13/2013 | 04/14/2014    | Note 2       |
| 2014-FO-0003  | Additional Details To Supplement Our Report on HUD's Fiscal Years 2013 and 2012 (Restated) Financial Statements  | 12/16/2013 | 07/09/2014    | Note 3       |
| 2014-PH-1001  | The City of Norfolk Generally Failed To Justify Its CDBG Activities, Norfolk, VA   | 12/17/2013 | 04/16/2014    | 04/15/2015   |
| 2014-AT-1004  | The State of Mississippi Did Not Ensure That Its Subrecipient and Appraisers Complied With Requirements, and It Did Not Fully Implement Adequate Procedures For Its Disaster Infrastructure Program, Jackson, MS | 12/30/2013 | 04/15/2014    | 04/15/2015   |

| REPORT NUMBER | REPORT TITLE   | ISSUE DATE | DECISION DATE | FINAL ACTION |
|---------------|--|------------|---------------|--------------|
| 2014-CH-1002  | The City of Detroit Lacked Adequate Controls Over Its Neighborhood Stabilization Program-Funded Demolition Activities Under the Housing and Economic Recovery Act of 2008, Detroit, MI | 01/06/2014 | 05/05/2014    | 05/01/2015   |
| 2014-DP-0002  | Application Control Weaknesses Identified in the Asset Disposition and Management System   | 01/14/2014 | 05/13/2014    | 06/30/2015   |
| 2014-NY-1001  | The Paterson Housing Authority Had Weaknesses in Administration of Its Housing Choice Voucher Program, Paterson, NJ  | 01/15/2014 | 06/12/2014    | 07/01/2025   |
| 2014-BO-1001  | The Housing Authority of the City of Bridgeport Did Not Always Ensure That Expenses Charged to Its Federal Programs Were Eligible, Reasonable, and Supported, Bridgeport, CT           | 01/23/2014 | 05/19/2014    | 05/19/2015   |
| 2014-FW-0001  | The Boston Office of Public Housing Did Not Provide Adequate Oversight of Environmental Reviews of Three Housing Agencies, Including Reviews Involving Recovery Act Funds              | 02/07/2014 | 03/17/2015    | 10/01/2016   |
| 2014-NY-0001  | HUD Did Not Provide Effective Oversight of Section 202 Multifamily Project Refinances  | 02/19/2014 | 06/10/2014    | Note 2       |
| 2014-LA-0001  | CPD Did Not Monitor Grantees' CPD-Funded Assets Transferred by Former Redevelopment Agencies To Minimize HUD's Risk  | 02/28/2014 | 06/19/2014    | 06/19/2015   |
| 2014-DP-0004  | Information System Control Weaknesses Identified in the Financial Data Mart  | 03/13/2014 | 04/03/2014    | Note 2       |
| 2014-AT-0001  | Violations Increased the Cost of Housing's Administration of Its Bond Refund Program   | 03/14/2014 | 07/11/2014    | 06/30/2015   |
| 2014-AT-1801  | Vieques Sports City Complex, Office of the Commissioner for Municipal Affairs, Section 108 Loan Guarantee Program, San Juan, PR  | 03/20/2014 | 07/11/2014    | 06/18/2015   |
| 2014-BO-0001  | HUD's Procedures Do Not Always Ensure the Proper Use and Timely Reimbursement of Public Housing Agency Interfund Transaction Balances  | 03/21/2014 | 07/02/2014    | 04/15/2015   |



| REPORT NUMBER  | REPORT TITLE   | ISSUE DATE | DECISION DATE | FINAL ACTION |
|--|--|------------|---------------|--------------|
| Significant audit reports issued within the past 12 months that were described in previous semiannual reports for which final action had not been completed as of 03/31/2015 |  |            |               |              |
| 2014-FO-0004   | HUD's Fiscal Year 2013 Compliance With the Improper Payments Elimination and Recovery Act of 2010  | 04/15/2014 | 01/07/2015    | Note 3       |
| 2014-SE-1002   | The Yakama Nation Housing Authority Did Not Always Spend Its Recovery Act Funds in Accordance With Requirements, Wapato, WA  | 04/29/2014 | 08/26/2014    | 08/20/2015   |
| 2014-BO-1002   | Chelsea Housing Authority, Review of Cost Allocations and Reasonableness of Salaries, Chelsea, MA  | 04/30/2014 | 08/28/2014    | 06/30/2015   |
| 2014-CH-1003   | The Hamtramck Housing Commission Did Not Always Administer Its Grant in Accordance With Recovery Act, HUD's, or Its Own Requirements, Hamtramck, MI                | 04/30/2014 | 08/08/2014    | 08/31/2015   |
| 2014-DP-0005   | Fiscal Year 2013 Review of Information Systems Controls in Support of the Financial Statements Audit   | 04/30/2014 | 02/09/2015    | 10/31/2015   |
| 2014-PH-1004   | The County of Northumberland Did Not Administer Its Homelessness Prevention and Rapid Re-Housing Program Grant According to Recovery Act Requirements, Sunbury, PA | 04/30/2014 | 08/28/2014    | 04/29/2015   |
| 2014-NY-1002   | The New York City Housing Authority Did Not Always Administer Its Section 8 Housing Choice Voucher Program in Accordance With Regulations, New York, NY            | 05/01/2014 | 08/28/2014    | 06/30/2015   |
| 2014-NY-1003   | The New York City Housing Authority Did Not Always Ensure that Its Housing Choice Voucher Program Units Met HUD's Housing Quality Standards, New York, NY          | 05/01/2014 | 08/28/2014    | 04/30/2015   |
| 2014-FW-0002   | Improvements Are Needed Over Environmental Reviews of Public Housing and Recovery Act Funds in the Kansas City Office  | 05/12/2014 | 03/17/2015    | 10/01/2016   |

| REPORT NUMBER | REPORT TITLE  | ISSUE DATE | DECISION DATE | FINAL ACTION |
|---------------|---|------------|---------------|--------------|
| 2014-AT-1005  | The City of Huntsville, Community Development Department, Did Not Adequately Account for and Administer the Mirabeau Apartments Project, Huntsville, AL       | 05/29/2014 | 09/23/2014    | 09/22/2015   |
| 2014-FW-0801  | Potential Antideficiency Act Violations Intergovernmental Personnel Act Agreements  | 05/30/2014 | 09/22/2014    | 06/30/2015   |
| 2014-NY-1005  | Financial and Administrative Control Weaknesses Existed in Middlesex County, NJ's HOME Investment Partnerships Program, Middlesex County, NJ                  | 06/10/2014 | 07/17/2014    | 05/15/2015   |
| 2014-LA-0003  | HUD Adequately Implemented and Monitored the HUD-VASH Program, but Changes Are Needed To Improve Lease Rates  | 06/18/2014 | 10/08/2014    | 12/01/2015   |
| 2014-LA-0004  | HUD Could Not Support the Reasonableness of the Operating and Capital Fund Programs' Fees and Did Not Adequately Monitor Central Office Cost Centers          | 06/30/2014 | 10/20/2014    | Note 3       |
| 2014-KC-0002  | The Data in CAIVRS Did Not Agree With the Data in FHA's Default and Claims Systems  | 07/02/2014 | 10/27/2014    | Note 3       |
| 2014-NY-1006  | Monmouth County Expended CDBG Funds for Eligible Activities, But Control Weaknesses Need To Be Strengthened, Monmouth County, NJ                              | 07/02/2014 | 08/06/2014    | 07/02/2015   |
| 2014-LA-1004  | The White Mountain Apache Housing Authority Did Not Always Comply With Its Indian Housing Block Grant Requirements, White River, AZ                           | 07/08/2014 | 10/24/2014    | 07/31/2015   |
| 2014-NY-1007  | The Niagara Falls Housing Authority Did Not Always Administer Its HOPE VI Grant Program and Activities in Accordance With HUD Requirements, Niagara Falls, NY | 07/10/2014 | 10/28/2014    | Note 3       |
| 2014-FW-0004  | Improvements Are Needed Over Environmental Reviews of Public Housing and Recovery Act Funds in the Greensboro Office  | 07/14/2014 | 10/27/2014    | 10/27/2015   |

| REPORT NUMBER | REPORT TITLE   | ISSUE DATE | DECISION DATE | FINAL ACTION |
|---------------|--|------------|---------------|--------------|
| 2014-FW-1004  | The State of Texas' Contractor Did Not Perform Adequate Hurricane Dolly Damage Inspections and Failed To Meet Critical Performance Benchmarks, Austin, TX                        | 07/15/2014 | 11/12/2014    | 11/10/2015   |
| 2014-PH-1007  | The Cumberland Plateau Regional Housing Authority Did Not Procure Services in Accordance With HUD Requirements, Lebanon, VA  | 07/15/2014 | 09/05/2014    | 07/31/2015   |
| 2014-SE-1003  | Pierce County Claimed Ineligible and Unsupported HOME Matching Funds, Tacoma, WA   | 07/17/2014 | 11/13/2014    | 04/30/2015   |
| 2014-NY-1008  | Palladia, Inc., Did Not Administer Its Supportive Housing Program in Accordance With HUD Requirements, New York, NY  | 07/25/2014 | 11/21/2014    | 11/20/2015   |
| 2014-AT-1007  | The Municipality of Carolina Did Not Properly Administer Its HOME Program, Carolina, PR  | 08/08/2014 | 12/05/2014    | 12/31/2015   |
| 2014-LA-0005  | HUD Did Not Always Recover FHA Single-Family Indemnification Losses and Ensure That Indemnification Agreements Were Extended   | 08/08/2014 | 12/03/2014    | Note 3       |
| 2014-FW-1805  | The Kenner Housing Authority Did Not Administer Its Public Housing and Recovery Act Programs in Accordance With Regulations and Guidance, Kenner, LA                             | 08/13/2014 | 11/10/2014    | 10/27/2015   |
| 2014-CH-1006  | The Goshen Housing Authority Failed To Follow HUD's and Its Own Requirements Regarding the Administration of Its Program, Goshen, IN   | 08/14/2014 | 01/21/2015    | 11/30/2015   |
| 2014-FW-1806  | The South Landry Housing Authority Did Not Always Comply With Federal Procurement and Financial Requirements, Including a Procurement Using Recovery Act Funds, Grand Coteau, LA | 08/19/2014 | 12/09/2014    | 08/19/2015   |
| 2014-LA-0006  | HUD's ONAP Lacked Adequate Controls Over the ICDBG Closeout Process  | 08/19/2014 | 12/09/2014    | 07/31/2015   |

| REPORT NUMBER | REPORT TITLE  | ISSUE DATE | DECISION DATE | FINAL ACTION |
|---------------|---|------------|---------------|--------------|
| 2014-LA-1005  | The City of Richmond Did Not Administer Its NSP in Accordance With Requirements, Richmond, CA   | 08/22/2014 | 12/19/2014    | 10/31/2015   |
| 2014-NY-0003  | Asset Repositioning Fees for Public Housing Authorities With Units Approved for Demolition or Disposition Were Not Always Accurately Calculated             | 09/04/2014 | 12/29/2014    | 01/01/2016   |
| 2014-AT-1010  | Miami-Dade County Did Not Always Properly Administer Its HOME Program, Miami, FL  | 09/11/2014 | 12/11/2014    | 09/11/2015   |
| 2014-KC-0003  | HUD Did Not Always Enforce the Requirements of the Regulatory Agreements and HUD Handbooks Pertaining to Owner Advances and Distributions                   | 09/17/2014 | 11/25/2014    | 04/30/2015   |
| 2014-NY-1009  | The City of Jersey City's HOME Investment Partnerships Program Administration Had Financial and Administrative Controls Weaknesses, City of Jersey City, NJ | 09/18/2014 | 01/13/2015    | 08/18/2015   |
| 2014-FW-1005  | The Former Owner of Yale Court Apartments Used Project Funds in Violation of the Regulatory Agreement With HUD, Houston, TX                                 | 09/22/2014 | 02/19/2015    | 10/30/2015   |
| 2014-DP-0006  | Program Accounting System   | 09/23/2014 | 12/01/2014    | 08/30/2015   |
| 2014-FW-0005  | Improvements Are Needed Over Environmental Reviews of Public Housing and Recovery Act Funds in the Detroit Office   | 09/24/2014 | 03/17/2015    | 10/01/2016   |
| 2014-KC-0004  | Lenders Generated \$428 Million in Gains From Modifying Defaulted FHA Loans   | 09/24/2014 | 01/22/2015    | 12/10/2015   |
| 2014-KC-0005  | Wellston Housing Authority Improperly Administered the Community Service and Self-Sufficiency Requirement   | 09/24/2014 | 01/20/2015    | 05/31/2015   |
| 2014-LA-1006  | The City of Pomona Did Not Administer Its NSP in Accordance With HUD Rules and Requirements, Pomona, CA   | 09/25/2014 | 01/23/2015    | 10/27/2015   |

| REPORT NUMBER | REPORT TITLE  | ISSUE DATE | DECISION DATE | FINAL ACTION |
|---------------|---|------------|---------------|--------------|
| 2014-FW-1006  | Cornerstone Home Lending Did Not Adequately Underwrite 16 Loans, Violated the Real Estate Settlement Procedures Act, and Did Not Implement an Adequate Quality Control Plan During Our Review Period, Houston, TX | 09/26/2014 | 03/30/2015    | 09/26/2015   |
| 2014-AT-1012  | EverBank Did Not Properly Determine Mortgagor Eligibility for FHA's Preforeclosure Sale Program, Jacksonville, FL   | 09/29/2014 | 01/30/2015    | 09/29/2015   |
| 2014-BO-1004  | The Department of Housing and Community Development Did Not Always Operate Its Disaster Recovery Programs Effectively and Efficiently, Montpelier, VT   | 09/29/2014 | 12/12/2014    | 11/25/2015   |
| 2014-CH-1010  | The Owner and Former Management Agents Lacked Adequate Controls Over the Operation of Lake Village of Auburn Hills, MI  | 09/29/2014 | 01/27/2015    | 02/24/2016   |
| 2014-LA-1007  | The City of Los Angeles Did Not Always Ensure That CDBG-Funded Projects Met National Program Objectives, Los Angeles, CA  | 09/29/2014 | 01/27/2015    | 01/27/2016   |
| 2014-AT-1013  | Peoples Home Equity, Inc., Did Not Follow HUD Requirements in Approving FHA Loans and Implementing Its Quality Control Program, Brentwood, TN   | 09/30/2014 | 02/10/2015    | 09/30/2015   |
| 2014-AT-1014  | The Memphis Housing Authority Did Not Always Ensure That Its Housing Choice Voucher Program Units Met HUD's Housing Quality Standards, Memphis, TN  | 09/30/2014 | 01/27/2015    | 10/01/2015   |
| 2014-AT-1016  | The Housing Authority of the City of Spartanburg Used HUD Program Funds for Ineligible Expenses, Spartanburg, SC  | 09/30/2014 | 01/28/2015    | 03/02/2016   |
| 2014-CH-0001  | HUD Did Not Always Provide Adequate Oversight of Its Property-Flipping Waiver Requirements  | 09/30/2014 | 03/24/2015    | 07/30/2015   |

| REPORT NUMBER | REPORT TITLE  | ISSUE DATE | DECISION DATE | FINAL ACTION |
|---------------|---|------------|---------------|--------------|
| 2014-CH-1011  | The City of Chicago Lacked Adequate Controls Over Its HOME Investment Partnerships Program-Funded Rental New Construction Projects and Program Income, Chicago, IL                                | 09/30/2014 | 01/28/2015    | 08/29/2016   |
| 2014-CH-1012  | The Owner and Former Management Agents Lacked Adequate Controls Over the Operation of Lake Village of Fairlane Apartments, Dearborn, MI   | 09/30/2014 | 01/28/2015    | 02/19/2016   |
| 2014-DE-1802  | Complaint Allegations Substantiated - City of Colorado Springs' HOME and CDBG Programs, Colorado Springs, CO  | 09/30/2014 | 02/02/2015    | 01/29/2016   |
| 2014-FW-1007  | The Jefferson Parish Department of Community Development Did Not Always Support Expenditures, Comply With Procurement Requirements, or Provide Adequate Oversight of Subrecipients, Jefferson, LA | 09/30/2014 | 01/26/2015    | 06/30/2015   |
| 2014-KC-0006  | The HUD Office of the Chief Financial Officer Had Not Always Implemented Its User Fee Policy  | 09/30/2014 | 01/22/2015    | 11/30/2016   |
| 2014-PH-0001  | HUD Policies Did Not Always Ensure That HECM Borrowers Complied With Residency Requirements   | 09/30/2014 | 01/28/2015    | 09/29/2015   |

**AUDITS EXCLUDED:**

80 audits under repayment plans

33 audits under debt claims collection processing, formal judicial review, investigation, or legislative solution

**NOTES:**

1. Management did not meet the target date. Target date is more than 1 year old.
2. Management did not meet the target date. Target date is less than 1 year old.
3. No management decision

TABLE C

Inspector General-issued reports with questioned and unsupported costs at 03/31/2015 (thousands)

| AUDIT REPORTS            |  | NUMBER OF AUDIT REPORTS    | QUESTIONED COSTS                         | UNSUPPORTED COSTS                        |
|--------------------------|--|----------------------------|--|--|
| A1                       | For which no management decision had been made by the commencement of the reporting period   | 51                         | 748,874                                  | 221,226                                  |
| A2                       | For which litigation, legislation, or investigation was pending at the commencement of the reporting period                        | 4                          | 7,176                                    | 5,170                                    |
| A3                       | For which additional costs were added to reports in beginning inventory  | -                          | 15,527                                   | 2,739                                    |
| A4                       | For which costs were added to noncost reports  | 0                          | 0  | 0  |
| B1                       | Which were issued during the reporting period  | 19                         | 2,074,790                                | 1,710,227                                |
| B2                       | Which were reopened during the reporting period  | 0                          | 0  | 0  |
| <b>SUBTOTALS (A + B)</b> |  | <b>74</b>                  | <b>2,846,367</b>                         | <b>1,939,362</b>                         |
| C                        | For which a management decision was made during the reporting period   | 52 <sup>15</sup>           | 1,160,362                                | 379,709                                  |
|                          | 1) Dollar value of disallowed costs:   |                            |  |  |
|                          | Due HUD  | 23 <sup>16</sup>           | 894,236                                  | 122,771                                  |
|                          | Due program participants   | 40                         | 261,340                                  | 253,894                                  |
|                          | (2) Dollar value of costs not disallowed   | 11 <sup>17</sup>           | 4,786                                    | 3,044                                    |
| D                        | For which a management decision had been made not to determine costs until completion of litigation, legislation, or investigation | 5                          | 27,333                                   | 5,170                                    |
| E                        | For which no management decision had made by the end of the reporting period   | 17<br>< 38 > <sup>18</sup> | 1,658,672<br>< 1,629,347 > <sup>18</sup> | 1,554,483<br>< 1,548,291 > <sup>18</sup> |

15 Twenty-seven audit reports also contain recommendations with funds to be put to better use.

16 Eleven audit reports also contain recommendations with funds due program participants.

17 Eleven audit reports also contain recommendations with funds agreed to by management.

18 The figures in brackets represent data at the recommendation level as compared to the report level. See Explanations of Tables C and D.

## TABLE D

*Inspector General-issued reports with recommendations that funds be put to better use at 03/31/2015 (dollars)*

| AUDIT REPORTS            |  | NUMBER OF AUDIT REPORTS    | DOLLAR VALUE                             |
|--------------------------|--|----------------------------|--|
| A1                       | For which no management decision had been made by the commencement of the reporting period   | 33                         | 1,479,828                                |
| A2                       | For which litigation, legislation, or investigation was pending at the commencement of the reporting period                        | 2                          | 1,854                                    |
| A3                       | For which additional costs were added to reports in beginning inventory  | -                          | 11                                       |
| A4                       | For which costs were added to noncost reports  | 0                          | 0  |
| B1                       | Which were issued during the reporting period  | 17                         | 1,195,387                                |
| B2                       | Which were reopened during the reporting period  | 0                          | 0  |
| <b>SUBTOTALS (A + B)</b> |  | <b>52</b>                  | <b>2,677,080</b>                         |
| C                        | For which a management decision was made during the reporting period   | 34 <sup>19</sup>           | 521,507                                  |
|                          | (1) Dollar value of recommendations that were agreed to by management:   | 8                          | 329,185                                  |
|                          | Due HUD  | 26                         | 189,834                                  |
|                          | Due program participants   |                            |  |
|                          | (2) Dollar value of recommendations that were not agreed to by management  | 4 <sup>20</sup>            | 2,488                                    |
| D                        | For which a management decision had been made not to determine costs until completion of litigation, legislation, or investigation | 2                          | 1,854                                    |
| E                        | For which no management decision had made by the end of the reporting period   | 16<br>< 21 > <sup>21</sup> | 2,153,719<br>< 1,004,874 > <sup>21</sup> |

<sup>19</sup> Twenty-seven audit reports also contain recommendations with questioned costs.

<sup>20</sup> Four audit reports also contain recommendations with funds agreed to by management.

<sup>21</sup> The figures in brackets represent data at the recommendation level as compared to the report level. See Explanations of Tables C and D.



## EXPLANATIONS OF TABLES C AND D

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The Inspector General Act Amendments of 1988 require inspectors general and agency heads to report cost data on management decisions and final actions on audit reports. The current method of reporting at the “report” level rather than at the individual audit “recommendation” level results in misleading reporting of cost data. Under the Act, an audit “report” does not have a management decision or final action until all questioned cost items or other recommendations have a management decision or final action. Under these circumstances, the use of the “report” based rather than the “recommendation” based method of reporting distorts the actual agency efforts to resolve and complete action on audit recommendations. For example, certain cost items or recommendations could have a management decision and repayment (final action) in a short period of time. Other cost items or nonmonetary recommendation issues in the same audit report may be more complex, requiring a longer period of time for management’s decision or final action. Although management may have taken timely action on all but one of many recommendations in an audit report, the current “all or nothing” reporting format does not recognize its efforts.

The closing inventory for items with no management decision in tables C and D (line E) reflects figures at the report level as well as the recommendation level.

# HUD OIG TELEPHONE DIRECTORY

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|                            |                |              |
|----------------------------|----------------|--------------|
| <b>HEADQUARTERS OFFICE</b> | Washington, DC | 202-708-0364 |
|----------------------------|----------------|--------------|

## OFFICE OF AUDIT

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|                 |              |              |
|-----------------|--------------|--------------|
| <b>REGION 1</b> | Boston, MA   | 617-994-8380 |
|                 | Hartford, CT | 860-240-4837 |

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|                 |              |              |
|-----------------|--------------|--------------|
| <b>REGION 2</b> | New York, NY | 212-264-4174 |
|                 | Albany, NY   | 518-462-2892 |
|                 | Buffalo, NY  | 716-551-5755 |
|                 | Newark, NJ   | 973-776-7339 |

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|                 |                  |              |
|-----------------|------------------|--------------|
| <b>REGION 3</b> | Philadelphia, PA | 215-656-0500 |
|                 | Baltimore, MD    | 410-962-2520 |
|                 | Pittsburgh, PA   | 412-644-6372 |
|                 | Richmond, VA     | 804-771-2100 |

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|                 |                  |              |
|-----------------|------------------|--------------|
| <b>REGION 4</b> | Atlanta, GA      | 404-331-3369 |
|                 | Greensboro, NC   | 336-547-4001 |
|                 | Jacksonville, FL | 904-232-1226 |
|                 | Knoxville, TN    | 865-545-4400 |
|                 | Miami, FL        | 305-536-5387 |
|                 | San Juan, PR     | 787-766-5540 |

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|                 |              |              |
|-----------------|--------------|--------------|
| <b>REGION 5</b> | Chicago, IL  | 312-353-7832 |
|                 | Columbus, OH | 614-469-5745 |
|                 | Detroit, MI  | 313-226-6280 |

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|                 |                   |              |
|-----------------|-------------------|--------------|
| <b>REGION 6</b> | Fort Worth, TX    | 817-978-9309 |
|                 | Baton Rouge, LA   | 225-448-3976 |
|                 | Houston, TX       | 713-718-3199 |
|                 | New Orleans, LA   | 504-671-3715 |
|                 | Albuquerque, NM   | 505-346-7270 |
|                 | Oklahoma City, OK | 405-609-8606 |
|                 | San Antonio, TX   | 210-475-6800 |

|               |                 |              |
|---------------|-----------------|--------------|
| REGION 7-8-10 | Kansas City, KS | 913-551-5870 |
|               | St. Louis, MO   | 314-539-6339 |
|               | Denver, CO      | 303-672-5452 |
|               | Seattle, WA     | 206-220-5360 |

|          |                   |              |
|----------|-------------------|--------------|
| REGION 9 | Los Angeles, CA   | 213-894-8016 |
|          | Las Vegas, NV     | 702-366-2100 |
|          | Phoenix, AZ       | 602-379-7250 |
|          | San Francisco, CA | 415-489-6400 |

## OFFICE OF INVESTIGATION

|              |  |              |
|--------------|--|--------------|
| HEADQUARTERS | Washington, DC Office of Investigation | 202-708-0390 |
|--------------|--|--------------|

|            |                |              |
|------------|----------------|--------------|
| REGION 1-2 | New York, NY   | 212-264-8062 |
|            | Boston, MA     | 617-994-8450 |
|            | Hartford, CT   | 860-240-4800 |
|            | Manchester, NH | 603-666-7988 |
|            | Newark, NJ     | 973-776-7355 |

|          |                  |              |
|----------|------------------|--------------|
| REGION 3 | Philadelphia, PA | 215-430-6758 |
|          | Baltimore, MD    | 410-209-6533 |
|          | Pittsburgh, PA   | 412-644-6598 |
|          | Richmond, VA     | 804-822-4890 |

|             |                |              |
|-------------|----------------|--------------|
| REGION 4    | Atlanta, GA    | 404-331-5001 |
|             | Birmingham, AL | 205-745-4314 |
|             | Columbia, SC   | 803-451-4318 |
|             | Greensboro, NC | 336-547-4000 |
|             | Memphis, TN    | 901-554-3148 |
|             | Miami, FL      | 305-536-3087 |
|             | San Juan, PR   | 787-766-5868 |
|             | Tampa, FL      | 813-228-2026 |
| Jackson, MS | 601-329-6924   |              |

|          |                          |              |
|----------|--------------------------|--------------|
| REGION 5 | Chicago, IL              | 312-353-4196 |
|          | Cleveland, OH            | 216-357-7800 |
|          | Columbus, OH             | 614-469-6677 |
|          | Detroit, MI              | 313-226-6280 |
|          | Grand Rapids, MI         | 313-226-6280 |
|          | Indianapolis, IN         | 317-957-7377 |
|          | Minneapolis-St. Paul, MN | 612-370-3130 |

**REGION 6**

|                   |              |
|-------------------|--------------|
| Fort Worth, TX    | 817-978-5440 |
| Baton Rouge, LA   | 225-448-3941 |
| Houston, TX       | 713-718-3227 |
| Little Rock, AR   | 501-324-5931 |
| New Orleans, LA   | 504-671-3700 |
| Oklahoma City, LA | 405-609-8601 |
| San Antonio, TX   | 210-475-6822 |

**REGION 7-8-10**

|                    |              |
|--------------------|--------------|
| Denver, CO         | 303-672-5350 |
| Billings, MT       | 406-247-4080 |
| Kansas City, KS    | 913-551-5866 |
| Salt Lake City, UT | 801-524-6090 |
| St. Louis, MO      | 314-539-6559 |
| Seattle, WA        | 206-220-5380 |

**REGION 9**

|                   |              |
|-------------------|--------------|
| Los Angeles, CA   | 213-894-0219 |
| Las Vegas, NV     | 702-366-2144 |
| Phoenix, AZ       | 602-379-7252 |
| Sacramento, CA    | 916-930-5691 |
| San Francisco, CA | 415-489-6683 |

**JOINT CIVIL FRAUD DIVISION****AUDIT AND  
INVESTIGATION**

|                 |              |
|-----------------|--------------|
| Kansas City, KS | 913-551-5566 |
|-----------------|--------------|

# ACRONYMS LIST

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|                      |  |
|----------------------|--|
| <b>ACD</b> .....     | Accelerated Claims Disposition (HUD program)           |
| <b>CAIVRS</b> .....  | Credit Alert Verification Reporting System             |
| <b>CDBG</b> .....    | Community Development Block Grant                      |
| <b>CDBG-DR</b> ..... | Community Development Block Grant Disaster Recovery    |
| <b>CFR</b> .....     | Code of Federal Regulations                            |
| <b>CLPHA</b> .....   | Council of Large Public Housing Authorities            |
| <b>CPD</b> .....     | Office of Community Planning and Development           |
| <b>CSSR</b> .....    | community service and self sufficiency requirement     |
| <b>CWCOT</b> .....   | Claims Without Conveyance of the Title (HUD program)   |
| <b>DoD</b> .....     | U.S. Department of Defense                             |
| <b>DOJ</b> .....     | U.S. Department of Justice                             |
| <b>FBI</b> .....     | Federal Bureau of Investigation                        |
| <b>FFMIA</b> .....   | Federal Financial Management Improvement Act of 1996   |
| <b>FHA</b> .....     | Federal Housing Administration                         |
| <b>FHFA</b> .....    | Federal Housing Finance Agency                         |
| <b>FHLMC</b> .....   | Federal Home Loan Mortgage Corporation                 |
| <b>FIFO</b> .....    | first-in, first-out                                    |
| <b>FIRMS</b> .....   | Facilities Integrated Resources Management System      |
| <b>FISMA</b> .....   | Federal Information Security Management Act            |
| <b>FMFIA</b> .....   | Federal Managers' Financial Integrity Act              |
| <b>GAO</b> .....     | U.S. Government Accountability Office                  |
| <b>HIAMS</b> .....   | HUD Integrated Acquisition Management System           |
| <b>HOME</b> .....    | HOME Investment Partnerships Program                   |
| <b>HPS</b> .....     | HUD Procurement System                                 |
| <b>HUD</b> .....     | U.S. Department of Housing and Urban Development       |
| <b>IDIS</b> .....    | Integrated Disbursement and Information System         |
| <b>IPA</b> .....     | Intergovernmental Personnel Act                        |
| <b>IPERA</b> .....   | Improper Payments Elimination and Recovery Act of 2010 |
| <b>IRS-CI</b> .....  | Internal Revenue Service – Criminal Investigation      |

## ACRONYMS LIST (CONCLUDED)

|                     |   |
|---------------------|---|
| <b>IT</b> .....     | information technology                  |
| <b>MTW</b> .....    | HUD Moving to Work program              |
| <b>OCFO</b> .....   | Office of the Chief Financial Officer   |
| <b>OCPO</b> .....   | Office of the Chief Procurement Officer |
| <b>OE</b> .....     | Office of Evaluation                    |
| <b>OI</b> .....     | Office of Investigation                 |
| <b>OIG</b> .....    | Office of Inspector General             |
| <b>OMB</b> .....    | Office of Management and Budget         |
| <b>OPHI</b> .....   | Office of Public Housing Investments    |
| <b>PHA</b> .....    | public housing agency                   |
| <b>PIH</b> .....    | Office of Public and Indian Housing     |
| <b>SPS</b> .....    | Small Purchase System                   |
| <b>SSA</b> .....    | Social Security Administration          |
| <b>U.S.C.</b> ..... | United States Code                      |
| <b>USPIS</b> .....  | U.S. Postal Inspection Service          |
| <b>USSS</b> .....   | U.S. Secret Service                     |

# REPORTING REQUIREMENTS

The specific reporting requirements as prescribed by the Inspector General Act of 1978, as amended by the Inspector General Act of 1988, are listed below:

| <b>SOURCE-REQUIREMENT</b>  | <b>PAGES</b>            |
|--|-------------------------|
| Section 4(a)(2)-review of existing and proposed legislation and regulations  | 38                      |
| Section 5(a)(1)-description of significant problems, abuses, and deficiencies relating to the administration of programs and operations of the Department.   | 12-37                   |
| Section 5(a)(2)-description of recommendations for corrective action with respect to significant problems, abuses, and deficiencies.   | 41                      |
| Section 5(a)(3)-identification of each significant recommendation described in previous Semiannual Report on which corrective action has not been completed.   | Appendix 3, Table B, 62 |
| Section 5(a)(4)-summary of matters referred to prosecutive authorities and the prosecutions and convictions that have resulted.  | 12-37                   |
| Section 5(a)(5)-summary of reports made on instances where information or assistance was unreasonably refused or not provided, as required by Section 6(b)(2) of the Act.  | No instances            |
| Section 5(a)(6)-listing of each audit report completed during the reporting period, and for each report, where applicable, the total dollar value of questioned and unsupported costs and the dollar value of recommendations that funds be put to better use. | Appendix 2, 57          |
| Section 5(a)(7)-summary of each particularly significant report.   | 12-37                   |
| Section 5(a)(8)-statistical tables showing the total number of audit reports and the total dollar value of questioned and unsupported costs.   | Appendix 3, Table C, 79 |
| Section 5(a)(9)-statistical tables showing the total number of audit reports and the dollar value of recommendations that funds be put to better use by management.  | Appendix 3, Table D, 80 |
| Section 5(a)(10)-summary of each audit report issued before the commencement of the reporting period for which no management decision had been made by the end of the period.  | Appendix 3, Table A, 61 |
| Section 5(a)(11)-a description and explanation of the reasons for any significant revised management decisions made during the reporting period.   | 49                      |
| Section 5(a)(12)-information concerning any significant management decision with which the Inspector General is in disagreement.   | 52                      |
| Section 5(a)(13)-the information described under section 5(b) of the Federal Financial Management Improvement Act of 1996.   | 52                      |

# FRAUD ALERT

*Every day, loan modification and foreclosure rescue scams rob vulnerable homeowners of their money and their homes. The U.S. Department of Housing and Urban Development (HUD), Office of Inspector General, is the Department's law enforcement arm and is responsible for investigating complaints and allegations of mortgage fraud. Following are some of the more common scams:*

## COMMON LOAN MODIFICATION SCAMS

**Phony counseling scams:** The scam artist says that he or she can negotiate a deal with the lender to modify the mortgage — for an upfront fee.

**Phony foreclosure rescue scams:** Some scammers advise homeowners to make their mortgage payments directly to the scammer while he or she negotiates with the lender. Once the homeowner has made a few mortgage payments, the scammer disappears with the homeowner's money.

**Fake “government” modification programs:** Some scammers claim to be affiliated with or approved by the government. The scammer's company name and Web site may appear to be a real government agency, but the Web site address will end with .com or .net instead of .gov.

**Forensic loan audit:** Because advance fees for loan counseling services are prohibited, scammers may sell their services as “forensic mortgage audits.” The scammer will say that the audit report can be used to avoid foreclosure, force a mortgage modification, or even cancel a loan. The fraudster typically will request an upfront fee for this service.

**Mass joinder lawsuit:** The scam artist, usually a lawyer, law firm, or marketing partner, will promise that he or she can force lenders to modify loans. The scammers will try to “sell” participation in a lawsuit against the mortgage lender, claiming that the homeowner cannot participate in the lawsuit until he or she pays some type of upfront fee.

**Rent-to-own or leaseback scheme:** The homeowner surrenders the title or deed as part of a deal that will let the homeowner stay in the home as a renter and then buy it back in a few years. However, the scammer has no intention of selling the home back to the homeowner and, instead, takes the monthly “rent” payments and allows the home to go into foreclosure.

Remember, only work with a HUD-approved housing counselor to understand your options for assistance. HUD-approved housing counseling agencies are available to provide information and assistance. Call 888-995-HOPE to speak with an expert about your situation. HUD-approved counseling is free of charge.





## **Report fraud, waste, and mismanagement in HUD programs and operations by**

**Faxing the OIG hotline:** 202-708-4829  
**Emailing the OIG hotline:** [hotline@hudoig.gov](mailto:hotline@hudoig.gov)

**Sending written information to**  
Department of Housing and Urban Development  
Inspector General Hotline (GFI)  
451 7th Street, SW  
Room 8254  
Washington, DC 20410

**Internet**  
<http://www.hudoig.gov/hotline/index.php>

**ALL INFORMATION IS CONFIDENTIAL, AND YOU MAY REMAIN ANONYMOUS.**



U.S. DEPARTMENT  
OF HOUSING  
AND URBAN  
DEVELOPMENT

Report Number 73  
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