



U.S. Department of Housing and Urban Development  
Office of Inspector General

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# Office of Inspector General Report to the Congress

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**Number 10**

**for the six month period  
April 1, 1983 to September 30, 1983  
Pursuant to Section 5(b)  
of Public Law 95-452**

Foreword

This is our fifth report to Congress and it highlights our work in education, and social service programs during the past year. Each report provides a summary of our activities and accomplishments in the past year, and a list of our major findings and recommendations. This report is continuing

in our last three reports, we emphasized the need for legislation (family to laws enacted by Congress several years ago for the Food Stamp and Aid to Families with Dependent Children Programs) to enable the Department to develop and conduct such legislation is planned for early November 1983. Although the hearing will have been held by the time this report is issued, we urge the Congress to take prompt action. Additional information on this issue is provided in Chapter 7 of this report.

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for the six month period  
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of Public Law 95-452

  
Charles L. Gentry  
Inspector General

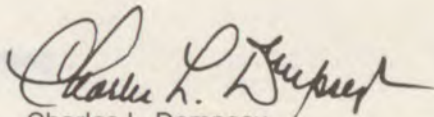
## Foreword

This is our tenth report to Congress and it highlights our audit, investigation, and fraud control activities during the past six months. Cash recoveries and savings for the period amount to over \$32.1 million. Additionally, our involvement in promoting prevention techniques has continued to be a major effort.

This report summarizes the significant problems noted and recommendations made during the period, and emphasizes our audit focus on weaknesses in the operations of financially troubled Public Housing Agencies. This effort is continuing and HUD management has been very receptive to our recommendations for improving Public Housing Agency operations.

In our last three reports, we emphasized the need for legislation (similar to laws enacted by Congress several years ago for the Food Stamp and Aid to Families With Dependent Children Programs) to enable the Department to develop and conduct fraud computer matches. A Congressional hearing on the need for such legislation is planned for early November 1983. Although the hearing will have been held by the time this report is issued, we urge the Congress to take note of this issue, and support these efforts. Additional detail on this issue is provided in Chapter 3 of this report.

During the period February 24, 1983, to June 14, 1983, Paul A. Adams was the Acting Inspector General at HUD, while I temporarily served as Inspector General at the Environmental Protection Agency.



Charles L. Dempsey  
Inspector General

# Table of Contents

The Inspector General Act of 1978 (P.L. 95-452) requires semiannual reports describing seven areas of activity. Two more requirements were added by the Senate Report No. 96-829 on the Supplemental Appropriations and Rescission Act (P.L. 96-304). The citations for the required items are shown in brackets.

Chapter	Page
<b>Synopsis</b> .....	7
<b>1. Significant Problems, Abuses, Deficiencies and Recommendations</b> [Section 5(a)(1) + (2)] .....	12
<b>2. Investigation Activities</b> [Section 5(a)(4)] .....	33
<b>3. Fraud Control Activities</b> .....	42
<b>4. Cooperative Efforts</b> .....	49
<b>5. Review of Legislation and Regulations</b> [Section 4(a)(2)] .....	56
<b>6. Requests for Information and Assistance</b> [Section 5(a)(5)] .....	59
<b>7. Debt Collection</b> [Senate Report] .....	60
<b>8. Audit Resolution</b> [Section 5(a)(3) and Senate Report] .....	62
<b>Appendices</b>	
<b>1. Background, Organization and Staffing</b> .....	66
<b>2. Glossary of Terms</b> .....	68
<b>3. Audit Reports Issued</b> [Section 5(a)(6)] .....	70
<b>4. Previously Reported Items - Corrective Actions not Completed</b> .....	81

## Profile of Performance

Department of Housing and  
Urban Development  
Office of Inspector General

Amount	Total	Page
April 1, 1983	Amount	Refer-
to	FY 1983	ence
September 30, 1983		

### Audit Activities

• Cash Recoveries/Savings (OIG and Non-Federal Audits)	\$30,787,000	\$52,288,000	62
• Questioned and Disallowed Costs Sustained (OIG and Non-Federal Audits)	\$53,646,000	\$101,616,000	62
• Cost Efficiencies	\$119,000,000	\$119,000,000	62
• Internal Audit Reports Issued	41	92	80
• External Audit Reports Issued	204	386	80
• Non-Federal and Other Agency Reports Accepted	2,333	4,788	—
• Audit Findings Issued	3,369	7,063	64
• Audit Findings Resolved	3,549	7,162	64
• Mortgagees Sanctioned as a Result of Referrals to HUD Mortgagee Review Board	5	6	31

### Investigation Activities

• Cash Recoveries	\$1,406,236	\$7,744,961	36
• Total Fines Levied	\$197,800	\$562,925	36
• Investigation Cases Opened	790	1,543	33
• Investigation Cases Pending (9/30/83)	—	1,535	34
• Investigation Cases Referred for Prosecution	143	319	35
• Persons/Firms Indicted	181	351	35
• Persons/Firms Convicted	145	266	35
• Total Years of Prison Sentences	111	214	36
• Total Years of Probated Sentences	442	693	36
• Debarments of Persons/Firms Doing Business with HUD (years)	221	567	—
• Suspensions of Persons/Firms Doing Business with HUD (years)	60	114	—
• Personnel Actions Initiated Against HUD Employees	60	115	—
• HUD Employees Indicted	5	9	—
• HUD Employees Convicted	3	7	—

### Fraud Control Activities

• Special Fraud Control Projects Undertaken in Cooperation with HUD's Committee on Fraud, Waste and Mismanagement	8	11	—
• Hotline Complaints Received	221	444	46
• Hotline Complaints Processed and Closed	216	496	—
• Hotline Complaints Pending (9/30/83)	—	301	—
• Proposed Legislation and Regulations Reviewed	109	210	56
• Proposed HUD Handbooks/Issuances Reviewed	140	262	56

## Synopsis

This report contains selected operating results for the period April 1, 1983 to September 30, 1983. Significant weaknesses disclosed by audits and investigations, and fraud con-

trol activities conducted by our office, or in cooperation with others, are also discussed. The following synopsis provides the highlights of this report.

## Significant Problems, Abuses, Deficiencies, and Recommendations

### 1. Changes to the Section 8 Program Could Save \$18 Million Annually.

Public Housing Agencies (PHA's) used unsupported cost data furnished by developers/owners in calculating rents for Section 8 Moderate Rehabilitation projects. As much as \$18 million annually in additional housing assistance could be saved if PHA's improved verification of cost data submitted to them (page12).

### 2. Negotiated Architect Fees Can Result in Substantial Savings.

Public Housing Agencies failed to seek competitive or negotiated fees when hiring architects (page13).

### 3. PHA's Need to Improve Cash Management Procedures.

Public Housing Agencies have not managed their cash balances to get the best return. Available funds have been invested in non- or low-interest bearing accounts (page13).

### 4. Financial Problems Impair Housing Program in Detroit.

An operating deficit of over \$11 million resulting from inefficient management practices by the Detroit Housing Department limits maintenance and restoration on its deteriorating housing stock (page15).

### 5. Memphis Housing Authority Obtains Overpayments of \$2.5 Million.

The Memphis Housing Authority underreported income to obtain about \$2.5 million in overpayments from HUD (page16).

### 6. Excessive Spending Weakens Financial Stability of the Tampa Housing Authority.

The Housing Authority of Tampa, Florida, weakened its own financial stability by spending excessive funds for unnecessary employees and office space (page16).

### 7. Management Weaknesses Result in Deterioration of Public Housing Stock in Providence, Rhode Island.

Loss of revenue resulting from continuing deterioration of the housing stock and the failure of the Providence, Rhode Island Housing Authority to operate projects in an effective, efficient and economical manner have deprived many low-income families of safe and sanitary housing (page17).

### 8. Vacancies Put Indianapolis Housing Authority in Financial Trouble.

Inefficient management of the Indianapolis, Indiana Housing Authority has steadily required additional HUD subsidies while project conditions have deteriorated (page 18).

### 9. Salary Cost Classifications Disputed at Portland Housing Authority.

The Portland Housing Authority, Portland, Oregon, improperly classified \$168,000 of salary costs so that its operating reserve account would be increased (page19).

### 10. Rent Subsidies Inflated by \$375,000 Annually.

Inadequate controls in the Tax-Exempt Financing Program could cost HUD about \$375,000 annually over the 20-year contract period for 26 projects (page 20).

### 11. Inadequate Loan Management Reviews Could Lead to Increased Annual Subsidy Payments of Over \$1 million.

The San Francisco Office's inadequate loan management reviews and processing procedures concerning rental increases, management fees, and rental assistance payments could lead to increased HUD annual subsidy payments of over \$1 million (page 21).

**12. Questionable Processing Practices Increase HUD's Risk of Loss.** Managers in the Richmond and Philadelphia Offices overrode processing decisions on applications for multifamily insured loans without justification. Directions were also given to processing staff that were improper or increased the mortgage amount without proper support (page22).

**13. Administration of Flexible Subsidy Program Needs to be Improved.** Because of inadequate HUD handbook instructions, questionable use of management consultants, and Field Office failure to obtain adequate contributions from certain owners, \$448,400 of Flexible Subsidy funds were not returned to HUD or used to fund additional projects (page23).

**14. \$2.1 Million Misspent at Four Multifamily Projects.** Owners and management agents at four projects have improperly disbursed over \$2.1 million of HUD multifamily insured project funds for ineligible and unsupported costs (page23).

**15. Owners Inflate Development Costs by Nearly \$1 Million.** Owners of two multifamily projects improperly increased development costs by nearly \$1 million (page25).

**16. CDBG Regulations Allow Excessive Administrative Expenses.** Regulations to control Community Development Block Grant funds allowed grantees to exceed the legal limits on administrative expenses (page26).

**17. Homeowners Charged for Work Funded by CDBG Program.** The City of Kansas City, Missouri, ignored HUD directives by paying \$890,000 for sidewalks out of Community Development Block Grant funds and assessing property owners for the same work (page27).

**18. Problems in Accepting Veterans Administration Appraisals.** Property appraisals done by the Veterans Administration (VA) and submitted to HUD do not always identify major repairs that are needed. HUD's policy of accepting VA appraisals exposes the Department to greater risks of default and invites abuse (page28).

**19. Lender Makes Improper Home Improvement Loans.** The Douglass State Bank, Kansas City, Kansas, improperly administered its Title I loan program resulting in the misuse of loan proceeds and submission of questionable claims to HUD (page 29).

**20. Additional Indictments and Convictions in the Title I Program.** The investigation of a Title I lender, Sherwood and Roberts, Inc., has resulted in additional indictments and convictions of the lender's employees and mobile home dealers. The company has been involved in a scheme to defraud HUD from 1978 until 1981 (page30).

**21. Mortgagee Violations Result in Sanctions.** Mortgagees (lenders) have failed to comply with HUD regulations concerning net worth requirements and mortgage origination, closing, and servicing practices (page31).

## Fraud Control Activities

**Committee on Fraud, Waste and Mismanagement** (page 42). This Committee coordinates the Department's fraud control efforts and advises the Secretary on policy matters relating to prevention and detection techniques. Significant work includes:

*Fraud Reform Legislation* (page 42). Previously, a project developed legislative recommendations that would help HUD establish computer matching techniques. These recommendations have not been enacted. The Subcommittee on Banking and Community Development has offered to hold hearings on the subject later this year.

*Adequacy of Departmental Bonding Requirements* (page 42). The Committee examined the Department's construction bonding procedures and practices to determine whether they protected the Department from loss or exposure in cases of general contractor default. In its final report to the Secretary, the Committee made 10 recommendations including a change in bonding coverage from 50 to 100 percent, changes in construction documents, and guidance and clarification to the HUD Field staff in bond enforcement. The Secretary approved the report recommendations on July 8, 1983.

*Review and Analysis of HUD Administrative Sanctions* (page 43). In April 1983, the Committee reported to the Secretary that there is confusion in HUD concerning when and how sanctions can be used, and a need for additional sanctions. In May 1983, the Secretary approved the report recommendations to improve guidance through an updated Sanc-

tions Handbook and increase employee awareness and appropriate training, but requested that new sanctions be deferred pending completion of the Handbook and training.

To date, implementation of the recommendations is pending an October 1983 publication of the Department's revised Administrative Sanctions regulations in the Federal Register.

*Quality Control System for Tenant Eligibility* (page 43). This project is researching and formulating policy recommendations for a Departmental Quality Control System for Tenant Eligibility. The purpose of the project is to ensure that: (1) ineligible persons do not receive program benefits; (2) eligible persons receive the proper amount of assistance; and (3) persons that should be eligible are not denied benefits. The Committee is exploring deficiencies in HUD's present monitoring system, potential improvements and ways of using computer matching for an overall quality control system.

*Follow-Up on Accountability Monitoring* (page 43). This project is currently reviewing the implementation of Accountability Monitoring, a concept approved by the Secretary that targets reviews to high risk participants and high exposure activities.

*Internal Control Handbook* (page 44). The Committee completed a comprehensive Departmental Handbook on HUD's internal control policies and procedures. In April 1983, the Inspector General transmitted the draft handbook to the Assistant Secretary for Administration and other HUD managers.



The issuance of the handbook is being deferred pending completion of the first cycle of certifications on internal controls to the President and the Congress.

**Employee Awareness Program** (page 45). Our Office, along with others in the Department, continued activities to heighten all employees' awareness of their responsibilities to prevent, detect, and report on the

occurrence of fraud and program abuse. We issued three additional Fraud Information Bulletins entitled "Travel," "Administrative Sanctions," and "Subgrantees - Problems and Abuses." A digest version of the last Semiannual Report to Congress was also issued to HUD employees.

**Hotline Activities** (page 46). Our office received and processed 221 hotline complaints and closed 216 complaints.

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## Cooperative Efforts

**President's Council on Integrity and Efficiency Projects.** We participated in the following projects sponsored by the President's Council on Integrity and Efficiency (PCIE).

*Prevention Committee* (page 49). The PCIE established a standing committee, led by our office, to develop and recommend policies and procedures for the Council to consider in fostering efforts to prevent fraud, waste, and mismanagement.

As reported in our prior Semiannual Report, the Committee issued a survey report covering the activities of the Inspector General community. This survey included an action plan for three specific elements that were implemented during this reporting period as follows:

1. A Model Prevention Plan was developed by the HUD-OIG along with various members of the PCIE and the Assistant Secretaries for Management Group to assist agencies in adopting a practical approach to focusing on prevention as a basic management responsibility. The model presents the basic

elements needed to assure programs' effectiveness in five phases: planning; design; operations; evaluations; and awareness.

2. A Review of Traditional Audit and Investigation Activities was conducted to identify current practices that aid in preventing recurring problems and to develop suggested methods for improving the prevention related impact of traditional techniques. A draft report was presented to the Committee containing 10 recommendations to upgrade traditional audit and investigation techniques as a means of preventing future program abuse.

3. Proactive Efforts were addressed for identifying, establishing and implementing innovative techniques that potentially prevent the occurrence of fraud, waste and mismanagement. The Committee established sub-groups to focus on specific issues and develop proposals to study the following proactive techniques:

- EDP Systems Review and Security
- Inspection Activities
- Legislative and Regulatory Review Procedures

- Grants, Loans and Loan Guarantees
- Front-End Eligibility Verification System
- Procurement and Contracts
- Communication and Awareness

**Intradepartmental Projects** (page 51). The OIG and HUD management are cooperating on two projects, described as follows:

- OMB Circular A-123 and the Federal Managers' Financial Integrity Act continue to be implemented through the combined efforts of the Assistant Secretary for Administration and the OIG.
- A Joint Accounting Review reviewed the vulnerabilities in current accounting systems.

**Interagency Projects** (page 53). The OIG participated with the General Accounting Office and the U.S. Department of Agriculture (USDA)

Office of Inspector General on two projects, described as follows:

- In a continuation of Project MATCH, our office coordinated efforts to follow up on information provided to us by USDA's Office of Inspector General concerning individuals receiving Federal assistance benefits.
- Our Office of Audit and the General Accounting Office began a joint review of the Department's implementation of OMB Circular A-123, Internal Control Systems, and the Federal Managers' Financial Integrity Act.

**State and Local Government Projects** (page 54). We conducted a direct computer matching of tenant income data from the Atlanta Housing Authority to State wage data. The project identified families who underreported their income to receive housing benefits to which they were not entitled.

## Chapter 1

### Significant Problems, Abuses, Deficiencies, and Recommendations

This chapter details the significant problems, abuses and deficiencies relating to the Department's operations and programs for the current period. Recommendations for corrective action are also provided as required.

This chapter is divided into four areas: Assisted Housing; Multifamily Insured Housing; Community Planning and Development; and Single Family Insured Housing programs.

### Assisted Housing Programs

HUD has programs for providing rental units or rent subsidies to low- and moderate-income families. These include the development and management of Conventional Public Housing and the Lower Income Rental Assistance Program (Section 8). In the Conventional Public Housing Program, there are about 1.2 million units receiving fixed annual contributions in excess of \$1 billion, and operating subsidies in excess of \$1.36 billion. Assistance payments for the 1.3 million Section 8 units exceed \$3 billion annually.

#### Changes to the Section 8 Program Could Save \$18 Million Annually

##### *Problem*

Public Housing Agencies (PHA's) used unsupported cost data furnished by developers/owners in calculating rents for Section 8 Moderate Rehabilitation projects. As much as \$18 million annually in additional housing assistance could be saved if PHA's improved verification of cost data submitted to them.

##### *Discussion*

Under the Moderate Rehabilitation Program, developers/owners repair project units to meet housing standards established by HUD. The rents they are allowed to charge and, in turn, the amount of housing subsidy they will receive from HUD are based in part on the cost of the repairs. Repair costs used by PHA's in determining allowable rents should be based on verified cost information.

Our prior Semiannual Report gave two examples of weaknesses in the administration of the Section 8 Moderate Rehabilitation program. Subsequent reviews of four additional PHA's showed similar weaknesses.

HUD has not required PHA's to review and revise inflated cost estimates. For six PHA's reviewed, increased costs obligated HUD to fund \$10.3 million in additional rent payments over the 15-year term of the contracts. As a result, HUD could pay more than \$270 million in additional Housing Assistance Payments for the 23,903 units nationwide under 15-year contracts. This is about \$18 million annually. Moreover, if this situation is not corrected, HUD could pay an additional \$600 million for the additional 53,623 units authorized but not under contract.

Specific problems were that the PHA's did not question the validity of sales data and other transactions between the developers/owners and related parties (partnerships, family members, etc.), which the developers/owners used to inflate real estate costs used by the PHA's in calculating the contract rents. Often the data was no more than a verbal assurance from the developer.

Contract rent calculations provided amounts sufficient to pay for short-term debts, but after the short-term debts are satisfied, the calculations do not provide for reduced rents after the loans are paid off. Owners would thus realize windfall profits.

Recommendations were that HUD issue instructions requiring rents to

be computed on the basis of verified arms-length transaction data. The Department should require short-term real estate notes to be treated as if they had a 15-year term.

Additionally, HUD should distribute to the Field Offices and PHA's a notice highlighting the types of problems and deficiencies most frequently occurring in the Moderate Rehabilitation program and emphasizing PHAs' responsibilities to avoid the deficiencies in computing contract rents.

#### *Status*

The audit report on the Section 8 Moderate Rehabilitation Program was issued on August 24, 1983, to the Assistant Secretary for Housing-Federal Housing Commissioner. He generally agreed with our draft recommendations and a final response to the issued report is due on October 24, 1983.

#### **Negotiated Architect Fees Can Result in Substantial Savings**

##### *Problem*

Public Housing Agencies (PHA's) failed to seek competitive or negotiated fees when hiring architects.

##### *Discussion*

Through the low-income housing program, HUD provides PHA's with financial and technical assistance to build and renovate public housing projects. In developing these housing projects, PHA's contract for architectural services. HUD does not require PHA's to obtain competitive bids or negotiate fees when hiring architects in the development of low-income housing. The architects primarily provide design and inspection services and are to be paid according to the terms of standard contracts approved by HUD.

PHA's rehired architects based on their previous performance. Fees were not negotiated because the PHA's relied on HUD to approve the fees. Since PHA's did not always select architects competitively or negotiate fees, the fees incurred may be inflated. One Regional Office negotiated architectural fees resulting in a one-year savings of \$919,785 or \$592 per unit.

Recommendations included revising the appropriate handbook to require competitive selection of architects and negotiation of final fees.

#### *Status*

The audit report, "Review of Control Over the Procurement and Payment of Architectural Services," was issued on July 26, 1983, to the Assistant Secretary for Housing-Federal Housing Commissioner. In the final response to the report, the Assistant Secretary agreed to implement the recommendations and to incorporate appropriate changes and revisions to the handbook by March 1, 1984.

#### **PHA's Need to Improve Cash Management Procedures**

##### *Problem*

Public Housing Agencies (PHA's) have not managed their cash balances to get the best return. Available funds have been invested in non- or low-interest bearing accounts.

##### *Discussion*

HUD provides operating subsidies to PHA's. PHA's are required to invest extra cash in HUD-approved securities. Investment income is used to reduce the subsidy payments from HUD while providing PHA's with some additional discretionary income.

PHA's have not invested funds efficiently. At five of six PHA's reviewed, at least \$124,599 of annual interest was not realized because some available funds were not invested to realize the greatest return.

Five of the six PHA's maintained large balances in low interest bearing accounts for long periods. Both the checking accounts and passbook savings accounts yielded only five and one-quarter percent interest. For example, the Lawrence County Housing Authority maintained two checking and one savings accounts with combined average daily balances during 1982 of about \$490,000 and \$14,000, respectively. Also, the Housing Authority of the City of Pittsburgh maintained two passbook savings accounts with a combined average daily balance during 1982 of approximately \$125,000. Better

investment strategy could have produced more income and reduced HUD subsidy payments.

Recommendations were to advise PHA's that as an alternative to an in-house cash management program, they may contract with financial institutions to administer their cash and investments, if such an arrangement is cost effective.

#### *Status*

The audit report, "Public Housing Authority Cash Management Practices," was issued to the Philadelphia Regional Administrator-Regional Housing Commissioner on August 10, 1983. He concurred with the recommendations and on August 25, 1983, gave specific directives to Field Offices to strengthen oversight of the PHAs' cash management practices.

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### **Financially Troubled Public Housing Agencies**

Of the 134 largest PHA's which administer conventional low-rent housing programs, 30 are considered financially troubled by HUD. HUD considers a PHA financially troubled if it administers 1,250 or more dwelling units and fails to maintain operating reserve funds of at least 20 percent of an amount approved by HUD. Although the 30 financially troubled PHA's account for only one percent of all PHA's, they administer about 276,000 (23 percent) of the dwelling units in the conventional low-rent housing pro-

gram. They receive more than \$400 million (30 percent) of the operating subsidies that are paid annually by HUD.

In December 1982, our office began a series of audits on 16 of the financially troubled PHA's. The primary purpose of the audits was to identify the types of operational problems that contribute to the financial difficulties of PHA's and to recommend to HUD and PHA management ways to correct those problems.

Some of the major problems found at the 10 financially troubled PHA's reviewed during this period are summarized on following page .

Problem Areas	PHA's	Detroit, MI	Indianapolis, IN	Memphis, TN	Montgomery, AL	Oakland, CA	Oklahoma City, OK	Porter, NJ	Portland, OR	Providence, RI	Tampa, FL
Control Over Maintenance Staff	●	●	●	●	●	●	●	●			
Lack of Preventive Maintenance	●	●	●	●	●	●	●	●	●		
Vacant/Uninhabitable Units	●	●	●	●	●	●	●	●	●	●	●
Tenant Selection, Placement & Collection	●	●	●	●	●	●	●	●	●	●	●
Utilities and Energy Conservation	●	●	●	●	●	●	●	●	●	●	●
Subsidizing Local Services					●	●	●			●	
Poor Project Design/Construction	●			●	●				●		
Overall Management/Organization	●	●	●						●		
Overstaffing/Understaffing	●		●							●	
Procurement/Inventory	●	●	●	●	●			●		●	

### Financial Problems Impair Housing Program in Detroit

#### Problem

An operating deficit of over \$11 million resulting from inefficient management practices by the Detroit Housing Department, a Public Housing Agency (PHA), limits maintenance and restoration on its deteriorating housing stock.

#### Discussion

On July 1, 1973, the PHA had a \$1 million operating reserve. By June 30, 1982, the end of the PHA's latest fiscal year, this reserve had been depleted and an \$11 million operating deficit had accumulated. Four contributing factors were identified for the PHA's financial demise.

First, at December 1982, approximately 2,500 (25 percent) of the PHA's units were vacant and not in rentable condition resulting in an annual rental income loss of about \$1.8 million.

Second, the PHA failed to charge certain tenants the maximum allowable rent. This has cost the PHA about \$1 million annually.

Third, the PHA did not implement adequate tenant selection and eviction procedures. As a result, over \$2 million were lost because tenants did not pay their rents.

A fourth factor has been uncontrolled increases in labor and utility expenses. The PHA is subject to the City's administrative requirements and union contracts are negotiated on a City-wide basis. Accordingly, the PHA was required to participate in staff reductions necessitated by the poor financial condition of the City and the PHA. Corresponding union contracts prohibit the PHA from hiring outside contractors to do the work normally performed by laid-off maintenance employees. As a result, the PHA lacks the staffing needed to adequately maintain its housing stock. The resulting losses in rental income due to extensive vacancies have further compounded the PHA's poor financial condition. In addition, a plan to improve the PHA's financial condition is limited because utility costs are substantially underestimated.

Recommendations to the Detroit Office Manager were that the PHA: develop and implement a plan to restore vacant units to a rentable

condition and adequately maintain its occupied units; increase rents charged to certain tenants; implement improved tenant selection, collection, and eviction procedures; and give full recognition to realistic utility cost increases in Financial Workout Plans negotiated with HUD.

#### *Status*

The audit report, "Low-Income Housing Program, Detroit Housing Department," was issued on August 26, 1983, to the Chicago Regional Administrator-Regional Housing Commissioner and the Detroit Office Manager. The findings in the report are currently being resolved by the PHA and HUD management. A response from the Detroit Office Manager concerning the corrective actions is due on October 25, 1983.

### **Memphis Housing Authority Obtains Overpayments of \$2.5 Million**

#### *Problem*

The Memphis Housing Authority underreported income to obtain about \$2.5 million in overpayments from HUD.

#### *Discussion*

The Memphis Housing Authority (PHA) obtained additional operating subsidies to which it was not entitled. Rental, interest, and other income were grossly underestimated in each of 3 budget years reviewed, resulting in HUD operating subsidy overpayments of more than \$2.5 million. The underestimates were without regard to specific instructions.

Other problems at the PHA resulted from poor management practices. The PHA's administration of its Section 8 Moderate Rehabilitation Program was seriously deficient. Excess rents of \$32,469 were disallowed and \$489,000 were ques-

tioned. By incorrectly computing rents, the PHA could receive \$3.2 million in excess rent subsidies over the 15-year term of its contract.

The PHA failed to implement required energy conservation measures such as energy audits and use of individual meters, that could save over \$695,000 annually.

Also, the PHA made premature and excessive requisitions of Section 8 funds and delayed year-end settlements. As a result, the U.S. Treasury incurred unnecessary interest costs of \$352,375.

Recommendations were for HUD to consider rescinding its limited operating budget review and take a more active role in guiding the PHA's future operations. Additional recommendations were made to correct specific problems and recover questioned and disallowed costs.

#### *Status*

The audit report on the Memphis Housing Authority, Low-Income Housing Programs, was issued to the Manager of the Knoxville Office of August 19, 1983. A status report on the clearance action taken is due on October 18, 1983.

### **Excessive Spending Weakens Financial Stability of the Tampa Housing Authority**

#### *Problem*

The Housing Authority of Tampa, Florida, weakened its own financial stability by spending funds for excessive staff and office space.

#### *Discussion*

The Tampa Housing Authority could save over \$1 million annually in salary and office space by

reducing its number of employees. The Authority built additional office space for 67 administrative and maintenance employees who were unnecessary for efficient operations. Also, the Tampa Housing Authority furthered its own financial problems by spending \$1,355,920 over budget because it failed to control or properly plan annual expenses. Effective rent collection policies were not implemented or enforced. Late charges were not collected and tenant rents were not deposited timely. As a result, the Housing Authority did not realize potential income of \$297,000.

The Housing Authority used much of its staff resources to register new applicants for housing, and perform unnecessary or incomplete servicing of applications. Each week, the Housing Authority added almost three times as many new applicants to its waiting list as it could place, thus creating much of its own administrative burden.

The Authority delayed making vacant units available for occupancy. As a result of lengthy vacancies, averaging 27 days per unit, the Housing Authority lost potential income.

Recommendations were for the Jacksonville Office Manager to set objectives for the Tampa Housing Authority to reduce staff and excess office space; reduce occupancy delays; have the Housing Authority justify and support overruns in the budget or disallow the costs; and implement budgetary and rent collection controls.

#### Status

The audit report on the Housing Authority of the City of Tampa, Florida, was issued to the Manager of the Jacksonville Office on August 12, 1983. Comments on the audit report are due on October 12, 1983.

## Management Weaknesses Result in Deterioration of Public Housing Stock in Providence, Rhode Island

### Problem

Loss of revenue resulting from continuing deterioration of the housing stock and the failure of the Providence, Rhode Island Housing Authority to operate projects in an effective, efficient and economical manner have deprived many low-income families of safe and sanitary housing.

### Discussion

Management weaknesses have contributed to the deterioration of the housing stock and an unstable financial condition at the Public Housing Agency (PHA) in Providence, Rhode Island. About 30 percent of the PHA's original units (1,007 of 3,473) were removed from the program because of serious deterioration. This results in about \$1.1 million of rental income that will not be realized. Another 149 units currently are considered uninhabitable. These factors contribute to an upward trend in both vacancy losses and tenants' accounts receivable.

Between July 1981 and January 1983, vacant units increased from 293 to 493 which currently results in an annual rental income loss of about \$597,000.

Tenants' accounts receivable increased from \$201,016 at June 30, 1979, to \$422,013 at December 31, 1982.

The PHA has not maintained control over administrative salaries. Salary comparability has not been maintained with the local public sector, salaries have not been established in accordance with negotiated union contracts and the



PHA has not justified the need for all positions.

Recommendations were for the PHA to immediately evaluate its management and maintenance capabilities, the need for units, and the potential marketability of units, and to establish viable long-range plans for the rehabilitation, conversion, disposition or demolition of units.

Additional recommendations were that the PHA: (1) be directed to perform a critical self-evaluation of its management organization to assess the need for positions as well as the capabilities of individuals holding those positions; (2) improve its communication among departments so that vacant units are promptly reported, repaired and occupied; and (3) formally adopt an effective collection procedure.

Also, until the Boston Office Manager determines that the PHA has demonstrated adequate management capabilities, funding should be limited to operating subsidy only.

#### *Status*

The audit report, "Providence, Rhode Island Housing Authority, Low-Rent Housing Program," was issued on May 3, 1983, to the Boston Office Manager. The Boston Office Manager agreed with the findings in the audit report and is in the process of taking action to correct the problems identified at the PHA. Meetings with the Mayor and HUD staff were held August 15, 1983. On August 17, 1983, the Mayor announced new appointments to the Authority's Board of Commissioners.

## **Vacancies Put Indianapolis Housing Authority in Financial Trouble**

### *Problem*

Inefficient management of the Indianapolis, Indiana Housing Authority has steadily required additional HUD subsidies while project conditions have deteriorated.

### *Discussion*

Twenty-five percent of the units at the Indianapolis, Indiana Housing Authority were vacant at the time of audit. The vacancies were caused by a lack of routine and preventive maintenance. The vacancies represented \$668,000 of lost potential annual income, or one-fifth of the HUD operating subsidy paid to the Housing Authority in 1982.

Eighteen percent of the units needed major rehabilitation estimated to cost \$4.6 million. Units have been allowed to deteriorate to unrentable condition with little emphasis on preparing newly vacated units for occupancy. The Authority's projects are relatively new; all were built between 1966 and 1975.

The Housing Authority's project managers said the maintenance staff was too busy handling emergency work orders to perform routine and preventive maintenance. However, we determined that the project managers had almost no supervisory control over the maintenance staff and did not know what the maintenance staff was doing. The vacancy and maintenance problems were also compounded by poor communications between the project managers and the Admissions Office, cumbersome operating procedures in the Admissions Office, no applicant outreach efforts and poor supply procedures.

Recommendations were that the Indianapolis Office evaluate the abilities of the Housing Authority's executive and supervisory staff to manage the Authority. Also, the Housing Authority should establish and implement programs and procedures to adequately supervise the maintenance staff, maintain the projects in good condition, reduce the vacancies, and improve the inventory supply procedures.

#### *Status*

The audit report, "Low-Income Housing Program, Indianapolis Housing Authority," was issued on August 10, 1983, to the Chicago Regional Administrator-Regional Housing Commissioner and the Indianapolis Office Manager. Comments on the audit report are due on October 10, 1983.

#### **Salary Cost Classifications Disputed at Portland Housing Authority**

#### *Problem*

The Portland Housing Authority, Portland, Oregon, improperly classified \$168,000 of salary costs so that its operating reserve account would be increased. The Authority has also had problems managing its energy conservation and maintenance programs.

#### *Discussion*

The Portland Housing Authority reclassified \$168,000 of salary costs from management to development during the period when it was financially troubled. These costs were then funded through increases in the development budgets and approved by the Portland Office on the basis that the salaries had originally been improperly charged to management. This transfer increased the

PHA's operating reserve balances. The Housing Authority could not provide supporting documentation to show that these costs should have been charged to development projects.

The Authority did not comply with HUD's requirement to convert electrical service at mastermetered projects to individual service. At least \$404,400 could have been saved during the period April 1980 through January 1983 had the utilities at 16 mastermetered projects been individually metered.

The Housing Authority has not performed annual preventive maintenance inspections of units. Deficiencies went unreported and uncorrected, thus causing increased costs later.

Recommendations to the Portland Office were that \$168,000 of the misclassified costs be disallowed and any development funds improperly received be returned to HUD. Other recommendations were to: convert projects to individual metering where possible; and develop a preventive maintenance program.

#### *Status*

The audit report on the Housing Authority of Portland, Oregon, Low Rent Housing Program, was issued on June 30, 1983, to the Portland Office Manager. The Portland Office Manager agreed with the report and all findings will be closed based on promised actions and receipt of necessary timetables for corrective action from the Portland Office. The \$168,000 have been sustained. The funds are to be recovered by October 31, 1983.

## Multifamily Insured Programs

HUD administers several programs that provide mortgage insurance for financing the construction or rehabilitation of multifamily projects. There are approximately 19,000 multifamily projects with \$40 billion in mortgages which are insured or held by HUD. Two thousand of these mortgages, valued at nearly \$4 billion, have been assigned to HUD. In addition, the Department directly owns some 150 multifamily projects acquired through its insurance and loan programs.

Under the multifamily housing programs, HUD also subsidizes the rents for eligible low-income households through Section 8, Rent Supplement and Rental Assistance Payments. These subsidy programs provide about \$4 billion of subsidy assistance to about 1.4 million units in privately-owned housing.

### **Rent Subsidies Inflated by \$375,000 Annually**

#### *Problem*

Inadequate controls in the Tax-Exempt Financing Program could cost HUD about \$375,000 annually over the 20-year contract period for 26 projects.

#### *Discussion*

Section 11(b) of the Housing and Community Development Act of 1974 authorizes Public Housing Agencies (PHA's) to issue tax-exempt notes and bonds in order to finance low- and moderate-income housing. Projects financed under Section 11(b) also receive Section 8 rent subsidy payments. Savings can be realized for the projects because of the difference between the low interest rate on the tax-

exempt notes or bonds and the higher interest income that can be earned on the investment of the note or bond proceeds.

For 26 insured projects reviewed in the Atlanta and Chicago Regions, about \$3.9 million of interest income from investment of tax-exempt note and bond proceeds went to underwriters, trustees, and/or developers. Such income should have been used to reduce bond financing and rents, or retained in project reserves and ultimately returned to HUD. Field Office staffs were unaware of the diverted investment income. The lost income resulted primarily from a lack of program controls. Had the income been used to reduce rents, HUD could have saved about \$6.5 million over the 20-year contract period for 19 of the projects. Since the bonds are issued for 40 years, additional savings would accrue if the rent subsidies were extended.

In addition, the Field Offices did not review cost certifications and reduce contract rents where actual development costs were lower than estimated. This resulted in about \$1 million of additional excess subsidy for 10 of the 19 projects.

Recommendations for completed Section 8 projects financed with tax-exempt obligations and those required to be cost certified, were to require Field Offices to seek reimbursement of lost investment income and reduce project mortgage obligations and contract rents, if feasible. Otherwise, funds should be deposited into project reserves.

For those projects under construction, Field Offices should assure similar safeguarding of taxpayers' interests by detecting and eliminating windfalls for underwriters or others. In addition, applicable regu-

lations and/or handbooks should be revised to require language that trustees must obtain market rate returns on investments, and procedures should be added for Field Offices to evaluate the adequacy of excess investment income.

#### *Status*

The audit report, "Tax-Exempt Financing for Section 8 Projects," was issued to the Assistant Secretary for Housing-Federal Housing Commissioner on June 22, 1983. The Assistant Secretary for Housing-Federal Housing Commissioner responded to the findings on September 1, 1983, and agreed in general with the recommendations. On October 18, 1983, the OIG agreed to close the findings upon receipt of target dates for completing proposed corrective actions.

#### **Inadequate Loan Management Reviews Could Lead to Increased Annual Subsidy Payments of Over \$1 Million**

#### *Problem*

The San Francisco Office's inadequate loan management reviews and processing procedures concerning rental increases, management fees, and rental assistance payments could lead to increased HUD annual subsidy payments of over \$1 million.

#### *Discussion*

Field Office Loan Management Branches within HUD's Office of Housing service HUD projects with a goal of providing decent, safe, and sanitary housing while keeping tenants' rents as low as possible. Servicing should also protect the Department's interests by preventing defaults, assignments, and foreclosures.

For 12 of 13 projects, the latest approved rental increases were excessive by over \$1.6 million annually. As a result, HUD could pay over \$1.1 million in increased annual subsidies. This occurred primarily because rental increase analyses included inappropriate and inflated expenses. These expenses were neither adjusted by Loan Management staff during processing nor identified during supervisory reviews.

Because Loan Management staff deviated from established procedures without written justification, nine of 13 approved management fees reviewed were excessive by \$142,564 annually. As a result, HUD could pay over \$95,000 in additional rent subsidies.

In addition, deficiencies existed in processing transfers of physical assets. These deficiencies included ownership transfers without prior HUD approval; lack of adequate inspections to identify projects' physical needs prior to transfer; lack of documentation to support approval of less than 10 percent equity contributions; delays and lack of evidence that transfer agreement provisions were implemented; and failure to conduct credit analyses or evaluations of proposed owners' performance.

Recommendations included instructing the Loan Management staff to: (1) allow only verifiable project operating expenses, supported by written documentation, in rental increase analyses; (2) apply rental increase analysis procedures consistently; and (3) develop and implement adequate supervisory review procedures. Also, if the Manager of the San Francisco Office determines that HUD has the right to adjust an approved rent schedule, project owners should be advised to submit current operating statements and

adjust rental rates accordingly. In addition, the Loan Management staff should be instructed that computed management fee percentages are not to be increased above allowable limits without sufficient documented justification, and supervisors are not to increase or approve increases in management fees without adequate supporting documentation.

#### *Status*

The audit report on the Review of the Loan Management Branch was issued to the Manager of the San Francisco Office on June 1, 1983. The findings and recommendations were resolved on October 3, 1983, when the Regional Administrator-Regional Housing Commissioner agreed to implement the recommendations.

#### **Questionable Processing Practices Increase HUD's Risk of Loss**

##### *Problem*

Managers in the Richmond and Philadelphia Offices overrode processing decisions on applications for multifamily insured loans without justification. Directions were also given to processing staff that were improper or increased the mortgage amount without proper support.

##### *Discussion*

Technical staff in the HUD Field Offices perform underwriting evaluations on multifamily mortgage insurance applications. Supervisory managers review cost estimates and other processing conclusions and may revise them if they document the reasons for any changes. In HUD's Richmond and Philadelphia offices, managers made questionable changes to cost estimates, and gave orders to their staffs that resulted in increased mortgages and greater risk of loss to HUD.

In the Richmond Office, managers directed staff to increase certain costs by \$468,000. There was no evidence to support the reason for the increase. Another manager directed staff to use a contractor's cost estimates that were \$126,956 higher than the estimates of the HUD technical staff. Subsequent adjustments reduced the difference to \$11,464, but only after the manager provided the developer with a copy of HUD's cost estimates. Providing this data is prohibited.

Similar management decisions in the Philadelphia Office increased HUD's risk of loss on one project. Processing problems were identified in which managers: (1) overrode the technical staffs' recommendations without required documentation; (2) ordered a once-rejected change order to be approved; and (3) directed staff to use sponsor rent and expense figures. These unsupported directives increased the maximum insurable mortgages by over \$435,000. The project went into default immediately after final approval.

Recommendations were made that both offices increase their monitoring efforts over multifamily processing and require explanation and documentation from appropriate supervisory personnel when staff recommendations are not accepted. It was also recommended that appropriate administrative action be taken if it was determined that supervisory personnel improperly performed their duties. As a result of an Office of Inspector General investigation, employees of the Richmond Office have been reassigned, suspended and/or downgraded. See Chapter 2 under "Administrative Actions Against HUD Employees" for details.

### *Status*

The audit report, "Multifamily Processing Activities, Philadelphia and Richmond Offices," was issued to the Philadelphia Regional Administrator-Regional Housing Commissioner on August 24, 1983.

On September 23, 1983, the Deputy Director of the Richmond Office forwarded a copy of a directive to the Richmond Housing Division outlining the necessary steps to be taken to comply with the report's recommendations.

### **Administration of Flexible Subsidy Program Needs to be Improved**

#### *Problem*

Because of inadequate HUD handbook instructions, questionable use of management consultants, and Field Office failure to obtain adequate contributions from certain owners, \$448,400 of Flexible Subsidy funds were not returned to HUD or used to fund additional projects.

#### *Discussion*

The Flexible Subsidy Program corrects physical and financial shortfalls resulting from prior years' operating deficits. The program funds project operating deficits that a Field Office estimates will occur during the next year. Projects are considered for funding based on assessments of their financial needs for repairs and an owner's ability to make changes or improvements recommended by HUD.

Field Offices need to more accurately determine costs for project repairs prior to committing Flexible Subsidy funds. If original cost estimates had been compared to obtainable or on-hand bids for those repairs and if funding had been accurately assessed, about \$168,000

would have been available for return to HUD or for funding additional projects.

Also, since the Flexible Subsidy handbook is not definitive in requiring changes of uncooperative owners or management agents, the San Francisco Office attempted to correct such problems by budgeting \$128,400 for use of management consultants. This resulted in unnecessary and ineffective use of Flexible Subsidy funds totaling at least \$86,000. In addition, the San Francisco Office did not obtain the required one-quarter minimum owner contribution for five of six contracts with profit-motivated owners. If sufficient owner contributions had been obtained, at least \$152,000 in Flexible Subsidy funds would have been available for use on other projects.

Recommendations included revising the HUD Flexible Subsidy handbook to: (1) require owners to obtain at least three price quotations for repairs or use cost comparisons from available data; (2) specify requirements for using Flexible Subsidy funds for management consultants; and (3) clarify procedures for obtaining owner contributions from profit-motivated owners.

### *Status*

The audit report, "Flexible Subsidy Funds for Multifamily Projects," was issued to the Assistant Secretary for Housing-Federal Housing Commissioner on September 7, 1983. A response to the report is due on November 7, 1983.

### **\$2.1 Million Misspent at Four Multifamily Projects**

#### *Problem*

Owners and management agents at four projects have improperly disbursed over \$2.1 million of HUD

multifamily insured project funds for ineligible and unsupported costs.

#### *Discussion*

As a condition of providing mortgage insurance on multifamily projects, owners sign a Regulatory Agreement with HUD. If approved by HUD, the owners may delegate authority for operating the project to a management agent for which the terms of the Regulatory Agreement remain binding. Provisions in the Regulatory Agreement specify that expenditures must be reasonable and necessary to the project, and limit the circumstances and manner in which cash may be taken out of a project by the owner. Below are examples from four audits concerning violations of the Regulatory Agreement.

Audits have disclosed that some owners or management agents for multifamily projects have disregarded the provisions of the Regulatory Agreement resulting in improper spending of over \$2.1 million. Examples include: Hampton Square Limited, Benicia, California; Bryn Mawr Apartments, Ypsilanti, Michigan; Westminster/Willard Apartments, Roxbury, Massachusetts; and Rustic Oaks Apartments, Oak Forest, Illinois.

The owner of Hampton Square Limited misspent \$1.1 million by using project funds for the unauthorized conversion of 169 apartment units to condominiums and for principal and interest on three unauthorized loans that were obtained to pay for conversion costs. In effect, the owner was using the HUD-insured loan as interim financing during conversion.

The general partner of Bryn Mawr Apartments improperly spent \$540,959 on unrelated business or other personal expenses. Costs included expenses for other properties, excessive management fees,

car loan payments, gifts to relatives, development costs for condominiums, and other loans. Another \$148,564 in payments were questioned because of a lack of supporting documentation.

The management agent of Westminster/Willard Apartments improperly transferred project funds to a bank account under the control of the owners. Over \$207,890 were taken from the account for improper cash distributions, unallowable consultant fees paid to the owners, and other legal and consulting fees that were not project related. Unsupported payments made by the management agent of \$124,591 were also questioned or disallowed.

The owner of Rustic Oaks Apartments improperly spent project funds for ineligible distributions to partners, repayment of construction loans, payment of construction-related costs, ineligible management services and other costs. This resulted in disallowed costs of \$114,718 and questioned costs of \$2,218.

Recommendations in the four audit reports were to seek reimbursement of all funds spent improperly, obtain supporting documentation for questionable disbursements, and require compliance with the Regulatory Agreement.

In addition, recommendations to the Manager of the San Francisco Office on Hampton Square Limited were to take additional legal and administrative actions considered necessary, including possible debarment of the owner and management agent from participation in HUD programs. Recommendations to the Manager of the Boston Office on Westminster/Willard Apartments were to terminate the services of the management agent.

### Status

The audit report, "Hampton Square Limited." was issued to the Manager of the San Francisco Office on August 12, 1983. A response to the report is due on October 12, 1983.

The audit report, "Bryn Mawr Apartments," was issued to the Chicago Regional Administrator-Regional Housing Commissioner and the Manager of the Detroit Office on May 27, 1983. All findings in this report were closed on October 3, 1983, based on promised corrective actions. The \$540,959 in unrelated business and personal expenses and the \$148,564 in payments lacking supporting documentation have been sustained.

The audit report, "Westminster/Willard Apartments," was issued to the Manager of the Boston Office on June 28, 1983. The management agent has repaid \$37,929 of disallowed costs and \$798 of questioned costs. All findings in the report were closed at October 27, 1983, and all questioned and disallowed costs have been sustained.

The audit report, "Rustic Oaks Apartments," was issued to the Chicago Regional Administrator-Regional Housing Commissioner and the Manager of the Chicago Office on April 7, 1983. At September 30, 1983, \$116,936 in disallowed and questioned costs had been sustained but not yet collected. All findings have been closed.

### Owners Inflate Development Costs by Nearly \$1 Million

#### Problem

Owners of two multifamily projects improperly increased development costs by nearly \$1 million.

### Discussion

In its multifamily mortgage insurance program, HUD generally insures 85 to 90 percent of either the estimated or the allowed actual cost of each project's land and improvements, whichever is lower. Unpaid or unsupported costs are not allowed and HUD can require a mortgage reduction or prepayment to recover such amounts. HUD also provides Section 8 rent subsidies for multifamily projects. HUD may reduce the rents on which the subsidies are based as a result of the actual development costs being less than the estimates used as a basis for the initially approved rents.

The owner of Henderson Heights Apartments, Henderson, North Carolina, obtained a HUD-insured mortgage of \$1,974,700, subject to HUD audit. The project costs claimed by the owner included \$282,292 which were not paid, \$266,492 for ineligible profit and overhead costs, and \$38,252 for other miscellaneous ineligible costs.

The owner of River Oaks Limited, Columbia, South Carolina, a related party general contractor and two related party subcontractors claimed costs of nearly \$300,000 which were ineligible. These costs, which were disallowed, included: costs relating to other projects; an insurance cost which was incorrectly computed; and costs not properly documented. Inclusion of the ineligible costs caused the mortgage insured by HUD to be excessive by \$89,900. An additional \$222,300 in unsupported costs were questioned. These costs included payments to subcontractors and material suppliers, and payroll and insurance costs.

Recommendations on Henderson Heights Apartments were for the Greensboro Office to require the owner to prepay the mortgage by \$281,600. Disallowance of the costs



could result in reduced Section 8 rent subsidies of up to \$409,000 over the 20-year term of the contract.

Recommendations on River Oaks Limited were for the Columbia, South Carolina Office to recompute the maximum insurable mortgage and require the owner to prepay the mortgage by the amount necessary to reduce it to the amount supported by the audited cost.

#### *Status*

The audit report on Henderson Heights Apartments was issued on August 10, 1983, to the Manager of

the Greensboro Office. A status report was received on October 6, 1983. No further actions have been taken and the findings remain unresolved.

The audit report on River Oaks Limited was issued on May 10, 1983, to the Manager of the Columbia, South Carolina Office. The Columbia Office agreed with the findings and requested that the owner prepay the mortgage by \$89,900. In July 1983, the Columbia Office issued a Temporary Denial of Participation against the general contractor. The Denial is retroactive to May 1983 and is effective for 12 months.

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## **Community Planning and Development**

The Housing and Community Development Act of 1974, as amended, authorizes the Secretary to make grants to units of general local governments and States for the funding of local community development programs. The 1983 budget appropriation of \$3.5 billion was intended to provide assistance to nearly 800 entitlement communities, 48 states and Puerto Rico.

In addition, \$440 million for Urban Development Action Grants were appropriated to assist severely distressed cities in the revitalization of deteriorated neighborhoods.

### **CDBG Regulations Allow Excessive Administrative Expenses**

#### *Problem*

Regulations to control Community Development Block Grant (CDBG) funds allowed grantees to exceed the legal limits on administrative expenses.

#### *Discussion*

HUD provides CDBG funds to local communities to carry out approved

community development projects. The communities are required by law to limit administrative costs to 20 percent of the grant. Congressional intent in this requirement was to assure a proper ratio between direct costs, such as a street improvement, and the associated administrative costs, such as clerical and supervisory.

HUD regulations and guidelines are vague, and do not adequately define administrative costs. Guidelines identify the types of costs that are administrative if they pertain to "overall" program activities. HUD Field staff have interpreted this to mean that administrative costs pertaining to specific program activities are not subject to the 20 percent limitation.

The confusion in interpreting the regulations has resulted in more than 20 percent of the funds being budgeted and spent on administrative costs. For example, one grantee budgeted \$8.7 million for its housing program. Forty-three percent was for personnel and administrative costs, and only 57 percent of its budget

was for programmatic costs. Of \$5 million actually spent, \$3.8 million were for administrative costs and \$1.2 million were for program costs. The grantee had spent all it had budgeted for administrative costs but only twenty-four percent of its budget for program costs. Further, the grantee accomplished only 16 percent of its planned housing activities. This illustrates the need to limit administrative expenses and promote efficiency by making grantees have equivalent program progress. Even a one percent shift in administrative costs could provide as much as \$34 million for use on direct program activities.

In addition, the monitoring of grantee compliance with the 20 percent limitations is not effective. The process of accounting for funds by individual grant years makes the Field Office task of determining compliance with the 20 percent limitation difficult. Often 4 or 5 years are needed for an activity to be completed, and this postpones determining the percentage spent on administrative costs.

Recommendations were for HUD to revise its definition of administrative costs and provide more detailed guidelines to make the 20 percent limitation more effective and to direct grantees to consolidate grant funds into one set of financial records.

During the draft report stage, the Office of Inspector General made comments on a Final Rule amending CDBG regulations concerning the 20 percent limitation and the definition of administrative costs. Refer to Chapter 5 for these comments.

#### *Status*

The audit report, "Survey of Planning, Management Development, and Administrative Costs in the Community Development Block Grant Program," was issued to the

Assistant Secretary for Community Planning and Development on August 4, 1983. A response to the report is due on October 3, 1983.

Subsequent to our Field work, new procedural requirements were developed and submitted as a Final Rule to improve the basis upon which the 20 percent limitation is determined. Also, a new Grantee Performance Report was introduced to enhance HUD's monitoring of the 20 percent limitation.

In addition, program officials and Office of Inspector General personnel have scheduled a meeting with Congressional staff members to refine the definition of administrative costs prior to publishing a proposed rule defining these costs. Subsequent to the meeting, more definitive target dates and milestones regarding our recommendations will be forthcoming from the Assistant Secretary for Community Planning and Development.

#### **Homeowners Charged for Work Funded by CDBG Program**

##### *Problem*

The City of Kansas City, Missouri, ignored HUD directives by paying \$890,000 for sidewalks out of Community Development Block Grant (CDBG) funds and assessing property owners for the same work.

##### *Discussion*

CDBG regulations prohibit grantees from charging homeowners special assessments on their properties when public improvements are paid for with block grant funds. Any funds obtained from such assessments are considered program income and must be returned to the program.

Prior to March 1978, the City of Kansas City, Missouri, properly charged

assessments for sidewalks that were installed along with curb and gutter improvements. After new rules were published which prohibited this practice, the City asked HUD if it were permissible to continue this practice. The Deputy Assistant Secretary for Community Planning and Development replied by memorandum that it was not permissible unless the projects were funded before March 1, 1978. Despite this directive, the City continued to assess homeowners after March 1, 1978, for sidewalk improvements that were paid for with CDBG funds. \$890,000 were questioned as amounts received that should be repaid to HUD.

Recommendations to the Kansas City Office were for the City to reimburse the CDBG program and to discontinue such assessments for property improvements.

#### *Status*

The audit report on the CDBG Program, Kansas City, Missouri, was issued to the Manager of the Kansas City Office on May 13, 1983. On August 16, 1983, we met with the

Kansas City Office Manager to discuss the finding; however, actions necessary to close the finding were not resolved. We have been unable to resolve the finding with the Kansas City Regional Administrator-Regional Housing Commissioner. The City has contended and the HUD Office has agreed that the City was using funds approved prior to March 1, 1978, but transferred in the budget to the improvements project after that date. This contention is based on their interpretation that a budget amendment can only take place if it requires HUD approval. The City's transferring of funds between accounts did not require HUD approval and therefore was not an amendment. We believe the Deputy Assistant Secretary's memo was very explicit that CDBG funds should not be used for assessment type purposes.

We are in the process of preparing the finding for referral to the Field Audits Review Group in Headquarters. The group is responsible for advising the Under Secretary in resolving issues that cannot be cleared by Field Offices within 6 months.

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## **Single Family Insured Programs**

HUD's best known program is FHA mortgage insurance for single family homes. During the first quarter, HUD insured 52,139 of these type loans valued at \$2.58 billion. This program area also includes insurance of home improvement loans and loans for mobile home purchases.

### **Problems in Accepting Veterans Administration Appraisals**

#### *Problem*

Property appraisals done by the Veterans Administration (VA) and submitted to HUD do not always identify major repairs that are needed. HUD's policy of accepting

VA appraisals exposes the Department to greater risks of default and invites abuse.

#### *Discussion*

Single family properties may be appraised by either HUD or the VA for their respective guarantee programs. However, because of differences in the VA programs, appraisals sometimes do not satisfy HUD requirements. The VA appraises properties from the viewpoint of its own requirements to establish the value of the properties. Although reporting physical conditions that need repair is sometimes done, it

does not receive the same emphasis that would be given by HUD.

HUD's policy is to accept VA appraisals even when HUD staff are aware of conditions that would not be permitted to go uncorrected if HUD had done the appraisal. In many cases, these adverse conditions are violations of HUD's minimum property standards, which could affect the health and safety of the occupants. Further, if buyers are unwilling or unable to correct these conditions after purchasing the property, HUD's risks, as the mortgage insurer, would be greatly increased. This is because owners are likely to either default on their mortgage or hold HUD responsible for correcting the adverse conditions. In the past, under similar circumstances, HUD was required to undertake a repair program under Section 518 of the National Housing Act, which cost the Department over \$23 million to pay for repairs it failed to find during appraisals.

Twenty-four of 31 VA-appraised properties inspected in our review contained at least one deficiency that could seriously affect the health and safety of the occupants. Some properties had as many as 10 major deficiencies. Eleven properties had hazardous electrical conditions which could result in fire.

In addition, some real estate brokers and mortgage companies know of HUD's policy to accept VA appraisals without question, and use this to circumvent HUD appraisal standards. In these circumstances, VA rather than HUD appraisals are obtained to qualify property for HUD mortgage insurance. The current policy on the acceptance of VA appraisals exposes HUD to excessive underwriting risks.

Recommendations were for HUD to meet with VA and negotiate a solu-

tion whereby the difference in the quality of appraisals is eliminated or reduced.

#### Status

The final audit report, "Analysis of Problems Stemming from HUD's Acceptance of Certificates of Reasonable Value-Evaluation of HUD's Procedures for Selecting and Monitoring Fee Appraisers and Fee Credit Examiners," was issued to the Assistant Secretary for Housing-Federal Housing Commissioner on April 26, 1983. The Assistant Secretary agreed with the report and the findings were closed on August 17, 1983. As part of the Assistant Secretary's response to the report, joint training sessions were proposed with both HUD and VA appraisers.

A copy of the draft audit report was submitted to the Veterans Administration on February 10, 1983. The Veterans Administration's response dated March 21, 1983, took issue with the problems discussed in the report.

Our office has brought this matter to the attention of the Inspector General of the Veterans Administration.

#### Lender Makes Improper Home Improvement Loans

##### Problem

The Douglass State Bank, Kansas City, Kansas, improperly administered its Title I loan program resulting in the misuse of loan proceeds and submission of questionable claims to HUD.

##### Discussion

Under the Title I Property Improvement Loan Program, HUD insures lenders for 90 percent of the loss on loans made to borrowers for repairs

and improvements. At the end of April 1983, the Douglass State Bank (lender) had 395 Title I loans valued at \$2,527,689.

The lender made improper Title I insured loans, knowing the proceeds were not used for repairs or improvements. The lender gave the loan proceeds to borrowers in cash. The borrowers paid on other loans held by the lender, returned cash to the lender for unknown reasons or gave money to third parties.

Due care was not exercised by the lender as it processed and approved Title I loans based upon incomplete and inaccurate loan applications and credit reports. Also, in one case the lender approved and issued two loans on the same property.

The unacceptable Title I lending practices of the Douglass State Bank increased its percentage of claims to 21 percent of its loans, up from its historical 3.5 percent rate. At November 1982, the lender had over \$1.2 million in delinquent loans. During the two-year period reviewed, HUD paid over \$110,000 in insurance claims.

Recommendations to the Assistant Secretary for Housing-Federal Housing Commissioner were that the lender's contract of insurance with HUD be cancelled and that insurance on existing loans be terminated if possible. Also, the validity of all future claims on loans originated or submitted by the lender should be reviewed.

#### *Status*

As a result of the audit report on the Douglass State Bank, issued on September 16, 1983, to the Assistant Secretary for Housing-Federal Housing Commissioner, the lender's contract to originate Title I loans was cancelled. A response to the audit report is due on November 15, 1983.

The Douglass State Bank has been closed and reorganized with new officers. The Federal Deposit Insurance Corporation has taken over certain assets and is responsible for certain liabilities as a result of the Douglass State Bank's closing. Officials of the Douglass State Bank have been investigated by the FBI. On October 12, a Federal Grand Jury in Topeka, Kansas, indicted seven individuals, including the former Bank president, for making false statements to obtain Federal home improvement loans.

#### **Additional Indictments and Convictions in the Title I Program**

##### *Problem*

In our last Semiannual Report, we advised that a Title I Lender, Sherwood and Roberts, Inc., had been indicted and subsequently pled guilty to a 20-count indictment charging the company in a scheme to defraud HUD from 1978 until 1981. The scheme involved the Title I Mobile Home Loan program. At that time, 32 mobile home dealers, connected to the lender in this case, were still under investigation in four states, and nine dealers/individuals had entered guilty pleas.

##### *Discussion*

The investigation of the mobile home dealers has resulted in several additional indictments and convictions in the case. In addition to the dealers, five Sherwood and Roberts employees have been indicted. Three have been convicted or have pled guilty; two are scheduled for trial in 1984. On the following page is a table listing the results of this investigation to date:

Indictments	Washington	Oregon	Idaho	Nevada	Total
Dealers/ Companies	4	1	6	1	12
Individuals	9	6	14	11	40
Total	13	7	20	12	52
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Convictions	8	7	5	5	25
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Indictments Pending Disposition	5	0	15	7	27
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Fines	\$143,500	51,000	57,300	27,500	279,300
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Probation	7 yrs	26 years	—	10 years	43 yrs
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Jail	1 yr	—	—	12-½ yrs	13-½ yrs

### Mortgagee Violations Result in Sanctions

#### Problem

Mortgagees (lenders) have failed to comply with HUD regulations concerning net worth requirements and mortgage origination, closing, and servicing practices.

#### Discussion

The Mortgagee Review Board was established in September 1975 to strengthen HUD's monitoring and control of mortgagees' performance. Findings in audit reports are directed to the Board which has the authority to take sanctions against mortgagees up to and including the withdrawal of HUD-approved status.

During this reporting period, sanctions were imposed against five mortgagees referred to the Mortgagee Review Board by the Office of Inspector General.

The president of the Cosmopolitan Credit and Investment Corporation,

Shreveport, Louisiana, failed to remit proceeds of Government National Mortgage Association (GNMA) mortgage pay-offs to holders of GNMA securities and withdrew \$375,000 from the GNMA tax and insurance escrow fund for personal and company use.

March Mortgage Company, Cleveland, Ohio, instructed applicants to sign loan documents in blank, accepted insufficient downpayments, and charged mortgagors interest before proceeds were deposited.

Reliance Mortgage Corporation, Englewood, Colorado, failed to maintain financial worth requirements and fund escrow accounts.

Reliance Equities, Incorporated, Englewood, Colorado, used an auditing firm that failed to disclose noncompliance with HUD requirements, and failed to maintain required financial worth.

Westland Mortgage Service Company, Sacramento, California, made false certifications of escrow collections on six multifamily projects. Officers of the lender were also partners in four of the multifamily projects.

*Status*

Of the five lenders that were referred to the Mortgagee Review Board by the Office of Inspector General, HUD-FHA approval was perman-

ently withdrawn from March Mortgage Company and Reliance Mortgage Corporation; approval was temporarily withdrawn from Cosmopolitan Credit and Investment Corporation pending further review. The Board also entered into settlement agreements with Reliance Equities, Incorporated, and Westland Mortgage Service Company. The President of Cosmopolitan Credit and Investment Corporation was suspended from doing business with HUD.

## Chapter 2

### Investigation Activities

The following is a summary of investigative activities during the period April 1, 1983, to September 30, 1983. These include criminal matters

investigated which resulted in prosecutions and convictions as well as investigations of violations of departmental regulations and policies.

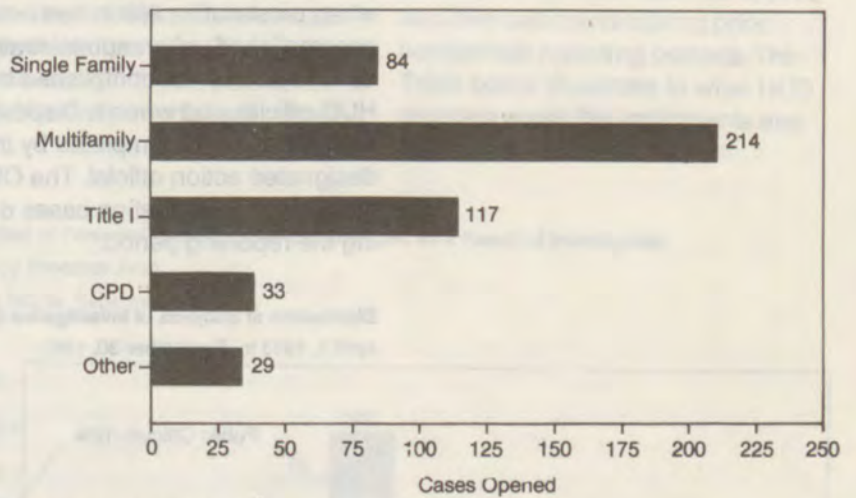
### Investigation Cases Opened

We opened 790 new investigation cases involving HUD personnel and/or persons or firms doing business with HUD. The majority of case

openings are False Statement cases (477). The Table below is a breakdown of these cases.

#### New Investigation Cases Opened Concerning False Statements by Program Area

April 1, 1983 to September 30, 1983



The remaining 313 case openings are in categories displayed in the following table.

#### New Investigation Cases Opened by Other Categories of Investigation

April 1, 1983 to September 30, 1983





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## Pending Cases

A pending case refers to the status of an investigation during that period between the opening of the case and dissemination of the investigation report(s) to a HUD official for action. Investigations in this category include those in which the investigation has not been completed by the OIG, the FBI or another agency, or in

which a completed investigation is pending with a prosecutive official. At September 30, 1983, we had 1,535 investigation cases either in process or awaiting investigation. Of these cases, 589 were FBI/other cases, 677 were cases of the OIG, and 269 were OIG completed cases pending with the U.S. Attorney.

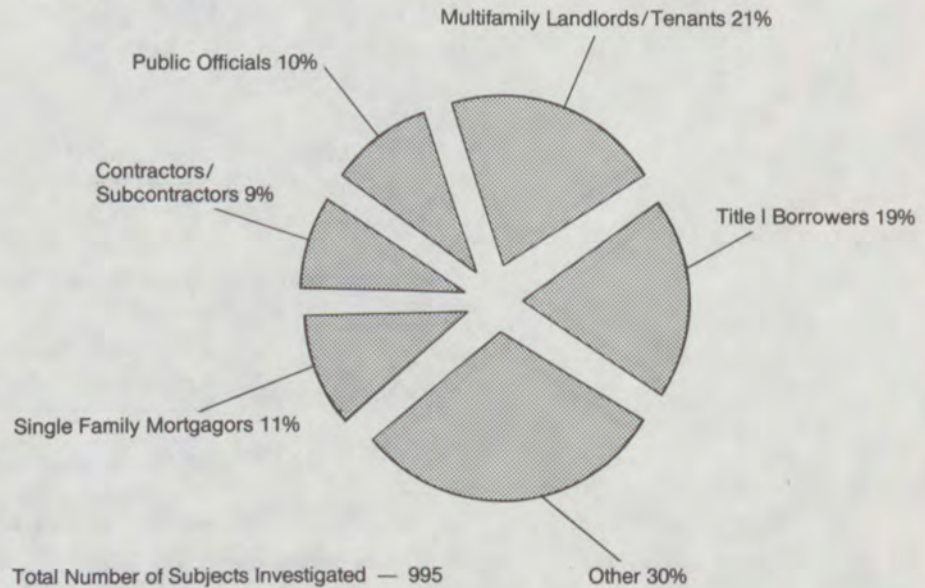
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## Closed Cases

An investigation case may be closed when prosecutive action has been accomplished, when administrative action has been accomplished by a HUD official, and when a Disposition Report has been completed by the designated action official. The OIG closed 746 investigation cases during the reporting period.

The 746 cases closed included 995 individuals who were the subjects of the investigations. The graph below represents a breakdown of the subjects:

**Distribution of Subjects of Investigation by Category**  
April 1, 1983 to September 30, 1983



The "Other" group includes a wide diversity of subjects such as builders, architects, and Area Man-

agement Brokers. Each of these profile types comprises 3 percent or less of the total.

## Investigation Cases Referred for Prosecution

Although the FBI is not a prosecutive authority, referrals to it may result in the presentation of a case for prosecutive consideration. The OIG referred 143 investigation cases for prosecutive consideration, including 2 cases relating to HUD employees, as shown in the table in the next column.

Referred by OIG to:	No. of Cases
FBI (Prima Facie-OIG Investigation)	7
FBI (No OIG Investigation) Department of Justice	20
<b>Total</b>	<b>143</b>

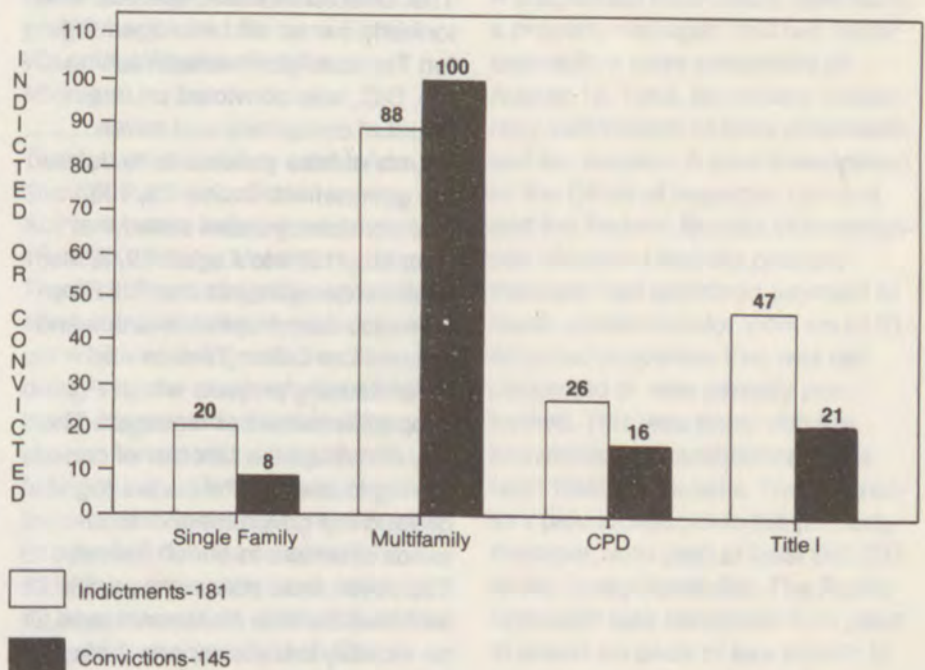
## Presecutions and Convictions

Investigation cases resulted in 181 indictments and 145 convictions of employees and persons/firms having business with the Department. Some of the indictments and convictions

were on cases referred to prosecutive authorities during prior semiannual reporting periods. The Table below illustrates in what HUD program areas the indictments and convictions occurred.

**Distribution of Persons/Firms Indicted or Convicted as a Result of Investigation Activity by Program Area**

April 1, 1983 to September 30, 1983



The 145 persons/firms convicted received a total of 111 years imprisonment, 442 years probation, suspended sentences of 135 years and fines amounting to \$197,800. In addition, monetary recoveries to HUD and others from investigations amounted to \$1,406,236.

In deciding whether or not to accept a case for action, prosecutive authority must consider a number of

factors. Elements of proof, significance of criminal and other acts, jury issues appeal, and current workload in the prosecutive authority are examples of the many factors which are taken into consideration before a case is accepted. Moreover, there are criminal cases in which the prosecuting authorities decide not to seek an indictment, but instead grant immunity in order to obtain testimony in the same or another criminal case.

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## Description of Selected Prosecutive Actions

Below is a brief description of some of the indictments and/or convictions which occurred during the reporting period. Some of these resulted from investigation cases referred to prosecutive authorities prior to April 1, 1983.

### • False Statements

The Director of P. I. Properties, who formerly owned and managed Clifton Terrace Apartments, Washington, D.C., was convicted on one count of conspiracy and seven counts of false statements to defraud the government on July 29, 1983. The conspiracy count stated that from May 1974 to August 1978, the Director conspired to use P. I. Properties to misappropriate monies and assets from Clifton Terrace and other housing projects which P. I. Properties owned or managed. The jury convicted the Director of conspiring to use P. I. Properties to defraud the government of thousands of dollars to enrich herself. The seven false statement counts included six false statements to HUD on monthly income reports during 1976 and 1977, and one false statement in which the Director knowingly represented to HUD that a payment of \$1,145 in Clifton Terrace funds for personal legal expenses was due to an administrative staff error. Four co-defendants previously

entered a guilty plea in the case. One was sentenced to 3 years probation; one was sentenced to 3 years probation and fined \$5,000; and sentencing is pending against two others. (United States v. Mary Treadwell, et al, U.S. District Court for the District of Columbia.)

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The former President and former Controller of a HUD-insured hospital were sentenced on September 16, 1983, for submission of false statements/information, conspiracy, and aiding in the submission of false statements. The hospital received a HUD-insured loan of \$12.4 million for renovation and purchase of new equipment. The individuals purchased equipment from companies under their control at inflated prices. They also filed false cost reports with the Medicare Program administered by the Department of Health and Human Services and made false oaths in bankruptcy proceedings. The former President was sentenced on one count to 5 years in prison, reduced to probation provided he makes restitution of \$686,349. On four other counts, he was sentenced to four consecutive 5-year prison terms. On four additional counts, he was sentenced to four 5-year prison terms to run concurrently. The former Controller was sentenced to 10 years in prison and fined \$10,000. The investigation was a joint effort by the FBI and HUD auditors. (United

States v. Edgar Stella Perez and Guillermo A. Alemany Rivera, District of Puerto Rico.)

A real estate investor was sentenced on May 20, 1983, for submitting false statements to HUD in connection with a scheme to create fraudulent purchase offers. He established three firms to handle the real estate transactions. The investor had employees of the firms file over 40 registered business names with the local county. He also caused the employees to submit multiple bids on HUD-acquired properties under assumed names to conceal his interest as an investor. When offers submitted by the employees were the three highest bids, the investor would cause the highest offers to be withdrawn in order to obtain the properties at the lowest price. He was sentenced to 2 years in prison and fined \$20,000. He has also been debarred from participation in HUD programs. (United States v. Gerald Waechter, Eastern District of Michigan.)

Two tenants receiving assistance through the Alaska State Housing Authority were indicted on August 16, 1983, on false statement charges. The first tenant allegedly reported a son (who is deceased) as a dependent who was living with her. By doing this she received about \$4,800 in excess rental assistance. The second tenant was charged with failing to report both employment income and Social Security benefits of over \$13,000. He received about \$2,600 in rental assistance to which he was not entitled. (United States v. Brenda Jones and Cyril H. Reape, District of Alaska.)

A tenant was sentenced on July 20, 1983, for submitting false statements to HUD in order to obtain excess rental assistance totaling \$17,320. The tenant falsified his application and recertification for housing

assistance by not reporting his true income. He was sentenced to 3 months in prison, placed on probation for 2 years, and required to make partial restitution at the rate of \$25 per month during his probationary period. (United States v. Michael Newago, District of Minnesota.)

A tenant was sentenced on May 25, 1983, for submitting false statements to HUD. The tenant failed to report the occupancy of her husband in the assisted unit for a 4-year period, resulting in the payment of \$8,385 in ineligible rental assistance. She was sentenced to 4 years probation and ordered to make restitution of the total amount of ineligible assistance. (United States v. Lanette Carr, Eastern District of Pennsylvania.)

**• Bribery, Conspiracy, and False Statements**

A suspended HUD Realty Specialist, a property manager, and two repair contractors were sentenced on August 12, 1983, for bribery, conspiracy, submission of false statements, and tax evasion. A joint investigation by the Office of Inspector General and the Federal Bureau of Investigation disclosed that the property manager had approved payment to repair contractors for work on HUD-acquired properties that was not performed or was partially performed. This was done with the knowledge and assistance of the HUD Realty Specialist. The contractors paid kickbacks to the property manager, who paid at least \$65,000 to the Realty Specialist. The Realty Specialist was sentenced to 5 years in prison on each of four counts to run concurrently and was fined \$20,000. The property manager was sentenced to 4 years in prison and was fined \$15,000. The two contractors were placed on 5 years probation, and ordered to perform 20 hours of community service each week of their probation. They have

also been suspended from participation in HUD programs. Four other contractors have entered guilty pleas in the case and are awaiting sentencing. (United States v. Rodimiro Herrera, Guiseppi Franchi, John Leoni, and Carl Snyder, et al, District of New Jersey.)

• **False Statements and Forgery**

A mortgage company branch manager who was also a realtor was sentenced on April 18, 1983, for making false statements to HUD and for forgery. The realtor had prospective homebuyers fill out loan application and verification forms. When buyers changed their minds about purchasing property, the realtor forged their signatures on the forms. The HUD-insured mortgages were eventually foreclosed in the names of the prospective buyers for properties they never purchased. The realtor was sentenced to 5 years probation, required to make full restitution to HUD of \$94,100, which was the Department's financial loss after resale of the properties, and to pay whatever damages were incurred by the buyers. He was also suspended from participation in HUD programs and he has been notified that consideration has been given to debarring him for four years. (United States v. Donald J. French, Northern District of California.)

• **Embezzlement**

A former housing authority employee was sentenced on June 6, 1983, for embezzling authority funds of over \$6,000. The former employee fraudulently issued three checks on housing authority accounts, payable to herself. After she was indicted and pled guilty in May 1983, and prior to sentencing, she returned \$5,480 to HUD through the U.S. Attorney's Office. She was sentenced to one year in prison. (United States v. Marcia Lea Schmidt, District of South Dakota.)

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A former Indian housing authority bookkeeper was sentenced on July 26, 1983, for embezzling housing authority funds. She altered entries into the authority's cash receipts and disbursements journal, and stole nearly \$6,640 for her own use. She was placed on probation for 3 years and has been suspended from participation in HUD programs. She has repaid the Housing Authority \$6,640. (United States v. Jana Lee Bailey, District of Utah.)

• **Conspiracy and Equity Skimming**

The former President and Vice President of a real estate investment firm were sentenced on August 23, 1983, and August 11, 1983, respectively, for conspiracy and single family equity skimming. The two men assumed 24 FHA-insured home mortgages during a nine-month period in 1981. Once the loans were assumed, the houses were rented and money collected, but only a few mortgage payments were made. This led to foreclosure and eventual conveyance of the properties to HUD. Twenty-one of the properties are being sold at an average loss of \$12,000 per house. The former President was sentenced to 18 months in prison and 3 years probation; the former Vice President was sentenced to 3 years probation and 120 days in a community treatment center. The defendants have been suspended from participation in HUD programs. (United States v. Allen J. Romyn and Nathan M. Millet, District of Utah.)

• **Mail Fraud**

A former tenant who was receiving rental assistance pled guilty on July 5, 1983, to one count of mail fraud for submitting false statements which caused the mailing of ineligible rent/public assistance monies of HUD and the Department of Health and Human Services (HHS).

By failing to fully disclose her income, the tenant caused HUD and HHS to mail rent subsidy and other public aid monies to her or others on her behalf. Improper payments totaled \$8,736 in HUD funds and \$12,295 in HHS monies. The tenant was sentenced to 5 years probation, 800 hours of community service work, and ordered to reimburse the government \$21,031. (United States v. Annie J. Canady, Eastern District of Wisconsin.)

A former HUD employee was sentenced on September 2, 1983, to a minimum of three months imprisonment and four years probation for mail fraud. The former employee used his official HUD position as a single family loan servicer to defraud three families of their residences by coercing them into transferring the properties to third parties. The employee threatened foreclosure of the HUD-held mortgages if they refused to sign warranty deeds. The employee pled no contest in court to mail fraud. (United States v. Michael Anthony Hughes, Western District of Missouri.)

#### • Title I Fraud

A Title I borrower was indicted on September 14, 1983, for submission of false statements. The borrower was charged with submitting false income, employment and liability information to two lending institutions in order to obtain 10 Title I home improvement loans totaling \$19,890. He subsequently defaulted on the 10 loans, resulting in a loss of \$17,276 to HUD. (United States v. David Y. Ding, Western District of Michigan.)

An individual was sentenced on June 24, 1983, for submission of false statements in connection with the Title I Property Improvement program in Puerto Rico. He arranged 89 fraudulent loans worth approximately \$800,000, and received approximately 5 percent of the loan proceeds for his services (approximately \$40,000). He not only prepared the false loan applications, but also fabricated contractor estimates. Claims have been submitted on some of the loans, and many others are in default. He was placed on probation for 3 years and required to perform community service work for 16 hours a month during the first year of probation. (United States v. Rafael Padilla Borges, District of Puerto Rico.)

Two former mortgage company officials and a former owner and former sales manager of a mobile home dealership were indicted on July 25, 1983, on charges of conspiracy and submitting false statements to HUD. The indictment states that the dealer paid sums of money to the two mortgage company officials to induce favorable treatment on the loans. False statements consisted of: (1) contracts containing inflated cash down payments and accessories; (2) placement certificates falsely reporting that mobile homes were installed in FHA-accepted mobile home parks; and (3) false invoices. (United States v. Henry M. Zorin, Ernest W. Engelkes, Budd Wayne Beers and Anthony C. Berger, Western District of Washington.)

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## Administrative Actions Against HUD Employees

In its report on the Fiscal Year 1981 Supplemental Appropriations and Rescission Bill, the Senate Committee on Appropriations indicated that if fraud within government is to be contained and curtailed, then appropriate administrative action must be taken in cases where employees have been found to have acted improperly.

Examples of administrative actions taken against HUD employees during the semiannual reporting period, in connection with audits and investigations, are shown below.

- Two employees were suspended from duty for 30 days as a result of an OIG investigation that confirmed processing irregularities on a HUD-insured multifamily project. One of the suspended employees was also downgraded and reassigned to another position. A third employee retired after adverse action was proposed. The Office Manager was subsequently reassigned to another office.
- A Realty Specialist was suspended from duty for three days based upon an OIG investigation that confirmed misuse of franked envelopes.
- A Construction Analyst was terminated for falsifying a government document, failing to file a timely accident report involving a GSA vehicle, misusing a GSA vehicle, and refusing to cooperate in an OIG investigation.
- A HUD Realty Specialist was removed after the employee was convicted in Federal District Court of conspiracy, bribery and tax evasion.
- A Clerk-Typist was suspended for five days and required to reimburse \$643 to HUD for using the Federal Telecommunications System for personal phone calls.
- An Equal Opportunity Specialist was suspended for 45 days for submitting false travel vouchers and using the Federal Telecommunications System for personal phone calls.
- A Director of Housing was suspended for three days without pay and required to reimburse \$859 to HUD for using clerical staff for typing and copying personal material on government time.
- A Supervisory Realty Specialist was terminated from Federal service for repeated falsification of travel vouchers and for using public office for private and personal gain.
- A Chief, Single Family Mortgage Credit Branch, received a letter of caution for giving the appearance of providing preferential treatment to HUD clients. HUD clients who were invited to a son's wedding and reception, gave substantial gifts in cash and one client hired the son shortly after the wedding.
- A Regional Administrator was admonished and directed to pay HUD \$6,815 after OIG investigation and audit revealed he made improper travel and per diem claims and had misused the Federal Telecommunications System. The employee, who agreed to repay the funds, was found to have traveled at his own convenience to his home at government expense and to have made meal claims while at his home.
- An Assistant Secretary resigned from his position after an OIG investigation disclosed that he misused government resources by instructing his staff to help him in a

private venture. The official used his staff to proofread and retype

portions of a 170-page manuscript of a book authored by him.

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## New Initiatives

In our last Semiannual Report, we advised that the OIG had obtained on-line access to the FBI National Crime Information Center (NCIC) and the National Law Enforcement Telecommunications System (NLETS). The OIG began accessing the NCIC/NLETS system in February 1983.

In the last six months, the OIG has utilized the NCIC/NLETS system and conducted criminal record checks on 427 individuals. Of these, 93 or 22 percent, had prior criminal history records. This system has reduced our Special Agent personnel and travel costs and increased prosecutive interest in our cases when we can present the prior record of our subjects. In one

noteworthy instance, our on-line access has benefited the criminal justice system as described below:

- In August 1983, an OIG Special Agent was investigating a matter involving possible fraudulent payments of rental subsidy and performed a check of the NCIC. The NCIC reported that the individual had been charged with homicide, drug trafficking and check forgery with an outstanding fugitive warrant in the State of Maryland. The OIG Special Agent subsequently provided information which assisted the U.S. Secret Service and Washington, D.C. Metropolitan Police in arresting the fugitive on the outstanding Maryland charges.



## Chapter 3

### Fraud Control Activities

The HUD Secretary and Principal Staff continue to maintain a high interest in obtaining the involvement of all departmental managers

and employees in the fight against fraud and abuse.

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### Committee on Fraud, Waste, and Mismanagement

The Committee on Fraud, Waste, and Mismanagement coordinates the Department's fraud control efforts. Through various Committee assignments, recommendations are made to the Secretary to improve program operations by minimizing opportunities for fraud and abuse. The Committee representatives include HUD officials designated by Assistant Secretaries or other Principal Staff. The Committee is chaired by the Inspector General. During the past six months, several significant activities were initiated or completed as a result of studies and recommendations.

#### 1. Fraud Reform Legislation

We reported in previous Semianual Reports that the Committee developed legislative recommendations to strengthen HUD's ability to identify fraud, waste, and mismanagement in various programs.

These recommendations were included in the Department's FY 1983 and FY 1984 legislative proposals. The Congress did not vote on any HUD authorization bills for FY 1983. For FY 1984, neither the House nor the Senate adopted these proposals in the authorization bills introduced by the respective oversight committees. At September 30, 1983, the Senate had not voted on its version of the authorization bill. The House Subcommittee on Banking and Community Development offered to hold hearings on the subject later this year. Hearings are being planned for November 1983.

The proposed legislation would eliminate legal obstacles to detecting program participant fraud. Generally, the legislation proposes requiring program participants to provide Social Security numbers or employer identification numbers, as well as to sign consent forms allowing their eligibility for HUD programs to be verified with other government agencies. The legislation also proposes authorizing State unemployment agencies to release certain income information to HUD. A final proposal is to deny program benefits to tenants who misrepresent income and other eligibility factors, and obtain reimbursement for overpaid assistance.

#### 2. Adequacy of Departmental Bonding Requirements

The Committee examined the Department's bonding procedures and practices to determine whether they protected the Department from loss or exposure in cases of general contractor default. HUD Field Office experiences as well as those of other agencies were evaluated by the Committee in carrying out this assignment.

The Committee report to the Secretary contained 10 recommendations, including a change from 50 percent to 100 percent bonding coverage, language changes to construction documents, and guidance and clarification to the HUD Field staff in bond enforcement. The Secretary approved the report recommendations on July 8, 1983, and forwarded them to the Assistant Secretary for Housing-Federal Housing Commissioner for implementation.

### **3. Review and Analysis of HUD Administrative Sanctions**

This study pointed out that much confusion exists throughout HUD in identifying when sanctions are appropriate and how they can be invoked. A need exists for information sharing within HUD and between other interested parties dealing with HUD concerning individuals or parties that have been sanctioned. Also, program changes and historical experiences indicate a need for new or additional sanctions.

On May 12, 1983, the Secretary approved the report recommendations to improve guidance through an updated Sanctions Handbook and increase employee awareness concerning sanctions through policy statements and appropriate training. The Secretary requested that the report recommendations for the development of new sanctions be deferred pending completion of the Sanctions Handbook and staff training.

To date, the revised handbook and staff training efforts have been delayed pending revision to the Department's Administrative Sanctions regulations which are undergoing major modification. The proposed regulations will be published in the Federal Register for comment in October 1983 and the implementation of the Committee recommendations will follow shortly thereafter.

### **4. Quality Control System for Tenant Eligibility**

This project, initiated in May 1983, is researching and formulating policy recommendations for a Departmental Quality Control System for Tenant Eligibility. The purpose of the project is to ensure that: (1) ineligible persons do not

receive program benefits; (2) eligible persons receive the proper amount of assistance; and (3) eligible persons are not denied benefits.

The Committee gathered information on quality control efforts taken by other Federal, State, local, and private agencies. Specifically, the Committee met with representatives from the Departments of Agriculture (USDA) and Health and Human Services (HHS), the State of Maryland Welfare Agency, and the Baltimore Office of HUD. The USDA and HHS both have quality control systems in place to monitor their respective programs, Food Stamps and Aid to Families With Dependent Children. At the State of Maryland Welfare Agency, the Department of Human Resources uses an automated income maintenance system to monitor its welfare programs. HUD employees at the Baltimore Office provided details on current operating procedures and suggestions for improvements in tenant eligibility procedures. Committee members also interviewed HUD Headquarters staff members.

The Committee explored the deficiencies in HUD's present monitoring systems, the improvements needed, and the elements that constitute an effective quality control system. Finally, the Committee examined the subject of computer matching and how it might assist HUD in an overall quality control system. A report will be prepared and submitted to the Secretary during October 1983.

### **5. Follow-Up - Accountability Monitoring**

In April 1981, Secretary Pierce approved Committee recommendations to revise the Department's approach to monitoring HUD's var-

ious program participants. A concept of "Accountability Monitoring" that targets reviews to high risk participants and high exposure activities was adopted. Although some program offices made changes to implement this new concept, others have not.

A review is currently underway to identify what has been done as well as the barriers to full implementation. Also, as part of Field interviews, the Committee will look for local office initiatives to improve monitoring that can be passed along to policymaking staff. Findings should be reported by the end of the calendar year.

#### **6. Internal Control Handbook**

As discussed in our prior Semiannual Report, the issuance of OMB Circular No. A-123, Internal Control Systems, and passage of the Federal Managers' Financial Integrity Act imposed significant internal control evaluation and reporting

requirements on Federal agencies. In order to address these and other internal control issues in an integrated manner, the Committee undertook a project to prepare a comprehensive Departmental handbook on HUD's internal control policies and procedures.

On April 29, 1983, the Inspector General, as Committee Chairman, transmitted the draft handbook to the Assistant Secretary for Administration, who is the Department's designated Senior Official for implementation of Circular A-123. HUD managers responsible for overseeing their offices' compliance with the Circular also received copies as guidance in carrying out their responsibilities. The Office of Administration originally planned to issue the handbook during FY 1983 as part of the Department's formal Issuances System. Issuance is being delayed pending the Secretary's first statement on internal controls to the President and Congress by December 31, 1983.

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## **Management Control Improvements**

### **1. Fraud Vulnerability Assessment System**

Under this system, Departmental managers focus on designing and implementing management controls at the inception of new or substantially revised programs or activities. In our view, this is the most effective point at which to do so because it emphasizes preventing potential abuse rather than detecting actual abuse. The system complements the implementation of OMB Circular No. A-123, Internal Control Systems (our cooperative efforts with HUD managers on Circular A-123 are discussed in Chapter 4), as well as the draft Model Prevention Plan prepared by

the Prevention Committee of the President's Council on Integrity and Efficiency (also see Chapter 4).

During this reporting period, two Fraud Vulnerability Assessments were completed by program managers. At September 30, 1983, four assessment reports were in draft, and another 28 assessments were under consideration or in progress.

The Fraud Vulnerability Assessment completed on the Financial Assistance Program of the Solar Energy and Energy Conservation Bank recognized potential vulnerabilities in such areas as State administration of the program, program monitoring, and applicant false certifications. The report con-

cluded that management controls established by statute and regulation provide appropriate safeguards for the prevention of fraud, waste, and mismanagement.

The Growing Equity Mortgage Program, also the subject of an assessment, was analyzed to determine whether any departures from other Federal Housing Administration single family mortgage insurance programs might require additional control techniques.

Given adequate staffing, existing controls were found to be an adequate deterrent to fraud, waste, and mismanagement.

The Committee on Fraud, Waste, and Mismanagement, which was instrumental in the establishment of the System, is currently conducting an evaluation of its effectiveness during the four years it has been operational, to identify problems and recommend needed improvements.

## Employee Awareness Program

Concerted ongoing efforts are being made to enhance employees' awareness of measures needed to curb fraud, waste, and mismanagement. In the interest of improving Departmental management, the following tasks and activities were accomplished recently:

- Three more Fraud Information Bulletins were issued during the past six months. The eleventh in the series of Bulletins is entitled "Travel." The Bulletin makes HUD employees aware of real and potential abuses and mismanagement in the area of travel. An important element in curbing travel abuse is employee awareness of the rules and regulations governing travel and the schemes and errors that result in travel mismanagement. In HUD, with an FY 1983 travel budget of nearly \$14 million, the Department must practice good travel management and use allocated funds in the most effective ways.

- The twelfth Fraud Information Bulletin concerns "Administrative Sanctions." It was issued to better inform HUD employees of the various measures that may be invoked by the Department to exclude or disqualify program participation to

those who mismanage HUD funds. When it is found that contractors or grantees are irresponsible and do not exhibit the appropriate business integrity, certain administrative sanctions may be applied by the Department, including suspension, debarment, and conditional or temporary denial of participation. Thus, the individual or firm is disqualified from participating in HUD programs for a designated period of time. The Bulletin cites case examples or irregularities that have resulted in various sanctions being applied. Effective sanctions also serve as a deterrent to the misuse of HUD's funds.

- The thirteenth Fraud Information Bulletin addresses "Subgrantees - Problems and Abuses." It illustrates significant problems that HUD grantees encounter when dealing with and monitoring subgrantees. As grantees are responsible for subgrantees' performance, it is important that the grantees and all other involved parties are aware of the common mistakes, schemes, and troubled areas. Grantees and subgrantees must always be aware of the possibilities of fraud and abuse due to poor management or deliberate violation of law. The Bulletin discusses fraud-related prob-

lems, conflicts of interest, abuses in contracting processes, and inadequate monitoring. In addition to the regular distribution of the Bulletin to HUD employees, the Department also plans to issue the Bulletin to Community Development Block Grant program grantees.

- Program and other high level officials have provided very positive feedback on the merits and value of our series of Fraud Information Bulletins. At the close of this fiscal year, we had several more Bulletins

under development, including "Time and Attendance/Leave Abuse," "Tenant Eligibility," "Ineligible Aliens," and "FHA-Owner Occupancy."

- In the interest of having an informed staff at all levels of the Department, we distributed the Digest of the previous Semiannual Report to the Congress to all HUD employees. It is intended to enhance employee awareness of and concern for Departmental issues.

## Other Initiatives

We presented workshops on fraud, waste, and mismanagement to various program participants and professional associations. These workshops concentrated on both detection and prevention techniques, the Department's Fraud Control Program, and highlights of certain projects carried out by the Committee on Fraud, Waste, and Mismanagement.

Workshop programs were held in June, July, and September 1983 at

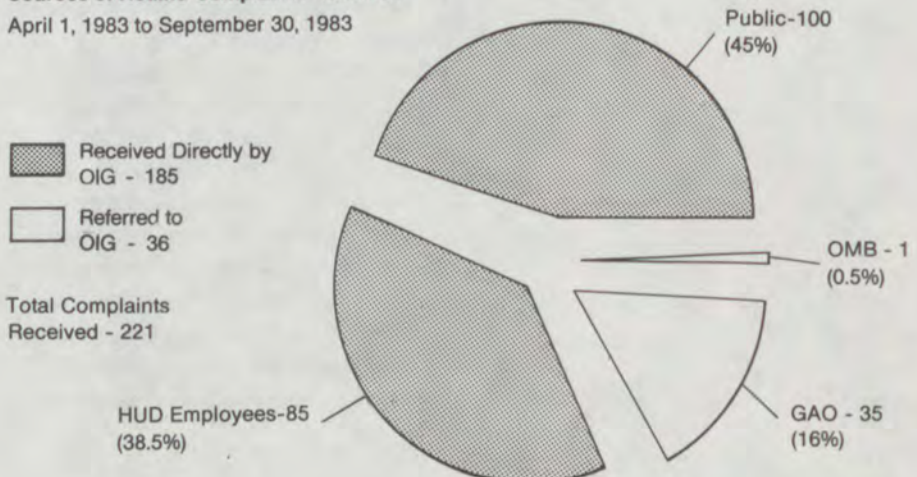
the National Association of Housing and Redevelopment Officials' conferences in Arkansas, Florida, and South Carolina. We also participated in the past six months in programs sponsored by the National Association of Welfare Fraud Investigators, the Institute of Internal Auditors, and the Public Housing Agency Directors Association. These outreach efforts are aimed primarily at aiding others in their efforts to detect and prevent fraud and abuse.

## Hotline Activities

HUD hotline complaints originate directly from HUD employees or the public. In addition, other complaints are referred to the OIG for action by the General Accounting Office and

the Office of Management and Budget. The following chart breaks down the origin of the 221 complaints received during this reporting period.

**Sources of Hotline Complaints Received**  
April 1, 1983 to September 30, 1983

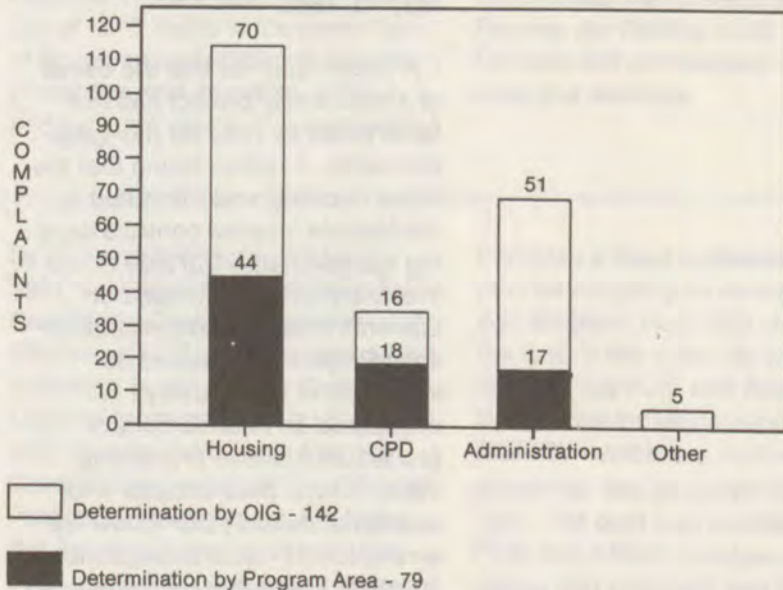


The chart below shows the program areas affected and the office

assigned to review and determine the validity of the complaints.

**Distribution of Hotline Complaints Received by Program Area**

April 1, 1983 to September 30, 1983



Those complaints found valid resulted in such actions as fines, prison sentences, recovery of funds, termination of assistance, and suspension and debarment from participation in HUD programs. The following synopses illustrate the range of hotline complaints substantiated during this reporting period.

- A complainant alleged improper use of HUD funds. The complaint was found valid in that unallowable indirect costs totalling \$459,954 were charged to the grantee's Community Development Block Grant program. The HUD Office requested the grantee to reimburse the funds.
- Allegations that a HUD employee falsified travel vouchers and work reports with respect to mileage and dates travelled in connection with mortgagee reviews were substantiated during an investigation. In

addition, investigation determined the employee misused his position for personal gain. The employee was removed from Federal service.

- A complainant alleged that a Housing Authority Director was mismanaging HUD funds. An investigation resulted in the Director being indicted for embezzlement and obtaining money under false pretenses. He pled Nolo Contendere, received a 5-year deferred sentence, and repaid HUD \$1,945.
- A complaint alleging that a Public Housing Agency (PHA) official diverted PHA funds for personal use was verified during an audit. The Executive Director temporarily diverted \$10,000 from the PHA general fund from July 1982 to March 1983. The PHA's internal controls over cash and investments were unsatisfactory. Numerous

corrective actions were recommended to prevent a recurrence of this problem. The Assistant U.S. Attorney declined prosecution. The Executive Director resigned on May 13, 1983.

- A caller reported that the owner of a multifamily project had not been billed by HUD for mortgage payments. A review found that the delay in billing was attributed to inadequate internal controls causing approximately \$27,000 in lost interest. A previous Inspector General/Office of Administration Joint Project Team found 30 instances of billing delays and developed an internal control procedure to aid in preventing these delays. (See Chapter 4 for additional details.) Our follow-up on the Joint Project at September 30, 1983, found that recommended control procedures have been established.

- A complainant alleged a prospective mortgagor submitted a false statement to obtain a HUD-insured mortgage. The individual purchased the house as an owner-occupant; however, shortly after closing the loan, he advertised the house for rent. Had the owner properly indicated he was an investor and not an owner-occupant, the amount of downpayment

required would have been approximately \$14,200 higher. Although the Assistant U.S. Attorney declined prosecution, he recommended HUD resolve the matter administratively including obtaining the proper downpayment from the owner.

- A complainant alleged that a tenant receiving rental assistance submitted false certifications of income to obtain excessive rental subsidy benefits. The tenant failed to report her total income for over 3 years causing a \$7,193 overpayment. The Assistant U.S. Attorney declined prosecution based on the tenant's agreement to make full restitution.

- An anonymous complainant alleged mismanagement in a HUD Field Office loan management branch. A subsequent audit found the office not complying with HUD procedures and guidelines. It was determined that this would lead to increased/excess HUD subsidy payments of over \$1 million. (See Chapter 1 for other details.)

### Cooperative Efforts

During the current semiannual reporting period, we participated in several special cooperative efforts with other Federal, State, and local agencies. These activities, as required by the Inspector General Act of 1978, relate to the promotion of economy and efficiency and the prevention and detection of fraud and program abuse. The cooperative

efforts, as described below, are in addition to our regular coordination with non-Federal auditors, other Offices of Inspector General and agencies, various Congressional Committees, Intergovernmental Audit Forums, the Federal Audit Executive Council, and professional organizations and societies.

### President's Council On Integrity and Efficiency

By an Executive Order in March 1981, the President established the President's Council on Integrity and Efficiency (PCIE). The Council, which is chaired by the Deputy Director, Office of Management and Budget, and includes the Deputy Attorney General, the Director of the Office of Personnel Management, the Executive Assistant Director of Investigations of the FBI, all statutory Inspectors General and other key officials, was established as an integral part of a broader plan to attack fraud, waste, and inefficiency in Federal programs.

#### 1. Prevention Committee

The PCIE established this standing Committee to develop and recommend policies and procedures for the Council to consider in fostering efforts to prevent fraud, waste, and mismanagement. The HUD Inspector General chairs the Committee. The Committee's objective is to increase awareness and promote cooperative efforts to implement and maintain sound prevention principles and techniques.

The Committee issued a survey report covering the activities of the Inspector General community. This survey included an action plan with three specific elements that were implemented as follows:

- Model Prevention Plan. The wide variance of prevention activities at the agencies included in the survey

indicated a need to develop a model plan for adopting an overall prevention program. HUD-OIG staff took the lead in this effort. By working with various PCIE and Assistant Secretaries for Management Group (ASMG) members, a draft set of guidelines was prepared in August 1983. The draft was provided to all PCIE and ASMG members for review and comment and then discussed at the joint PCIE/ASMG meeting in September. The general reaction to the plan and the concept was favorable. Additional steps will be taken in the near future to assure that agencies consider adopting a practical approach to focusing on prevention as a basic management responsibility.

The draft plan provides a flexible model for departments and agencies to consider. It presents the basic elements needed to assure the plan's effectiveness in five distinct but interrelated phases, i.e., planning, design, operations, evaluations, and awareness. During the next few months, we anticipate that many agencies will begin implementing various aspects of the plan.

- Review of Traditional Audit and Investigation Activities. The Committee's survey of the IG community concluded that the prevention aspects of traditional techniques are not emphasized or publicized sufficiently. The Department of Defense IG initiated a review of traditional



techniques to more fully document current practices that aid in preventing the recurrence of systemic problems and to develop suggested methods for improving the prevention-related impact of traditional techniques.

At the close of the reporting period, a draft report highlighting the results was presented to the Prevention Committee. The report contains 10 recommendations for consideration in upgrading traditional audit and investigation techniques as a means of preventing future program abuse.

Over the next few months, the Prevention Committee and the PCIE will be reacting to this draft report. It is likely that the various recommendations will serve to improve the abilities of both individual Offices of Inspector General and the PCIE to prevent fraud, waste and mismanagement through traditional means.

- Proactive Efforts. The third action plan item suggested in the Prevention Committee's survey report dealt with identifying and establishing methods to implement innovative techniques that potentially can lead to preventing the occurrence of fraud, waste and mismanagement. In addressing these issues, the Prevention Committee established a series of sub-groups to focus on specific issues.

During this reporting period, the sub-groups prepared, and recently submitted for Committee approval, project descriptions that outline the objectives, review methods, and time frames for studying the following proactive techniques:

- EDP Systems Review and Security. This study will analyze methods and approaches that Inspectors General might use to review newly proposed Electronic Data Processing (EDP) systems or systems redesigns. The proposed products

include guides that (1) delineate the responsibilities of the key factors in EDP planning, design, implementation and review processes; (2) describe how to document EDP systems; and (3) provide a checklist for focusing on internal control and security issues.

- Inspection Activities. Such activities refer to different types of review/assessment/evaluation methods that differ from traditional audit and investigation techniques. This study should produce: (1) a report describing inspection activities applicable to IG offices; (2) a compilation of best practices; and (3) procedural guidelines for various types of inspections.

- Legislative and Regulatory Review Procedures. This project intends to review IG activities that have a positive impact on the preparation of legislation and regulations governing programs and activities. The final report will include common elements and requirements and examples of successful techniques.

- Grants, Loans and Loan Guarantees. This study proposes to enhance the integrity of the approval process involving grants, loans and loan guarantees. Techniques available to identify potential problem grantees or borrowers prior to award/approval will be compiled from Federal, State and local government and private sector experience. In addition, a model pre-award process guide will be prepared and shared with the IG community.

- Front-End Eligibility Verification Systems. This study seeks to identify, or develop if necessary: (1) technical assistance materials that describe common eligibility factors critical to determining the proper level of benefits for needs based on Federal programs; (2) front-end computer applications and on-line integrated systems used to verify eligibility data;

and (3) best practices employed by Federal, State and local governments. The project will also address the issue of cost benefit analysis in using the front-end verification techniques. Another emerging issue to review under this project is the growing area of electronic billings and payments.

- Procurement and Contracts. Front-end and operational controls in the procurement process will be examined in this project. Early warning techniques that prevent improper awards or contract payments will be identified and assembled in a report describing the best practices. Model review processes will be presented for others to use where needed.
- Communication/Awareness. This project seeks to foster a program that enhances awareness activities in the IG community. The study should result in the development of a

series of effective methods, a model plan describing the various elements needed for an awareness program and recommendations for operating a clearinghouse to exchange information and ideas among all interested parties.

## 2. Computer Audit Committee

We took initial steps to improve our effectiveness in identifying fraud, waste and mismanagement through the use of microcomputers. Headquarters and Field Office auditors and investigators attended training courses in August and September 1983 developed by the PCIE's Computer Audit Committee. The OIG acquired 11 microcomputers with related equipment and software in September 1983. Starting in FY 1984, the OIG will use "electronic spreadsheet" and data base software to perform analytical functions needed in audits and investigations.

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## Intradepartmental Projects

### 1. OMB Circular A-123 and the FMFIA

The Assistant Secretary for Administration is responsible for HUD's implementation of OMB Circular No. A-123, Internal Control Systems, and the Federal Managers' Financial Integrity Act. The Office of Fraud Control and Management Operations within the Office of Inspector General (OIG) has provided ongoing support to the Office of Administration in performing its responsibilities through continual consultation and technical advice.

The OIG assisted HUD's Office of Budget in the development of a Field Office Vulnerability Assessment model and an evaluation of preliminary reviews which were conducted on highly vulnerable areas throughout the Department.

Following performance of 391 vulnerability assessments, agency managers are to perform preliminary reviews of more vulnerable areas to determine an appropriate course of action, including the possible scheduling of a detailed internal control review. We provided comments and met with the Office of Administration on the guidance which they prepared relative to both these processes. In addition, we participated with both the Offices of Housing and Administration in conducting a pilot test of the internal control review process. Based on this hands-on experience, we are able to recommend further refinements to the process.

Other efforts undertaken by the Office of Administration during this reporting period include: (1) extend-

ing the internal control evaluation process to the Field; (2) developing a tracking system; and (3) preparing a Secretarial abstract designating key roles and responsibilities under the system. In each case, the OIG provided input to the preparation of related correspondence, instructions, and other materials.

We also continued meetings with Office of Management and Budget and General Accounting Office (GAO) staffs regarding the Department's internal control activities, and coordinated regularly with the Office of Administration to review plans and progress.

Our Office of Audit is currently in the process of reviewing the adequacy of HUD's compliance with the requirements of the Circular and the Act. The results of the review will assist the Secretary in making his internal control statement of assurance by December 31, 1983. This review is a joint effort with the GAO. This is discussed in greater detail under Interagency Projects.

## **2. Office of Inspector General/ Office of Finance and Accounting Joint Review**

As reported in our last two Semi-annual Reports, we participated in a joint review of the internal controls of the accounting systems within HUD's Office of Finance and Accounting (OFA). The objectives of the project, which was completed in December 1982, were to establish a systematic approach to identify selected vulnerable accounting systems, document existing internal controls, and assess their effectiveness in preventing fraud, waste, abuse and mismanagement.

Summaries of eight internal control reviews completed as part of this project were included in our last Semiannual Report. During this

reporting period, corrective actions on four of the reviews were completed. Corrective actions are in process for three reviews. The latest completion date is scheduled for February 1984. Progress on corrective actions for the remaining review has been delayed. However, completion is planned by July 1984.

A summary of the actions completed for four of the reviews follows:

- Review of ADP Contracting in the Working Capital Fund. The Office of Procurement and Contracts (OPC) has issued instructions designed to prevent obligations for contracts which do not meet bona fide need criteria. Also, OPC completed a review of all pre-FY 1983 contracts and has identified contract modifications necessary to deobligate unliquidated obligations.
- Review of Contract Payments. OFA and OPC are exchanging relevant reports on contract payments. This will facilitate contract administration and expedite the deobligation of funds after contract close-out.
- Review of Working Capital Fund. The Office of Information Policies and Systems (OIPS) is providing ADP users with ADP cost/budget reports to provide management with information necessary to better control and conserve resources.
- Review of Initial Billings for Assigned Mortgages and Purchase Money Mortgages. OFA has developed operating procedures and has provided training to supervisors and staff on the automated billing system. These actions should enable the Department to substantially reduce billing delays and errors, and improve the government's cash flow.

The following describes actions still in process for three of the reviews:

- Review of Interest Payments for Insured Section 236 Projects, and Review of Section 235 Mortgage Subsidy Payments. OIPS has prepared a work plan for the redesign of the automated systems for processing Section 236 interest payments and Section 235 subsidy payments. Changes resulting from the redesign are expected to be fully operational by February 1984 and should reduce the chances for fraud or error in making these payments, while simultaneously reducing the workload for OFA and the mortgagees.
- Review of Urban Homesteading Program. To improve internal controls over Urban Homesteading funds, the Department has completed the transfer of fund controls from OFA's Mortgage Insurance Accounting and Service Group to the General and Program Accounting Group. Additional controls are detailed in changes to two handbooks which are currently in the Departmental clearance process.

Actions delayed are described as follows:

- Review of Controls over Advances of Funds to Public Housing Agencies. OFA has not yet submitted requirements for proposed modifications to its automated Low Rent Housing Accounting Systems. However, OFA estimates that the necessary modifications will be designed and implemented by July 1984.

At the completion of the OIG/OFA Joint Project, OFA hired a contractor to continue examining the adequacy of internal controls for their accounting systems. Recently, we noted that a large backlog had developed in HUD's payment of single family mortgage insurance claims. We calculated that the payment delays could cost HUD approximately \$10 million a year in interest. OFA officials informed us that the contractor also identified this problem. This weakness will be addressed through the OMB Circular A-123 review process. OFA has assembled a task force to eliminate the backlog.

## Interagency Projects

### 1. Project MATCH

In a continuation of Project MATCH, the OIG has followed up on information provided to us by the U.S. Department of Agriculture's (USDA) Office of Inspector General. This information involves families who are suspected of receiving excessive food stamps or welfare benefits.

Our participation in some locations included reviewing cases referred by USDA to identify those individuals who received rental housing assistance and determine whether they are oversubsidized because of unreported income; and referring for prosecution or administrative action

those cases which involve excess subsidies. For other locations, we coordinated USDA referrals with local agencies.

Matching projects were coordinated at the following locations: Atlanta, Georgia; Birmingham, Alabama; Savannah, Georgia; Montgomery, Alabama; Raleigh, North Carolina; Greensboro and Ashville, North Carolina; Nashville, Tennessee; Washington, D.C.; and Memphis, Tennessee.

Results of these projects as of September 30, 1983, are the convictions of 67 tenants who were sentenced to a total of 145 years proba-

tion and fined \$22,500. In addition, 244 tenants have entered into repayment agreements totaling about \$300,000.

## **2. Joint Review with the General Accounting Office**

Our Office of Audit and the General Accounting Office (GAO) began a joint review of the Department's implementation of OMB Circular A-123, Internal Control Systems, and the Federal Managers' Financial Integrity Act. The circular and law require an assessment of internal control systems throughout the Federal Government, and development of improvements as necessary.

The Secretary requested us to provide written assurance as to whether HUD's evaluation of its internal controls was carried out in a reasonable and prudent manner. Shortly after

we began our review, the GAO announced a similar review of HUD as a part of a governmentwide assessment of the implementation of the Federal Managers' Financial Integrity Act. Because of common objectives and time frames, the Inspector General and Comptroller General agreed to perform the review as a joint effort.

This cooperative review is concentrating on the four largest segments within HUD. Within each segment, a team is reviewing: the organization of the process; the division of segments into assessable units; performance of vulnerability assessments and preliminary review processes; the performance of internal control reviews; and follow-up systems. In addition, GAO will be reviewing the Inspector General's role in HUD's implementation of Circular A-123.

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## **State and Local Government Projects**

### **1. Direct Computer Matching**

The OIG identified tenants of the Atlanta Housing Authority (AHA) who underreported their incomes to receive assisted housing benefits to which they were not entitled. The survey, conducted by matching computerized data maintained by the AHA with computerized wage data from the State of Georgia, indicated that the AHA loses revenue because some family income is not used in determining rents payable by tenants. Based on the matching information of 114 families statistically sampled, 37 families earned a total of \$354,274 over a 15-month period that was not reported to the AHA.

From the survey results, we projected that at least 17 percent of the universe, or 131 of 771 families, who received excess subsidies were undercharged by at least \$96,000. In

another match between AHA files and wage files of the Office of Personnel Management, we identified 5 Federal employees who received excessive housing benefits totaling \$5,482.

The reviews were significantly limited, mainly because only 3,475 out of 14,916 families had Social Security Numbers on file at the AHA. The project showed that computer matching can efficiently identify unreported income. However, the limited number of families with Social Security Numbers in the AHA files emphasized the need for legislation requiring tenants to provide Social Security Numbers as a condition of occupancy. (Such legislation is discussed in Chapter 3, Fraud Control Activities.)

## 2. Implementation of the Single Audit Concept

Attachment P to OMB Circular A-102, Uniform Administrative Requirements for Grants-in-Aid to State and Local Governments, issued in 1979, provides for a single audit that encompasses all grants or activities of an organization that receives Federal funds. Federal agencies have been required to issue regulations necessary to implement the provisions of the Circular.

We have completed the orientation and education of HUD program staff, recipient organizations, and Independent Public Accountants as to the objectives and application of the single audit concept. On a continuing basis, we conduct briefings of HUD program staff to provide updates on the status of single audit implementation. Also, as requested, we make presentations to professional accounting and auditing organizations on single audit issues.

We worked closely with HUD's Office of General Counsel to develop an interim rule which will require all non-Federal governmental recipients of HUD assistance to comply with the provisions of Attachment P. Once it is published, it will be effective after expiration of the first period of 30 calendar days of continuous session of Congress.

Two of our Regional Inspectors General for Audit served with the A-102 Attachment P Task Force established by the President's Council on Integrity and Efficiency. One of our Regional Inspectors General assisted in an evaluation of the implementation of Attachment P. The other Regional Inspector General's participation included the training of Inspector General personnel nationwide on the specific implementation of A-102 Attachment P requirements.

### Review of Legislation and Regulations

During the current semiannual reporting period, we reviewed a number of legislative bills, regulations, and other issuances relating to the economy and efficiency of programs and operations and the prevention and detection of fraud and abuse. This included a review of 50

proposed/revised regulations, 59 legislative proposals and 140 other issuances.

Some of the more significant legislative proposals and regulations on which we commented are described as follows:

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### Legislation

**S. 1566**, The Program Fraud Civil Penalties Act of 1983, proposes an administrative procedure which Federal agencies could use to impose an administrative penalty for false, fictitious, or fraudulent claims and statements. This is similar to **S. 1780**, introduced in 1981, with three major changes: (1) no administrative proceeding shall be commenced if a claim exceeds \$100,000; (2) the "reckless disregard" standard for deciding whether a statement/claim is false has been deleted; and (3) there is now an annual reporting requirement. As with the former bill, we are concerned with the level of evidence required on the part of the government. We believe the level of evidence in the bill should be that established for civil rather than criminal cases. Our specific concerns are:

- The role of the Inspector General should be clarified regarding: (1) the recommendation of proceedings to the agency head responsible for carrying out the provisions of the bill; and (2) the circumstances under which a testimonial subpoena may be used.
- The claim ceiling of \$100,000 should be raised.
- Penalties collected under the bill should be credited to the originating program funds or appropriations instead of being returned to the Treasury as miscellaneous receipts. There would be little incentive for agency heads to implement the pro-

visions of this bill if their agencies would not benefit.

- The 6-year statute of limitations should run from discovery of the false statement or claim rather than from the initial submission. Fraud may not be discovered until late in the 5-year period after submission. The statute may run out before an action can be brought, or ill-advised actions may be filed in an effort to "toll the statute."

- The annual reporting requirement should rest with the agency head responsible for implementing the law instead of the Inspector General.

**S. 1356**, amending Title 37 of the U.S. Code, proposes contracts with law firms for the collection of indebtedness owed the United States. We have reservations about this bill for the following reasons:

- Under the provisions of the Federal Claims Collection Act of 1966, collection of debts over \$20,000 must be referred to the Department of Justice or the Comptroller General. Therefore, it appears that the use of law firms by agencies other than the Department of Justice and the General Accounting Office to collect debts would be limited to small cases.

- This bill contains no controls on fees such as rates or source of compensation, and no conflict of interest provision.

- The quarterly report provision should be expanded to include sta-

statistics on the extent of the use of law firms, cost of collection, amounts terminated, compromised, and suspended, and amounts collected.

- Only the Department of Justice is required to report expenditures to the Congress under the provisions of this bill. Each agency should be required to submit periodic reports to the Congress on collection efforts not referred to the Department of Justice.

- No provision is made for the privacy of government information furnished to law firms.

**S. 1510**, Uniform Single Financial Audit Act of 1983, proposes uniform single financial audit requirements for State and local governments, non-profit organizations, and other recipients of Federal assistance. An important part of this proposed legislation is whether internal control systems provide reasonable assurance that the recipients are managing Federal programs in compliance with laws and regulations. This proposed legislation, which was first introduced in June 1983, has been substantially revised. The revision addressed our major concern, which was with the lack of required compliance testing. Materiality levels have now been established for such compliance testing in line with the requirements set forth in a proposed revision to OMB Circular A-102, Attachment P (single audit requirements).

Our concerns on the current version of this bill are:

- The audit requirements do not have to be met until three years from enactment of the legislation. This

may retard progress currently being made to implement the single audit concept. It is unclear what audit requirements would apply in the interim, unless the Congressional intent is for the Office of Management and Budget's plan of action to clarify the interim audit requirements.

- The definition of "Independent Auditors" should be clarified to improve the future administration of the bill's provisions.

**S. 461**, Section 6, amends Section 403 of the Ethics in Government Act of 1978 (P.L. 95-521). The original Act of 1978 required executive agencies to make services, personnel and facilities available to the Director of the Office of Government Ethics for the performance of functions under the Act. S. 461 would extend the Director's authority to include the use of the Inspectors General as the Director deems necessary.

We believe this amendment would destroy the autonomy of the Inspectors General and impair the authority contained in the Inspector General Act of 1978. This Act authorizes Inspectors General to ". . . make such investigations and reports relating to the administration of the programs and operations of the applicable establishment as are, in the judgment of the Inspector General, necessary or desirable. . . ."

We favor retaining the present language of Section 403 which enables Inspectors General to plan the use of their staff resources more effectively and places the Inspectors General on a more equal footing with the Director of the Office of Government Ethics.

## Regulations

**Final Rule 24 CFR (Part 570)** amends regulations governing various parts of the Community Development Block Grant program. We

nonconcurred in the publication of this final rule for the following reasons:



- Subparts **570.205** (Eligibility Planning and Policy Planning-Management) and **570.206** (Eligible Administrative Costs) do not adequately define "Planning, Management Development, and Administrative Costs." The regulations should make the needed distinction between these costs and activity costs.

- Subpart **570.200(g)** provides for a limit on such eligible Planning, Management Development, and Administrative Costs to 20 percent of the program year grant plus program income. A more realistic and efficient approach is to apply the 20 percent to total grant expenditures for the program year.

- An Office of Inspector General audit report on Planning, Management Development, and Administrative Costs was submitted to the Assistant Secretary for Community Planning and Development. We believed that the audit report recommendations pertaining to defining and limiting administrative costs were significant enough at the time to delay issuance of the final rule rather than attempt to change it later.

Subsequent to the nonconurrence, a compromise on the final rule was reached between Office of Inspector General and Community Planning and Development staffs. Therefore, we lifted the nonconurrence in July 1983. See Chapter 1 for details on actions taken and to be taken which gave us the basis for lifting the nonconurrence.

Proposed **Rule 24 CFR (Part 202)**, Property Improvement and Mobile Home Programs, Approval of Lending Institutions, establishes requirements for HUD approval in granting a contract of insurance to new eligible financial institutions to participate in the Title I program. It prescribes

requirements for approval, enumerates eligible lenders, and provides for user fees and the manner of termination of the insurance contract. We nonconcurred in the issuance of this rule for the following reasons:

- The rule should provide for sanctions less severe than termination of the insurance contract, such as temporary suspension or denial of participation in the program.

- The regulation should include an analysis of escrow funds and audit requirements for performing an analysis of the nonsupervised institution's net worth, adjusted to show only assets acceptable to the Secretary.

- A loophole has been created by subsection **202.4(10)** which provides that lenders must meet the requirements of the program "at the time of application." This could be interpreted to mean that they would be in continuing compliance even though an officer were later suspended or debarred. "At the time of application" should be deleted.

- The \$100,000 net worth requirement is insufficient for the high risk mobile home loan insurance portion of the program. Past audit experience has disclosed high vulnerability of this Title I program to sudden depreciation of market value of the loan collateral.

Subsequent to the nonconurrence, our comments were resolved. The proposed rule was revised to include the first three of our four concerns. Program officials provided additional assurances regarding the net worth requirement in order for us to lift our nonconurrence in July 1983.

## Chapter 6

### Requests for Information Or Assistance

As required to be reported by law, the following describes any instances in which information or assistance requested by the Inspector General was unreasonably refused or not provided. It also includes cases during the reporting period in which we exercised subpoena authority.

1. Unreasonable Refusal or Non-Provision of Requested Information or Assistance - No instances were reported to the HUD Secretary during the semiannual reporting period.
2. Subpoenas Issued - During the reporting period, we found it neces-

sary to exercise our subpoena authority 10 times. Six of the subpoenas were issued with respect to investigations, and four were issued in connection with audits.

Since the passage of the IG Act, we have, to date, issued a total of 74 subpoenas. It has only been necessary to seek enforcement in District Courts eight times. One such action in connection with audits was filed during this reporting period, but is still pending a court date.

## Chapter 7

### Debt Collection

The Supplemental Appropriations and Rescission Act of 1980 and related Appropriations Act of 1981, with respect to HUD and other Independent Agencies, require each applicable agency to take immediate action to: (1) improve collection of overdue debts; (2) bill interest on delinquent debts; and (3) reduce the

amounts of debts written off as uncollectible. The Debt Collection Act of 1982 requires each independent agency with outstanding debts to report annually to the Director of the Office of Management and Budget, and the Secretary of the Treasury on the status of loans and accounts receivable.

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The actions being taken by HUD in response to the current Acts were covered in our reports to the Congress for the 6 months ended September 30, 1981, September 30, 1982, and March 31, 1983. HUD has completed development of its debt collection action plan for FY 1984, in compliance with OMB Bulletin No. 83-11, March 1, 1983, to update debt collection practices and institute management reforms as required by the Debt Collection Act of 1982. The

action plan was submitted on June 9, 1983, for approval by the Office of Management and Budget.

Information contained above and in the accompanying table was provided by the Office of Finance and Accounting. This data has not been audited by our office. The Debt Collection Report, as of June 30, 1983, is the latest data available.

## Debt Collection Report

### Collection Analysis 1/ For the Nine Months Ended June 30, 1983

Fiscal Year  
Elapsed 75%

(In Thousands of Dollars)

	Current Budget	Actual Collections	
	Estimate FY 1983 2/	Fiscal Year to Date \$	%
<b>First Tier</b>			
MF Mortgage Notes	\$ 300,004 <sup>3</sup>	\$ 210,523 <sup>4</sup>	70.2
Title I Defaulted Notes	16,000	10,117 <sup>5</sup>	63.2
SF Mortgage Notes	46,332 <sup>6</sup>	26,012 <sup>4</sup>	56.1
Section 312 Loans	71,100	52,676	74.9
<b>Second Tier</b>			
Section 202 Loans	283,560	229,851	81.1
<b>Third Tier</b>			
NCDC	1,360	12,722 <sup>7</sup>	935.4
Revolving Fund, Liquidating	32,000	24,344	76.1
Title I Premium	41,100	30,712	74.7
MF Premium	172,600 <sup>8</sup>	113,999	66.0
SF Premium	602,526	413,597	68.6
MF 106b Nonprofit Loans	1,650	287	17.4
Sales of FHA Properties	596,587 <sup>10</sup>	435,799 <sup>9</sup>	73.0
Subtotal	\$2,164,819	\$1,560,639	72.1
SF Premium	289,000 <sup>11</sup>	-0-	
Total	\$2,453,819	\$1,560,639	

<sup>1</sup>Does not include the GNMA accounts.

<sup>2</sup>Includes OMB target of \$125 million.

<sup>3</sup>Does not include proceeds from MF Note Sales.

<sup>4</sup>Represents collections for principal and interest that reduce receivables. Total collections, including escrow deposits and repayments of advances were \$341 million for multifamily and \$50 million for single family.

<sup>5</sup>Does not include unprocessed collections of \$650,000 and unallocated collections of \$694,000.

<sup>6</sup>Goal does not reflect a new allocation procedure.

<sup>7</sup>Includes proceeds from property dispositions and liquidation of HUD's involvement in the ongoing new towns.

<sup>8</sup>Includes initial as well as renewal collections.

<sup>9</sup>Includes \$56 million in unapplied sales proceeds awaiting receipt of closing documentation.

<sup>10</sup>Includes revision from midsession review with OMB.

<sup>11</sup>This amount represents additional up-front premium collections which are now expected to begin in Fiscal Year 1984.

Prepared by Office of Finance and Accounting - August 24, 1983

### Audit Resolution

The Inspector General Act requires the reporting of all significant recommendations described in previous Semiannual Reports to Congress which remain unresolved, and for which corrective action has not been completed.

The Supplemental Appropriations and Rescission Act of 1980 and the

Appropriations Act of 1981 require that any audits involving questioned costs be resolved within 6 months, and that the Inspectors General include in their reports to Congress a summary of unresolved audits including total numbers, dollar amounts, status, age, and other related information.

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### Cash Recoveries/Savings

During the semiannual reporting period, Office of Inspector General and non-Federal audits of HUD program participants were instrumental in recovering and reprogramming significant amounts of improperly used funds and identifying possible waste, noncompliance, and program abuses. Highlights for the 6-month period are as follows:

- Cash recoveries/savings resulting from audits – \$30.7 million.
- Questioned/disallowed costs sustained by HUD management – \$53.6 million.
- Value of unresolved audit findings – \$133 million.

We reviewed each of our nationwide audits to identify cost efficiencies for the period. The audit report, "Regional Accounting Division Operations," dated April 28, 1983, disclosed that accruals of unexpended budgeted amounts and rent

payments could be recaptured and obligated for more viable projects. The draft of this report was discussed in detail in our previous Semiannual Report. The final audit issued during this period noted that over \$246 million in Section 8 rent subsidy budget reserves can be either reduced or recaptured. HUD's Regional Accounting Divisions have a financial management responsibility for monitoring reserve account balances. We recommended that the Regional Accounting Divisions and Housing program staff develop monitoring procedures to assure that excess reserve balances are reduced or recaptured. We also recommended that all existing projects be examined to identify excess funds. HUD management concurred with our recommendations and during the period \$119 million were reduced or recaptured, which we are reporting as cost efficiencies.

The following table provides additional detail on findings and recoveries/savings:

	Dollar Value of Reported Audit Findings		Audit Findings Sustained		Cash Recoveries/Savings					
	OIG Non-Federal	Total	OIG Non-Federal	Total	OIG Non-Federal	Total				
<b>Activity on Audits Issued During Last Six Months</b>										
Housing	10,302	13,632	23,934	971	8,453	9,424	50	1,355	1,405	
CPD	51,357	19,644	71,001	393	3,769	4,162	103	352	455	
Admin	4,072	103	4,175	173	0	173	5	0	5	
Other	364	2,192	2,556	232	823	1,055	119	155	274	
Subtotal	66,095	35,571	101,666	1,769	13,045	14,814	277	1,862	2,139	
<b>Prior to April 1, 1983 Unresolved</b>										
Housing	918	4,904	5,822	6,244	6,019	12,263	5,559	3,843	9,402	
CPD	46,823	1,713	48,536	8,963	14,440	23,403	8,991	9,405	18,396	
Admin	380	0	380	2,952	0	2,952	177	0	177	
Other	1,508	785	2,293	66	148	214	47	626	673	
Subtotal	49,629	7,402	57,031	18,225	20,607	38,832	14,774	13,874	28,648	
Total				19,994	33,652	53,646	15,051	15,736	30,787	

## Follow-Up on Audit Findings

HUD managers are responsible for taking appropriate action on recommendations made in audit reports. Over the past 2 years, we performed four semiannual reviews of actions taken by program managers to implement audit recommendations which had been resolved based on promised actions. Names of officials who had not taken satisfactory actions were published in our Semi-annual Reports to the Congress. During this semiannual period, we concentrated our review on promised actions for the 74 most significant findings where action was scheduled to be completed. Based on our review of appropriate documentation, we found that corrective actions had been taken or were in process.

Following are statistics on the inventory of open audit findings and the activity for the reporting period:

- Open audit findings at 4/1/83 - 1,733
- Audit findings issued during the period - 3,369
- Audit findings resolved during the period - 3,549
- Audit findings unresolved at 9/30/83 - 1,553

Following is a listing of 10 unresolved audits which were over 6 months old at the end of the period.

<i>Title</i>	<i>Date Issued</i>	<i>No. of Findings</i>	<i>Amount</i>
City of Santa Paula, CA - CDBG (80-SF-244-1018)	07/10/80	3	\$ 462,728
Town of Leesburg, FL - CDBG (82-AT-203/243-1004)	10/23/81	1	\$ 25,242
Philadelphia Housing Authority, PA (82-PH-202-2270)	05/28/82	27	\$4,900,000
County of Los Angeles, CA - CDBG (82-SF-241-1028)	06/10/82	1	\$8,349,127
Management Input into Processing Multifamily Housing (82-TS-111/112-0008)	07/06/82	1 <sup>1</sup>	-0-
First Columbia Management Inc. (83-SF-214-1009)	11/24/82	1	\$ 85,863
Athens County, OH - CDBG (83-CH-241-1008)	12/23/82	1	\$ 26,506
Control/Use of IPA Audit Reports Not Subject to OIG Review/Acceptance (83-AT-198-0004)	02/25/83	1	-0-
Follow-up on Special Operational Survey of CDBG Rehabilitation Activities (83-CH-144-0007)	03/23/83	1	-0-
CASA San Marino Apartments (83-CH-212-1038)	03/29/83	5	\$ 62,285
<b>Total</b>		<b>42</b>	<b>\$13,911,751</b>

<sup>1</sup> Finding resolved on October 21, 1983.

The Inspector General Act of 1978 requires the Inspector General to identify each significant recommendation described in previous semi-annual reports on which corrective action has not been taken. Appendix

4 lists 36 audit reports that were identified in previous semiannual reports having recommendations on which corrective action has not been completed. Target dates for completed action are also shown.

### Resolution of General Accounting Office Findings

In addition to internal and external audit finding follow-up and clearance, HUD managers are responsible for taking appropriate action on the recommendations addressed to the Department in GAO reports. The corrective actions are to be initiated promptly on recommendations in draft as well as published reports. The OIG liaison with GAO acts as a focal point for accumulation of information from Primary Organization Heads on actions promised and/or taken by HUD on GAO recommendations. Using the input from various offices in HUD, we furnish the Under Secretary with a summary report each quarter on the status of corrective actions on all GAO report recommendations. Information furnished is measured against established criteria for resolving GAO findings. When HUD's response satisfactorily

addresses a GAO recommendation, or when HUD management noncon- curs in a recommendation for valid reasons, the recommendation is reported as closed. The final authority for resolving GAO audit findings is vested in the Under Secretary who is HUD's audit follow-up official.

- Recommendations open at 4/1/83 - 33
- Recommendations issued during the period - 21
- Recommendations closed during the period - 42
- Recommendations open at 9/30/83 - 12

Following is a listing of five unresolved audits which were over 6 months old at the end of the period.

Title	Date Issued	No. of Recommendations
Action Being Taken to Correct Weaknesses in the Rehabilitation Loan Program (FGMSD-79-14)	3/14/79	1
Weaknesses in Servicing and Accounting for Home Mortgages Held by HUD (FGMSD-79-41)	8/16/79	1
HUD Not Fulfilling Responsibility to Eliminate Lead Based Paint Hazard in Federal Housing (CED-81-31)	12/16/80	4
Weaknesses in the Planning and Utilization of Rental Housing for Persons in Wheelchairs (CED-81-45)	6/19/81	2
Defaulted Title I Home Improvement Loans (AFMD-82-14)	12/7/81	4



## Appendix 1

### Background, Organization, and Staffing

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#### Establishment

The Office of the Inspector General (OIG), Department of Housing and Urban Development (HUD), was established on January 29, 1972, and became a matter of law with the signing of the Inspector General Act of 1978, P.L. 95-452, on October 12, 1978.

#### Role and Authority

The HUD Inspector General heads an independent organization responsible for audit, investigation, fraud control and designated security services relating to programs and operations of HUD.

The Inspector General reports directly to the Secretary of HUD and has authority to inquire into all programs, grants and activities of HUD and related parties. These inquiries may be in the form of audits, surveys, criminal and other investigations, personnel security checks or other inquiries, as appropriate.

Pursuant to the Inspector General Act of 1978, the Inspector General is responsible for providing leadership, supervision and coordination; for recommending policies to promote economy, efficiency, and effectiveness; and for detecting and preventing fraud and abuse in the administration of programs and operations of the Department. In this regard, the Inspector General is responsible for keeping the Secretary and the Congress fully and currently informed about problems and deficiencies in HUD programs and operations, and the necessity for, and progress of, corrective actions.

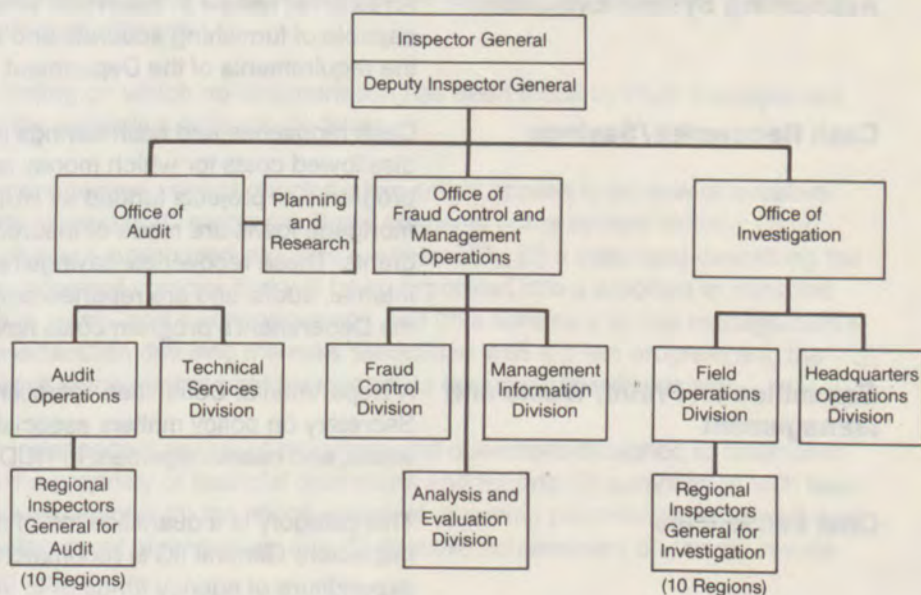
#### Organization and Staffing

The Office of the Inspector General consists of three major offices, each headed by an Assistant Inspector General. These offices are the: (1) Office of Audit; (2) Office of Investigation; and (3) Office of Fraud Control and Management Operations.

Within each of HUD's ten Regions is a Regional Inspector General for Audit and a Regional Inspector General for Investigation who direct a staff of auditors and investigators, respectively, and who report to the appropriate Assistant Inspector General in Headquarters.

Organizational and Staff Distribution Charts on following page.

**Department of Housing and  
Urban Development  
Office of Inspector General**



**Staffing Distribution**

FY 1983

	Headquarters	Field	Total
Inspector General	6	—	6
Office of Audit	63	295	358
Office of Investigation	20	84	104
Office of Fraud Control & Management Operations	36	—	36
<b>Total</b>	<b>125</b>	<b>379</b>	<b>504</b>

## Appendix 2

### Glossary of Terms

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<b>Accounting System Evaluation</b>	An external review to determine whether a recipient's accounting system is capable of furnishing accurate and timely financial reports consistent with the requirements of the Department.
<b>Cash Recoveries/Savings</b>	Cash recoveries and cash savings include those sustained questioned or disallowed costs for which money is: (1) returned to HUD; (2) reimbursed to programs or projects funded by HUD; (3) reimbursed to projects whose mortgage loans are made or insured by HUD; or (4) offset against future grants. These recoveries/savings result from external, and in some cases internal, audits and are reported only after evidence has been received that the Department's program costs have actually been reduced.
<b>Committee on Fraud, Waste and Management</b>	A Departmental Committee established in November 1978 to advise the Secretary on policy matters associated with minimizing occurrences of fraud, waste, and mismanagement in HUD programs and activities.
<b>Cost Efficiencies</b>	This category is a quantification of management action in response to the Inspectors General (IG's) recommendations to prevent improper obligation or expenditure of agency funds or to improve agency systems and operations and thereby avoid further unnecessary expenditures. Cost efficiencies reported in this category represent funds or resources that will be used more efficiently as a result of management's commitment to implement IG recommendations.
<b>Debarment</b>	Debarment means an exclusion from participation in HUD programs for a reasonable, specified period of time commensurate with the seriousness of the offense or failure, or the inadequacy of performance.
<b>Disallowed Costs</b>	These are costs charged to a HUD-financed or insured program or activity which are not allowable by law, contract, or Federal, State or local policies or regulations.
<b>External Audit</b>	A review of the records and performance of grantees, borrowers, mortgagors, mortgagees and other contractors to determine compliance with the statutes, regulations, and terms and conditions of the agreements under which Federal funds are made available. The appropriate disposition of funds granted, loaned, or contributed is also determined.
<b>Final Resolution</b>	Final resolution occurs when the necessary corrective action on an audit finding and the selected recommendation as agreed upon by HUD management have been fully implemented or completed.
<b>Finding, Closed</b>	A finding in an issued audit report on which the recommended action has been completed or where sufficient action has been taken for all related recommendations to reasonably assure that corrective action will be completed to satisfy the intent of the finding. Therefore, the finding is no longer tracked under the Audits Management System.
<b>Finding, Opened</b>	A finding contained in an issued audit report that is being tracked under the Audits Management System. Either corrective action has not been completed or there is insufficient assurance that it will be completed.

**Finding, Resolved**

A finding on which HUD management has made a determination with respect to the action that is to be taken. This determination can be made when an agreement is reached between the OIG and action official or when a decision is made by an Audits Review Group or a higher level in the audit clearance process.

**Finding, Unresolved**

A finding on which no determination has been made by HUD management on the corrective action to be taken.

**Fraud Vulnerability Assessment System**

A management control check system which applies to all new or substantially revised HUD programs. Basic elements of the system include: (1) an analysis of a proposed program's vulnerability; (2) a statement describing the management controls that will be incorporated into a program to minimize fraud, waste, and mismanagement; and (3) a summary for top management's consideration detailing the risks associated with a given program and the cost of management controls that could overcome identified risks.

**Internal Audit**

An independent review of programs and operations designed to determine: (1) the propriety of financial operations and reports; (2) compliance with laws and regulations; (3) the effectiveness of operating procedures; (4) the efficient management of resources; and (5) effective achievement of desired results and objectives.

**Investigation Case Pending**

A pending case refers to the status of an investigation during that period between the opening of the case and dissemination of the investigation report(s) to a HUD official for action. Investigations in this category include those in which the investigation has not been completed by the OIG, the FBI or another agency, or in which a completed investigation is pending with a prosecutive official.

**Questioned Costs**

These are costs charged to a HUD-financed or insured program or activity whose eligibility cannot be determined at the time of audit. These costs require a future decision on the part of HUD program officials regarding their eligibility. This decision can involve a legal interpretation or clarification of Departmental policies and procedures, or can be contingent upon review of supporting documentation.

**Survey**

A fact-finding review designed to obtain and analyze information on a program or activity to identify matters warranting detailed examination or analysis.

**Suspension**

Suspension means a disqualification from participation in HUD programs for a temporary period of time because a contractor or grantee is suspected upon adequate evidence of engaging in criminal, fraudulent, or seriously improper conduct.

## Appendix 3

### Audit Reports Issued

The Inspector General Act requires the identification of each audit report completed by the OIG during the reporting period. A graphic summary of reports issued is presented on page 80.

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#### Internal Audit and Survey Reports

Report No.	Title	Issue Date
<i>Housing</i>		
83-BO-113-0003	Multifamily Property Disposition Activities	5/8/83
83-BO-111-0004	Review of Flex Subsidy Program Activities	8/15/83
83-NY-121-0007	Processing of Single Family Mortgage Loans for Insurance Endorsements	4/14/83
83-PH-101-0008	Public Housing Authority Cash Management Practices	8/10/83
83-PH-112-0008	Multifamily Processing Activities Philadelphia and Richmond Area Offices	8/24/83
83-PH-101-0010	Comprehensive Improvement Assistance Program Pittsburgh and Richmond Area Offices	6/25/83
83-AT-112-0006	Henderson Heights Ltd.	4/7/83
83-AT-103-0008	Greensboro Area Office Processing of Rent Increases for Section 8 Projects	7/20/83
83-AT-101-0009	Comparison of Income Reported by Low-Income Housing Tenants with Other Agencies' Data - Atlanta Housing Authority	8/24/83
83-CH-101-0012	Assistant Secretary for Housing Activities	8/22/83
83-FW-103-0006	Fund Requisitions and Administrative Fees	4/22/83
83-SF-111-0003	Review of Loan Management Branch, San Francisco Area Office	6/1/83
83-SF-112-0007	Review of San Francisco Area Office Supplemental Loans Processing	7/5/83
83-SE-107-0003	Effectiveness of PHA Acquisition Programs	5/31/83
83-SE-101-0004	Control Over the Procurement and Payment of Architectural Services	4/20/83
83-HQ-103-0003	Survey of Annual Contract Rent Adjustment Procedures for Section 8 New Construction and Rehabilitation Programs	4/25/83
83-HQ-121-0004	Analysis of Problems Stemming from HUD's Acceptance of Certificates of Reasonable Value	4/26/83
83-HQ-111-0008	Management Agents' Use of Identity-of-Interest Companies	5/13/83

83-HQ-198-0010	Field Office Use and Control of IPA Audit Reports	6/10/83
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83-HQ-101-0011	Tax-Exempt Financing for Section 8 Projects	6/22/83
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83-HQ-101-0012	Review of Control Over the Procurement and Payment of Architect Services	7/26/83
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83-HQ-103-0014	Section 8 Moderate Rehabilitation Program	8/24/83
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83-HQ-113-0015	Survey of Unapproved Transfers of Physical Assets of Multifamily Projects	8/30/83
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83-HQ-111-0016	Flexible Subsidy Funds for Multifamily Projects	9/7/83
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*CPD*

83-CH-145-0011	Field Office Review of Cost Allocation Plans	7/26/83
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83-HQ-145-0007	Lump Sum Drawdowns for CDBG Rehabilitation Financing	5/11/83
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83-HQ-145-0013	Survey of Planning, Management Development and Administrative Costs in the CDBG Program	8/4/83
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*Administration*

83-NY-161-0008	Regional Accounting Division Operations	8/15/83
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83-PH-169-0007	Reversal of Sustained Costs	7/25/83
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83-AT-165-0007	Accountability of and Control Extended over Government Transportation Requests	5/3/83
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83-CH-165-0008	Accountability of and Control Extended over Government Transportation Requests	4/11/83
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83-FW-166-0007	Section 8 Management Information System	6/6/83
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83-FW-162-0008	Imprest Fund	9/16/83
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83-HQ-161-0005	Regional Accounting Division Operations	4/28/83
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83-HQ-162-0009	Field Office Control Over Receipt and Deposit of Funds	5/24/83
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83-HQ-135-0017	Accountability of and Control over Government Transportation Requests	9/19/83
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83-HQ-161-507	Headquarters Accountability of and Control Over Transportation Requests	5/11/83
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83-HQ-169-508	Survey of HUD's Payroll Complaint System	5/25/83
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83-HQ-161-509	Housing for the Elderly or Handicapped Fund	6/8/83
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83-HQ-165-510	Review of HUD's Control System for Periodicals, Pamphlets and Audiovisual Products	7/15/83
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Report No.	Title	Issue Date
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*Other*

83-CH-101-0010	Office of Indian Program Activities Relating to Indian Housing Authority Development Projects	5/25/83
83-HQ-171-0006	Mortgage Backed Securities	4/14/83

**External Audit and Accounting System Evaluation Reports**

Report No.	Title	Location	Issue Date
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*Housing*

83-BO-211-1012	Bay Cove Group Homes 1	Boston, MA	4/14/83
83-BO-202-1013	Providence Housing Authority	Providence, RI	5/6/83
83-BO-212-1016	Westminster/Willard Apartments	Roxbury, MA	6/28/83
83-BO-215-1019	Interim Management, Inc.	Boston, MA	8/1/83
83-BO-214-1021	Wingate Management Co., Inc.	Boston, MA	9/15/83
83-BO-212-1025	Ledgecrest Associates	Meriden, CT	9/26/83
83-NY-221-1020	AAA Concordia Mortgage Corp	San Juan Municipio, PR	4/11/83
83-NY-215-1026	Jen-Kel Inc.	New York - Brooklyn, NY	4/29/83
83-NY-212-1027	Mechanicville Housing for the Elderly	Mechanicville, NY	5/3/83
83-NY-201-1042	Paterson Housing Authority	Paterson, NJ	6/15/83
83-NY-212-1045	Fajardo Housing for the Elderly	Fajardo Municipio, PR	7/15/83
83-NY-222-1054	Jose A. Rodriguez & Associates	San Juan Municipio, PR	9/22/83
83-PH-212-1019	Chesapeake Village Apartments	Baltimore, MD	6/1/83
83-PH-212-1020	Doral Garden Apartments	Bensalem Twp, PA	8/5/83
83-PH-212-1021	Water Gap Village	Delaware Water Gap, PA	8/16/83
83-PH-221-1022	Boulevard Mortgage Company	Philadelphia, PA	9/7/83
83-PH-221-1024	F & M Mortgage Corporation	Richmond, VA	9/30/83
83-PH-201-1025	Wilmington Housing Authority	Wilmington, DE	9/30/83

Report No.	Title	Location	Issue Date
83-AT-211-1017	Henderson Heights Ltd.	Henderson, NC	4/07/83
83-AT-212-1022	Meadowview Elderly Apartments, Ltd.	Covington, TN	4/21/83
83-AT-212-1023	Oak Haven Plaza Apartments, Ltd.	Brownsville, TN	4/22/83
83-AT-212-1026	Lee Park Apartments, Inc.	South Miami, FL	5/3/83
83-AT-212-1036	William H Bell Housing Associates, Inc.	Gulfport, MS	6/8/83
83-AT-201-1037	Montgomery Housing Authority	Montgomery, AL	6/30/83
83-AT-201-1038	Tampa Housing Authority	Tampa, FL	8/12/83
83-AT-201-1039	Memphis Housing Authority	Memphis, TN	8/19/83
82-AT-211-1038	River Oaks Limited Partnership	Columbia, SC	5/10/83*
83-AT-202-1015	Boaz Housing Authority	Boaz, AL	5/13/83*
83-AT-212-1041	Bethel Housing Complex, Inc.	Albany, GA	9/14/83
83-CH-212-1040	Rustic Oaks Apartments	Oak Forest, IL	4/7/83
83-CH-212-1041	Vickers Royal Acres	Anderson, IN	4/28/83
83-CH-229-1043	Century Mortgage Corporation	Detroit, MI	5/6/83
83-CH-202-1045	Kankakee County Housing Authority	Kankakee, IL	5/26/83
83-CH-212-1046	Bryn Mawr Apartments	Ypsilanti, MI	5/27/83
83-CH-201-1049	Indianapolis Housing Authority	Indianapolis, IN	8/10/83
83-CH-212-1050	Neighborhood Commons Apartments	Chicago, IL	8/18/83
83-CH-201-1051	Detroit Housing Department	Detroit, MI	8/26/83
83-FW-202-1039	Housing Authority of Osage County	Osage County, OK	4/28/83
83-FW-202-1054	Housing Authority of the City of Aransas Pass	Aransas Pass, TX	5/12/83
83-FW-213-1078	Friendship Towers, Inc.	Dallas, TX	7/25/83
83-FW-202-1079	Housing Authority of Oklahoma City	Oklahoma City, OK	9/1/83
83-FW-203-1080	Housing Authority of San Antonio	San Antonio, TX	9/21/83
83-FW-203-1081	Housing Authority of Brownsville	Brownsville, TX	9/21/83
83-FW-203-1082	Housing Authority of Cameron County	Cameron County, TX	9/23/83
83-SF-212-1022	Park Village Apartments	Stockton, CA	4/8/83
83-SF-221-1023	California Mortgage Service	Santa Ana, CA	4/29/83

\*Delayed Release



Report No.	Title	Location	Issue Date
83-SF-202-1025	San Diego Housing Commission	San Diego, CA	5/24/83
83-SF-209-1027	Architect Costs Paid by Washoe Housing Authority	Gardnerville-Minden, NV	6/20/83
83-SF-212-1028	Milias Apartments	Gilroy, CA	7/7/83
83-SF-202-1029	Oakland Housing Authority	Oakland, CA	7/8/83
83-SF-212-1031	Hampton Square Limited	Walnut Creek, CA	8/12/83
83-SF-209-1030	Architect Fees Paid by Moduc-Lassen Indian Housing Authority	Susanville, CA	8/8/83
83-SE-201-1004	Housing Authority of Portland	Portland, OR	6/30/83
83-HQ-221-1015	Reliance Mortgage and Reliance Equities	Engelwood, CO	4/6/83
83-HQ-221-1017	Westland Mortgage Service Co.	Sacramento, CA	4/19/83
83-HQ-221-1027	Pioneer Mortgage Co., Inc.	Columbus, OH	9/9/83
83-HQ-229-1029	Douglass State Bank	Kansas City, KS	9/16/83
83-HQ-221-1030	National Pacific Mortgage Corporation	Cerritos, CA	9/19/83

*Community Planning and Development*

83-BO-241-1015	City of Rochester	Rochester, NH	6/13/83
83-BO-241-1022	City of Lawrence	Lawrence, MA	9/21/83
83-NY-248-1022	Schoharie County	Schoharie, NY	4/14/83
83-NY-248-1023	Town of Warwarsing	Warwarsing, NY	4/14/83
83-NY-248-1024	Town of Guilderland	Guilderland, NY	4/15/83
83-NY-248-1028	City of Johnstown	Johnstown, NY	5/9/83
83-NY-248-1029	Village of Canajoharie	Canajoharie, NY	5/9/83
83-NY-248-1030	Town of Glen	Glen Town, NY	5/9/83
83-NY-241-1031	Municipality of Caguas	Caguas Municipio, PR	5/13/83
83-NY-257-1033	City of New York	New York- Manhattan, NY	5/24/83
83-NY-248-1034	Village of Unadilla	Unadilla, NY	5/23/83
83-NY-248-1036	Town of Sullivan	Chittenango, NY	6/2/83
83-NY-248-1037	Village of Constableville	Constableville, NY	6/2/83
83-NY-248-1038	Clinton County	Clinton County, NY	6/7/83
83-NY-248-1039	Town of Madrid	Madrid, NY	6/6/83

Report No.	Title	Location	Issue Date
83-NY-248-1040	Town of Martinsburg	Martinsburg, NY	6/7/83
83-NY-248-1041	St Lawrence Housing Council	Canton, NY	6/7/83
83-NY-248-1046	Village of Kiryas Joel	Kiryas Joel, NY	7/12/83
83-NY-248-1047	Village of Red Hook	Red Hook, NY	7/12/83
83-NY-248-1048	County of Dutchess	Dutchess County, NY	7/12/83
83-NY-243-1049	City of Rensselaer	Rensselaer, NY	7/20/83
83-NY-243-1052	City of Ogdensburg	Ogdensburg, NY	8/29/83
83-AT-248-1018	Town of Callahan	Callahan, FL	4/8/83
83-AT-248-1019	City of Williston	Williston, FL	4/8/83
83-AT-248-1020	Fernandina Beach	Fernandina Beach, FL	4/8/83
83-AT-257-1021	City of Miami	Miami, FL	4/14/83
83-AT-243-1024	Fountain Inn	Fountain Inn, SC	4/22/83
83-AT-248-1025	City of Quincy	Quincy, FL	5/2/83
83-AT-248-1027	Jackson County	Marianna, FL	5/5/83
83-AT-248-1028	Lafayette County	Mayo, FL	5/5/83
83-AT-248-1029	City of Bushnell	Bushnell, FL	5/5/83
83-AT-248-1030	City of Marianna	Marianna, FL	5/10/83
83-AT-248-1031	Town of Paxton	Paxton, FL	5/10/83
83-AT-248-1032	Town of Westville	Westville, FL	5/10/83
83-AT-248-1033	Town of Ponce de Leon	Ponce de Leon, FL	5/11/83
83-CH-241-1042	City of Dearborn	Dearborn, MI	5/5/83
83-FW-248-1024	McKinley County	McKinley County, NM	4/1/83
83-FW-248-1025	Big Wells	Big Wells, TX	4/1/83
83-FW-248-1026	Flatonia	Flatonia, TX	4/1/83
83-FW-248-1027	Smiley	Smiley, TX	4/1/83
83-FW-248-1028	Mathis	Mathis, TX	4/1/83
83-FW-248-1029	Gregory	Gregory, TX	4/1/83
83-FW-248-1030	George West	George West, TX	4/6/83
83-FW-248-1031	Santa Fe County	Santa Fe County, NM	4/20/83
83-FW-248-1032	Village of Central	Central, NM	4/20/83
83-FW-248-1033	Silver City	Silver City, NM	4/20/83

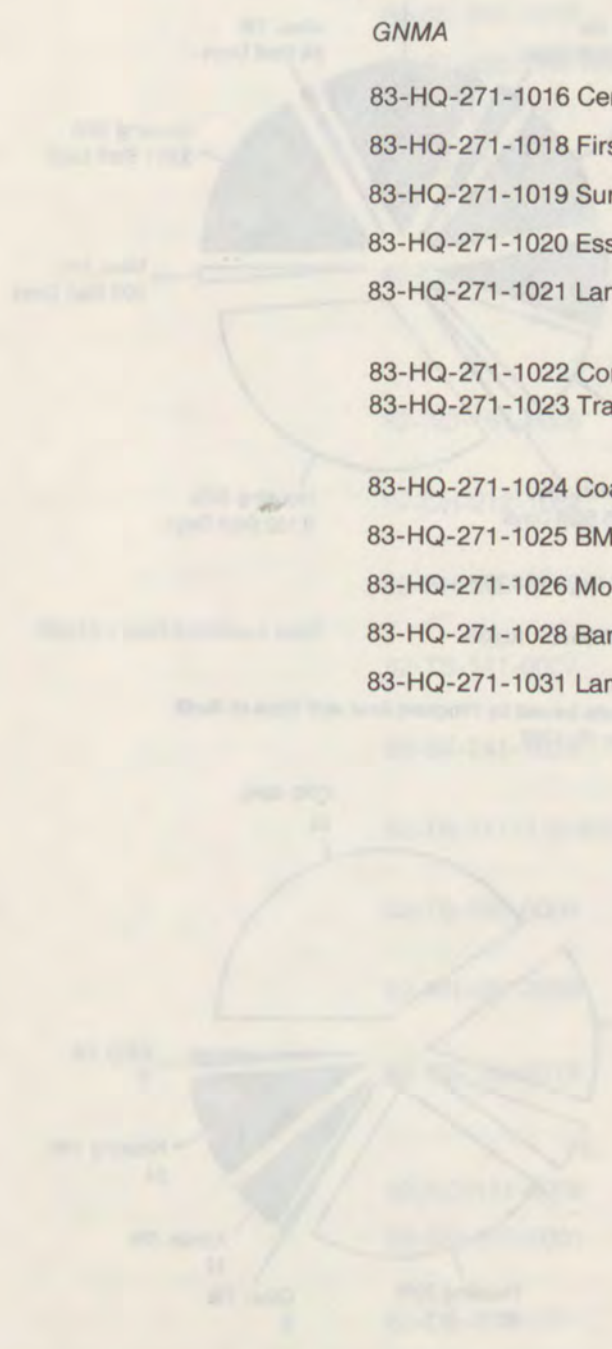
Report No.	Title	Location	Issue Date
83-FW-248-1034	Lordsburg	Lordsburg, NM	4/20/83
83-FW-248-1035	Tye	Tye, TX	4/27/83
83-FW-248-1036	Matador	Matador, TX	4/27/83
83-FW-248-1037	Colorado City	Colorado City, TX	4/27/83
83-FW-248-1038	Rio Arriba County	Rio Arriba County, NM	4/27/83
83-FW-248-1040	Maverick County	Maverick County, TX	5/4/83
83-FW-248-1041	Evening Shade	Evening Shade, AR	5/6/83
83-FW-248-1042	Calico Rock	Calico Rock, AR	5/6/83
83-FW-248-1043	Crittenden County,	Crittenden, AR	5/6/83
83-FW-248-1044	Dumas	Dumas, AR	5/9/83
83-FW-248-1045	Izard County	Izard County, AR	5/9/83
83-FW-248-1046	Pilot Point	Pilot Point, TX	5/9/83
83-FW-241-1047	San Antonio Development Agency	San Antonio, TX	5/6/83
83-FW-243-1048	Richwood	Richwood, LA	5/10/83
83-FW-244-1049	Caddo Tribe of Oklahoma	Oklahoma City, OK	5/6/83
83-FW-248-1050	Edgewood	Edgewood, TX	5/11/83
83-FW-248-1051	Commerce	Commerce, TX	5/11/83
83-FW-248-1052	Lamar County	Lamar County, TX	5/11/83
83-FW-248-1053	Trinidad	Trinidad, TX	5/11/83
83-FW-248-1055	Louann	Louann, AR	5/17/83
83-FW-248-1056	Quitman	Quitman, AR	5/17/83
83-FW-248-1057	Conway	Conway, AR	5/17/83
83-FW-248-1058	Garland	Garland, AR	5/17/83
83-FW-248-1059	Hughes	Hughes, AR	5/17/83
83-FW-248-1060	Strong	Strong, AR	5/17/83
83-FW-248-1061	Cass County	Cass County, TX	5/19/83
83-FW-248-1062	Maud	Maud, TX	5/19/83
83-FW-248-1063	Newton	Newton, TX	5/19/83
83-FW-248-1064	Prescott	Prescott, AR	5/19/83

Report No.	Title	Location	Issue Date
83-FW-248-1065	Brookshire	Brookshire, TX	5/20/83
83-FW-248-1066	Leslie	Leslie, AR	5/24/83
83-FW-248-1067	Cotton Plant	Cotton Plant, AR	5/27/83
83-FW-248-1068	Calion	Calion, AR	6/1/83
83-FW-248-1069	Hartford	Hartford, AR	6/1/83
83-FW-248-1070	Little River County	Little River County, AR	6/1/83
83-FW-248-1071	Humphrey	Humphrey, AR	6/8/83
83-FW-248-1072	Mena	Mena, AR	6/8/83
83-FW-248-1073	Paris	Paris, AR	6/8/83
83-FW-248-1074	Uvalde County	Uvalde County, TX	6/9/83
83-FW-248-1075	Booneville	Booneville, AR	6/9/83
83-FW-248-1076	Carlisle	Carlisle, AR	6/30/83
83-KC-241-1014	Kansas City	Kansas City, MO	5/13/83
83-KC-248-1016	State of Kansas-Phase I	State of Kansas	8/5/83
83-KC-248-1017	State of Kansas-Phase II	State of Kansas	8/16/83
83-KC-248-1018	State of Kansas-Phase III	State of Kansas	8/18/83
83-DE-248-1005	City of Montrose	Montrose, CO	6/8/83
83-DE-248-1006	Town of Monument, Colo	Monument, CO	6/8/83
83-DE-248-1009	City of Leadville	Leadville, CO	8/8/83
83-DE-248-1010	City of Durango	Durango, CO	9/9/83
83-SF-248-1021	City of Willits	Willits, CA	4/7/83
83-SF-259-1024	Governor's Office	State of Arizona	5/6/83
83-SF-241-1032	City of Alameda	Alameda City, CA	9/2/83
<i>Administration</i>			
83-BO-262-1014	Halcyon, Ltd.	Hartford, CT	5/11/83
83-BO-262-1017	City of Lynn	Lynn, MA	7/8/83
83-BO-261-1018	Roncalli Apartments	Bridgeport, CT	7/27/83
83-BO-261-1020	Building Diagnostics	Cambridge, MA	8/23/83
83-BO-261-1023	Human Services Research Institute	Boston, MA	9/21/83
83-BO-262-1024	Mass Foreign Business Council	Boston, MA	9/23/83
83-NY-262-1019	National Development Council	New York, NY	4/6/83

Report No.	Title	Location	Issue Date
83-NY-262-1021	South Bronx Development Organization	New York, NY	4/14/83
83-NY-262-1025	Yunque Development Taino Towers	New York, NY	4/28/83
83-NY-262-1032	National Development Cost	New York, NY	5/20/83
83-NY-261-1035	National Development Council	New York, NY	5/25/83
83-NY-262-1043	City Planning Department Fund	New York, NY	6/23/83
83-NY-262-1044	Dialogue Systems	New York, NY	7/13/83
83-NY-262-1050	Buffalo and Erie County	Buffalo, NY	7/27/83
83-NY-262-1053	Advisory Services for Better Housing	New York, NY	9/16/83
83-PH-262-1016	Rahehkamp Sachs Wells Associates	Philadelphia, PA	5/5/83
83-PH-262-1017	Baltimore Neighborhoods, Inc.	Baltimore, MD	5/12/83
83-PH-262-1018	Neighborhood Housing Services of Baltimore	Baltimore, MD	5/18/83
83-PH-261-1023	Dibernardo Associates	Pittsburgh, PA	9/15/83
83-AT-262-1034	Research Triangle Institute	Research Triangle Park, NC	5/23/83
83-AT-262-1035	Research Triangle Institute	Research Triangle Park, NC	5/23/83
83-CH-262-1044	Portland Cement Association	Skokie, IL	5/24/83
83-CH-262-1047	Sperry Univac Corporation	St. Paul, MN	7/26/83
83-CH-262-1048	National Council on Government Accounting	Chicago, IL	8/9/83
83-FW-262-1077	Mexican American Unity Council	San Antonio, TX	7/1/83
83-KC-262-1015	Carr Square Tenant Management Corporation	St. Louis, MO	5/13/83
83-DE-262-1007	National Urban Indian Council	Denver, CO	7/25/83
83-SF-262-1020	People's Housing Inc.	Topanga, CA	4/4/83
83-SF-262-1026	Watts Labor Community Action Committee	Los Angeles, CA	6/8/83
83-SF-261-1033	Association of Bay Area Governments	Berkeley, CA	9/16/83
83-HQ-262-1511	National Citizens Participation Council	Washington, DC	4/4/83
83-HQ-262-1512	Mark Battle Associates, Inc.	Washington, DC	5/4/83

Marketing Research Unit  
Computer Center Unit  
Completed

Report No.	Title	Location	Issue Date
83-HQ-261-1513	The McHenry Company, Inc.	Washington, DC	5/5/83
83-HQ-262-1514	Kenneth Leventhal and Co.	Los Angeles, CA	5/25/83
83-HQ-261-1515	Comprehensive Marketing System	Washington, DC	6/21/83
83-HQ-262-1516	Northeast-Midwest Institute	Washington, DC	8/31/83
<b>GNMA</b>			
83-HQ-271-1016	Central Bank	Oakland, CA	5/17/83
83-HQ-271-1018	First California Mortgage Company	Larkspur, CA	4/25/83
83-HQ-271-1019	Suburban Mortgage Associates	Bethesda, MD	4/27/83
83-HQ-271-1020	Essex and Union Mortgage Co.	New York, NY	5/31/83
83-HQ-271-1021	Landmark First National Bank	Fort Lauderdale, FL	7/8/83
83-HQ-271-1022	Continental Illinois National Bank	Chicago, IL	7/11/83
83-HQ-271-1023	Tracy Mortgage Company	Salt Lake City, UT	7/29/83
83-HQ-271-1024	Coast Funding Corporation	Cupertino, CA	8/4/83
83-HQ-271-1025	BMFC Inc.	Boston, MA	8/19/83
83-HQ-271-1026	Modern Mortgage Corporation	Southfield, MI	9/6/83
83-HQ-271-1028	Bankers Life Company	Des Moines, IA	9/15/83
83-HQ-271-1031	Lambrech Realty Company	Detroit, MI	9/23/83

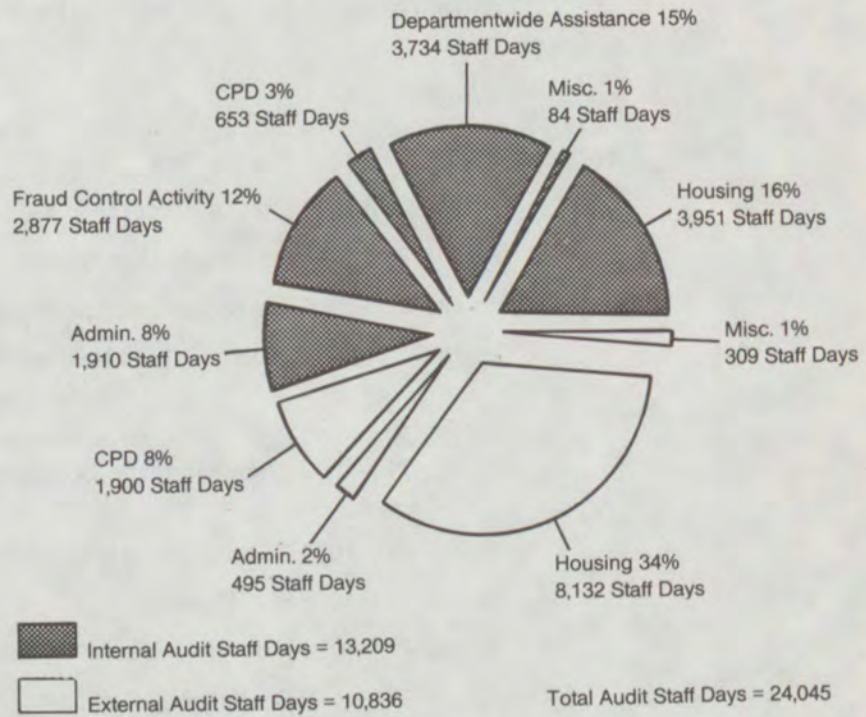


## Audit Resources and Results

The charts below show distribution of audit staff time and reports issued by program area and type of audit.

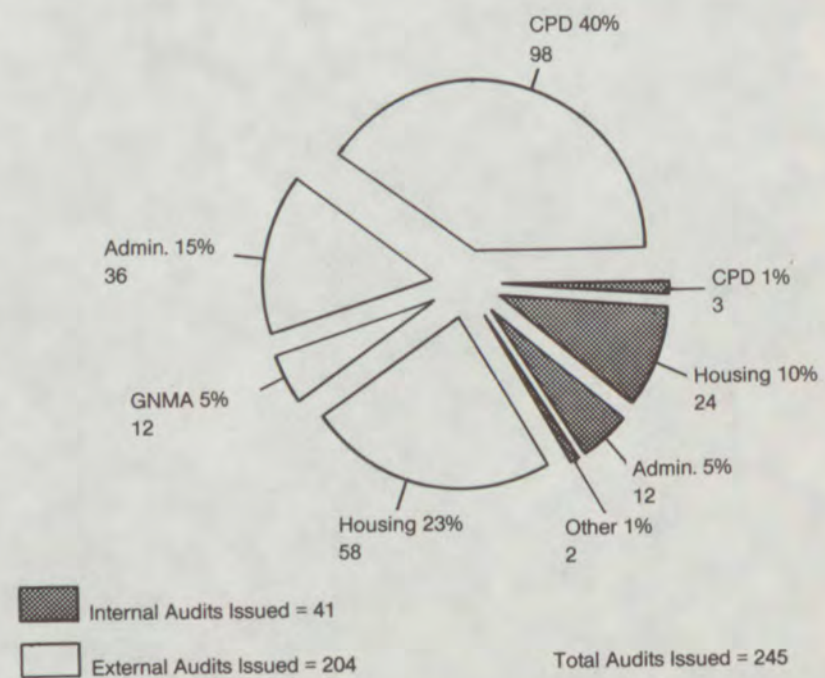
### Distribution of Audit Staff Time by Program Area and Type of Audit

April 1, 1983 to September 30, 1983



### Distribution of Audit Reports Issued by Program Area and Type of Audit

April 1, 1983 to September 30, 1983



## Appendix 4

### Previously Reported Items - Corrective Actions Not Completed

The audit reports listed below were discussed in prior Semiannual Reports to the Congress disclosing significant problems, abuses, and deficiencies. As of September 30, 1983, findings were either unresolved or corrective actions agreed upon to resolve these matters were in the process of being implemented but not yet completed.

Report No.	Title	Issue Date of Report	Target Date
80-SF-244-1018	City of Santa Paula, CA - CDBG	07-10-80	<sup>3</sup>
82-AT-203/243-1004	Town of Leesburg, FL - CDBG	10-23-81	<sup>3</sup>
82-TS-111-0001	Section 236 Rental Income	11-6-81	9-30-84 <sup>5</sup>
82-TS-113-0004	National Survey Report Disposition of Acquired Multifamily Properties	3-25-82	12-30-83
82-CH-101-0005	Audit of PHA Operations, Prob- lems, Deficiencies and Living Conditions-Cuyahoga Metropolitan Housing Authority	3-30-82	<sup>6</sup>
82-AO-161-0006	Review of GPA's Management, Practices and Procedures	4-16-82	3-31-85
82-CH-212-1062	Yellowbird Limited Xenia, OH	5-19-82	<sup>2</sup>
82-PH-202-2270	The Philadelphia Housing Authority Philadelphia, PA	5-28-82	<sup>1</sup>
82-TS-141-0007	Monitoring and Controlling Operating Agencies	5-28-82	11-30-83 <sup>5</sup>
82-SF-241-1028	County of Los Angeles Community Development Block Grant	6-10-82	<sup>1</sup>
82-TS-111/112-0008	Management Input into Processing Multifamily Housing Projects	7-12-82	5-30-84 <sup>5</sup>
82-TS-182-0009	Title I - Mobile Home Loans - Special Operational Survey	7-13-82	11-4-83 <sup>5</sup>
82-PH-161-0009	Regional Accounting Division Operations	8-11-82	1-31-85
82-TS-113-0013	National Report on Transfer of Physical Assets in the Sale of Multifamily Projects	8-24-82	8-31-84 <sup>5</sup>
82-AO-151-0008	Mortgage Insurance Premiums	9-27-82	12-31-83 <sup>5</sup>
83-CH-212-1001	Greenfield Estates Groveport, OH	10-14-82	<sup>4</sup>
83-DE-257-1001	Denver Urban Renewal Authority	10-15-82	<sup>3</sup>
83-NY-201-1004	Virgin Islands Housing Authority	10-18-82	11-30-83
83-SF-214-1002	Executive Services Co.	10-22-82	<sup>3</sup>



Report No.	Title	Issue Date of Report	Target Date
83-AO-165-0001	Use of Government Vehicles by HUD Principal Staff	11-3-82	12-31-83
83-DE-151-0001	Proceeds from the Sale of Land Under the Early Closeout of Urban Renewal Projects	11-5-82	<sup>3</sup>
83-DE-203-2021	Housing Authority of Longmont, CO	11-26-82	<sup>2</sup>
83-BO-241-1005	City of Boston, MA	12-3-82	<sup>2</sup>
83-FW-203-1006	Housing Authority of Houston, TX	12-3-82	12-31-83
83-AT-202-1008	Georgia Residential Finance Authority	12-23-82	<sup>3</sup>
83-CH-241-1008	Athens County, OH	12-23-82	<sup>3</sup>
83-BO-243-1008	Town of Orange, MA	1-7-83	<sup>4</sup>
83-KC-257-1012	Section 312 Rehabilitation Loan Program	1-21-83	11-15-83
83-CH-212-1028	Mid-Towne Apartments Cincinnati, OH	2-23-83	<sup>4</sup>
83-KC-202-1013	Kansas City Public Housing Authority	3-2-83	10-31-83
83-BO-241-1011	City of Springfield, MA	3-2-83	12-17-83
83-PH-212-1012	Regency Park Towers I and II	3-17-83	<sup>2</sup>
83-PH-112-0006	Review of Construction Problems—South Roanoke Village Apartments	3-30-83	2-7-84
83-TS-161-0005	Regional Accounting Division Operations	4-28-83	2-28-84
83-TS-145-0007	Lump Sum Drawdowns for CDBG Rehabilitation Financing	5-11-83	<sup>3</sup>
83-TS-198-0010	Audit of Field Office Use and Control of Independent Public Accountant Audit Reports	6-10-83	6-1-84

<sup>1</sup> Currently being reviewed by Headquarters officials as prescribed in HUD Audits Management System.

<sup>2</sup> Currently the findings in this report are pending litigation or investigation.

<sup>3</sup> Headquarters and/or Regional Program staff are currently reviewing appropriate corrective actions to be taken. Target dates for implementing promised corrective actions will be established upon final results of these reviews.

<sup>4</sup> Monetary amounts discussed in the report were sustained. Recovery of these sustained amounts is in process.

<sup>5</sup> Target date extended from previously reported dates due to changes in scope or dates for implementing automated systems, or delays in obtaining clearances for issueregulations/guidance.

<sup>6</sup> On October 25, 1983, Field Office verified actions were implemented.



## HUD EMPLOYEES' HOTLINE FTS 8-472-4200

451 7th St., S.W.  
Washington, D.C. 20410

Room 8254

The hotline is available to all HUD Field Staff through the FTS from their offices, and OIG headquarters staff will handle calls from 8:45 to 5:15, *Eastern Standard Time*. An answering service will record all incoming calls during nonworking hours.

**Remember—the number to call is 8-472-4200.**