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

# Office of Inspector General Report to the Congress

**Number 12**

**for the six month period
April 1, 1984 to September 30, 1984
Pursuant to Section 5(b)
of Public Law 95-452**

*e it enacted by the Senate and House of Representatives of the United States o
nerica in Congress assembled, That this Act be cited as the "Inspector Genera
t of 1978".*
C. 2. In order to create independent and objective units—(1) to conduct an
pervise audits and investigations relating to programs and operations of the Depart
nt of Agriculture, the Department of Commerce, the Department of Housing an
ban Development, the Department of the Interior, the Department of Labor, th
partment of Transportation, the Community Services Administration, The Envi
mental Protection Agency, the General Services Administration, the National Aer
utics and Space Administration, the Small Business Administration, and the Veteran
ministration; (2) to provide leadership and coordination and recommend policies f
ivities designed (A) to promote economy, efficiency, and effectiveness in the adminis
tion of, and (B) to prevent and detect fraud and abuse in, such programs an
erations; and (3) to provide a means for keeping the head of the establishment and th
ngress fully and currently informed about problems and deficiencies relating to th
ministration of such programs and operations and the necessity for and progress o
rective action; thereby is hereby established in each of such establishments an Offic
Inspector General.
C. 3.(a) There shall be at the head of each Office an Inspector General who shall b
pointed by the President, by and with the advice and consent of the Senate, withou

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## Foreword

This is our twelfth report to Congress. It summarizes our efforts during the past 6 months and highlights significant audits, investigations, and fraud control activities. During this period, over $29 million in recoveries resulted from management's actions on audit and investigative reports.

This report illustrates continued weaknesses in HUD's monitoring of program participants. Although the Department has repeatedly attempted to improve its performance, inadequate monitoring continues to be a persistent problem of significant concern to us.

In April 1981, the Secretary approved recommendations made by the Department's Committee on Fraud, Waste, and Mismanagement to implement a new concept called Accountability Monitoring. This strategy was intended to focus HUD's limited monitoring resources on high risk program activities and participants. Subsequently, it was determined that few offices had actually implemented the concept.

The Secretary and Under Secretary have taken an active interest in correcting this situation. They have supported changes in monitoring policies and procedures. Their interest is demonstrated in the Department's efforts to obtain legislative authority that would make computer matching more feasible and to initiate a quality control system for rental assistance payments. These forms of monitoring the $7 billion spent on various rental assistance programs are a substantial undertaking. We will work with Departmental managers to bring about a similar level of commitment for the changes needed to HUD's monitoring of program participants.

Charles L. Dempsey
Inspector General

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## Profile of Performance

| *Department of Housing and Urban Development Office of Inspector General* | | *April 1, 1984 through September 30, 1984* | *Total FY 1984* | *Page Reference* |
|---|---|---|---|---|
| **Audit Activities** | ■ Cash Recoveries/Savings (OIG and Non-Federal Audits) | $28,915,932 | $60,127,896 | 63 |
| | ■ Questioned and Disallowed Costs Sustained (OIG and Non-Federal Audits) | $40,756,963 | $101,199,246 | 63 |
| | ■ Internal Audit Reports Issued (OIG) | 45 | 82 | 73 |
| | ■ External Audit Reports Issued (OIG) | 119 | 262 | 76 |
| | ■ Non-Federal and Other Agency Reports Accepted | 2,155 | 4,568 | — |
| | ■ Audit Findings Issued | 3,187 | 6,375 | 68 |
| | ■ Audit Findings Resolved | 3,155 | 6,530 | 68 |
| | ■ Mortgagees Sanctioned as a Result of Referrals to HUD Mortgagee Review Board | 2 | 3 | — |
| **Investigation Activities** | ■ Cash Recoveries | $770,383 | $2,556,857 | 38 |
| | ■ Total Fines Levied | $314,475 | $489,625 | 38 |
| | ■ Investigation Cases Opened | 626 | 1,234 | 35 |
| | ■ Investigation Cases Pending (9/30/84) | — | 1,506 | 36 |
| | ■ Investigation Cases Referred for Prosecution | 143 | 285 | 37 |
| | ■ Persons/Firms Indicted | 191 | 324 | 37 |
| | ■ Persons/Firms Convicted | 125 | 264 | 37 |
| | ■ Total Years of Prison Sentences | 56 | 211 | 38 |
| | ■ Total Years of Probated Sentences | 311 | 660 | 38 |
| | ■ Debarments of Persons/Firms Doing Business with HUD (years) | 45(137) | 215(340) | — |
| | ■ Suspensions of Persons/Firms Doing Business with HUD (years) | 13(13) | 55(55) | — |
| | ■ Personnel Actions Initiated Against HUD Employees | 52 | 89 | 42 |
| | ■ HUD Employees Indicted | 3 | 5 | — |
| | ■ HUD Employees Convicted | 1 | 5 | — |
| **Fraud Control Activities** | ■ Special Fraud Control Projects Undertaken in Cooperation with HUD's Committee on Fraud, Waste and Mismanagement | 2 | 7 | 47 |
| | ■ Hotline Complaints Received | 157 | 277 | 51 |
| | ■ Hotline Complaints Processed and Closed | 213 | 402 | 52 |
| | ■ Hotline Complaints Pending (9/30/84) | — | 177 | — |
| | ■ Fraud Information Bulletins Issued | 4 | 6 | 50 |
| | ■ Proposed Legislation and Regulations Reviewed | 123 | 229 | 58 |
| | ■ Proposed HUD Handbooks/Issuances Reviewed | 61 | 160 | 60 |

## Overview

This report contains selected operating results for the period April 1, 1984, through September 30, 1984. Significant weaknesses disclosed by audits and investigations and fraud control activities conducted by our office, or in cooperation with others, are also discussed. Highlights of this report are summarized below.

## Multi-Agency Efforts

During the reporting period, we participated in several reviews combining the resources of our Offices of Audit and Investigation as well as those of other Federal departments and agencies.

- A joint investigation by the FBI, IRS, and HUD-OIG auditors and investigators resulted in the indictment of the former Executive Director of the East St. Louis, Illinois Housing Authority and two contractors in connection with a scheme to defraud the government of more than $1 million (see page 9).

- A task force of investigators and auditors from the HUD and VA Offices of Inspector General and the FBI and IRS resulted in the indictment of three real estate brokers in Camden, New Jersey, on charges of fraudulently obtaining over $1 million in government-insured mortgages (see page 9).

## Audit Activities

Audit activities during the reporting period focused on significant problems, abuses, and deficiencies in HUD's major program areas. These areas include: Assisted Housing; Community Planning and Development; Multifamily Insured Housing; Single Family Insured Housing; Government National Mortgage Association activities; and General Administration. Many of the problems found in our audits resulted from inadequate monitoring or lack of monitoring by Field Office staffs.

### Assisted Housing

- Audits of 16 public housing authorities (PHAs) administering the Section 8 Moderate Rehabilitation program reported inadequate processing of units and improper computation of rents by PHAs. Excessive rents identified in these audits could cost the government millions of dollars over the term of the housing assistance payments contracts (see pages 10 through 12).

- Improvements have not been made in the operations of the Property Management Administration, Washington, D.C., despite numerous reports citing poor maintenance, high vacancies, and inadequate rental collection (see page 12).

- Inefficient management practices at the San Francisco Housing Authority have caused a significant loss of revenues and a poor maintenance program (see page 14).

- The Memphis Housing Authority violated HUD investment requirements through large scale and risky investments (see page 14).

### Community Planning and Development

- Because of deficiencies in their selecting consultants and executing consultant contracts, Small Cities grantees cannot ensure that they are obtaining the best prices and services (see page 18).

- Because Community Development Block Grant grantees maintained excessive amounts of funds in escrow accounts, the Federal Government could be incurring $4.3 million annually in unnecessary borrowing costs (see page 19 ).

■ The Buffalo, New York Office has not processed multifamily rehabilitation loans according to proper procedures or adequately monitored local processing agencies (see page 20 ).

■ HUD and other Federal agencies lack assurance that indirect costs of $103 million charged to Federal programs are necessary and reasonable (see page 20 ).

■ The Municipality of Toa Baja, Puerto Rico, expended $484,000 in violation of procurement and financial management requirements. Another $570,000 in program costs have been questioned (see page 21 ).

**Multifamily and Single Family Insured Programs**

■ HUD Field Offices' administration of the Section 202 program may have resulted in increased construction costs of about $34.6 million. Also, fund reservations of $134.5 million have been obligated for projects that might not be constructed (see page 24 ).

■ Improved controls are needed to prevent the physical and financial deterioration of HUD-insured projects (see page 25 ).

■ HUD instructions on the use of promissory notes and working capital deposits are unclear and result in improper use of operating revenues (see page 27 ).

■ Mismanagement of the Bulk Sales program may have deprived HUD of over $5 million in additional sales revenues (see page 29 ).

■ Mismanagement of the Single Family Property Disposition program has caused losses to the mortgage insurance fund and excessive holding costs (see page 31 ).

**Government National Mortgage Association**

■ Monitoring of mortgage-backed securities issuers is untimely and inefficient (see page 32 ).

**General Administration**

■ A proposed contract for loan servicing that was questionable in terms of current servicing requirements was withdrawn (see page 33 ).

■ As the result of inadequate contract development and analysis, HUD was prepared to award an unnecessary contract in the amount of $500,000 for technical assistance to sites participating in the Minority Youth Training Initiative (see page 34 ).

## Investigation Activities

Investigation activities during the reporting period include criminal matters resulting in prosecutions and convictions and investigations of violations of Departmental regulations and policies. Highlights include:

■ 626 new investigation cases were opened involving HUD personnel and/or persons or firms doing business with HUD. Approximately 62 percent of these cases involved false statement allegations in HUD housing programs (see page 35 ).

■ 624 investigation cases were closed following completion of prosecutive or administrative action. Approximately 23 percent of these cases involved landlord/tenant fraud in the rental assistance program. 17 percent related to the Title I housing program. Approximately 11 percent of the cases involved HUD employees, and 10 percent pertained to public officials (see page 36 ).

■ 143 investigation cases were referred for prosecutive consideration (see page 37 ).

■ 191 indictments and 125 convictions of persons or firms having business with HUD resulted from investigations (see pages 37 through 38 ).

■ Administrative actions were initiated against 52 HUD employees following investigations (see page 42 ).

## Fraud Control Activities

During the reporting period, the HUD Secretary, Principal Staff, and the Office of Inspector General continued to work together in an effort to curb fraud, waste, and mismanagement. An additional OIG initiative in our fraud control effort is the use of microcomputers in various audits and investigations.

### Microcomputers

■ During the reporting period, OIG staff used microcomputers to perform a wide variety of assignments aimed at minimizing fraud and abuse. Microcomputers have increased our effectiveness and enabled staff to perform tasks otherwise not feasible (see pages 45 through 47 ).

### Committee on Fraud, Waste, and Mismanagement

■ The Task Force on a Quality Control System for Tenant Eligibility issued an interim report on coordinating the implementation of the System (see page 47 ).

■ The Committee is continuing to work with Departmental officials to get the provisions of the Fraud Reform Legislation enacted (see page 47 ).

■ In August 1984, the Committee issued a report to the Under Secretary making recommendations concerning the Fraud Vulnerability Assessment System (see page 48 ).

### Employee Awards

■ During the reporting period, the OIG recommended awards for two HUD employees for their efforts in uncovering fraud and mismanagement (see page 50 ).

### Employee Awareness Program

■ We issued four additional Fraud Information Bulletins entitled "Improving Internal Controls," "Conventional Low-Rent Housing Program," "Tenant Eligibility," and "Diversions of Funds from Multifamily Projects" (see page 50 ).

### Hotline Activities

■ Our office received and processed 157 hotline complaints and closed 213 complaints (see page 51 ).

## Cooperative Efforts

During the reporting period, we participated in several special cooperative efforts with other Federal agencies and non-Federal organizations. Highlights include:

### President's Council on Integrity and Efficiency

■ A report was published describing the results of the project on inspection activities in the IG community (see page 54 ).

■ The Communications and Awareness Committee issued a report recommending specific ways to assist IGs in exchanging information (see page 54 ).

■ The Prevention Committee is continuing work on projects aimed at establishing methods to prevent and detect fraud and abuse (see page 55 ).

### Single Audit Concept

■ We have been working with the International City Management Association to assist in implementing the single audit concept at their organization (see page 55 ).

**Intradepartmental Projects**

■ Our Office of Fraud Control and Management Operations assisted in several major efforts in implementing internal controls in the Department (see page 56 ).

**Interagency Projects**

■ Our Office of Audit participated: (1) with the General Accounting Office in a review of the Department's second year implementation of OMB Circular A-123 and the Federal Managers' Financial Integrity Act; and (2) in a governmentwide audit of cash management practices led by the Department of the Treasury OIG (see page 56 ).

## Review of Legislation and Regulations

Some of the more significant current legislation, legislative proposals, regulations and other issuances with which we expressed our concerns during the reporting period are described as follows:

■ Section 119(g) of Title I of the Housing and Community Development Act of 1974 does not permit HUD to recapture funds that have already been expended on eligible activities even though the conditions of the original grant agreement were never met. We do not believe the Act intends cities to be permitted to retain funds when the economic development benefits intended by Congress were not accomplished. A change to the legislation may be necessary to prevent cities from gaining windfall revenues (see page 58 ).

■ Although we had reservations about H.R. 5646, a bill concerning employee awards for disclosure of fraud, waste, and abuse, we supported a 3-year extension of the cash awards program. The bill was subsequently not passed by Congress (see page 58 ).

■ We opposed amendments in S. 2819 which concerns various housing and community development laws and amends the Housing and Urban-Rural Recovery Act of 1983 (see page 59 ).

■ We nonconcurred with proposed amendments to HUD regulations which set forth requirements under which a block grant recipient may draw grant funds in one lump sum to finance the rehabilitation of privately owned real property (see page 59 ).

■ We nonconcurred with proposed amendments to HUD regulations governing mortgage insurance for multifamily rental housing and nursing homes (see page 60 ).

## Audit Resolution

During the reporting period, OIG and non-Federal audits were instrumental in recovering and reprogramming significant amounts of improperly used funds. In addition, our efforts continued in following up on OIG audit reports where HUD officials did not act promptly on sustained audit findings, as well as unresolved OIG and GAO audits over 6 months old.

■ During the reporting period, cash recoveries resulting from OIG and non-Federal audits amounted to $28.9 million; questioned/disallowed costs sustained by HUD management amounted to $40.7 million; the value of unresolved audit findings was $91 million (see page 63 ).

■ In some cases, HUD officials have not acted promptly on sustained audit findings, thus diminishing the possibility of collection (see pages 64 through 67 ).

■ At the end of the reporting period, there were 13 unresolved OIG audits and eight unresolved GAO audits over 6 months old (see pages 68 through 70 ).

## Chapter 1

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

This chapter details the significant problems, abuses, and deficiencies, along with the required recommendations for corrective action, relating to the Department's operations and programs for the current period. The chapter is divided into seven areas: Multi-agency Efforts; Assisted Housing; Community Planning and Development; Multifamily Insured Housing; Single Family Insured Housing; Government National Mortgage Association; and General Administration.

### Multi-Agency Efforts

During the reporting period, there were a number of occasions where other Federal, State, and/or local agencies worked with us on audits and investigations. These multi-agency efforts are an integral part of our plan to fight fraud, waste, and inefficiency in HUD programs. Two of the more significant efforts during the reporting period involve the East St. Louis Housing Authority, East St. Louis, Illinois, and mortgage loan fraud in Camden, New Jersey. These two efforts are summarized below.

**Diversions of Money from East St. Louis Housing Authority**

HUD monies designated for the construction and modernization of two buildings in East St. Louis, Illinois, were not used for their intended purposes.

The FBI conducted an investigation into the alleged fraudulent disbursement of East St. Louis Housing Authority (ESLHA) funds. As a result, a contract architect was indicted and pled guilty. He was sentenced to 1 year probation and fined $5,000 on September 29, 1983, for falsely certifying to the completion of work on a modernization construction contract. Subsequently, a survey of the ESLHA was conducted by the HUD-OIG Office of Audit during the latter part of 1983 and disclosed several areas which appeared to have contributed significantly to ESLHA financial problems.

A joint investigation by the FBI, IRS, and the HUD-OIG Offices of Audit and Investigation was started to resolve those matters indicating that payments for renovating and modernizing two low-income public housing buildings were fraudulent. The investigation was based on allegations that the former Executive Director of the ESLHA, in collusion with two contractors, approved payments for work he knew was not performed.

On July 18, 1984, the former Executive Director of the ESLHA and the two contractors were indicted by a Federal Grand Jury. They were charged with causing the ESLHA to disburse about $1.4 million to the contractors when only about $150,000 worth of work was actually performed. One count of the 18-count indictment charged the individuals with conspiracy. The remaining 17 counts charged the former Executive Director with submitting false statements to HUD, receiving bribes of $116,834, embezzling monies, and failing to disclose $332,881 on his income tax returns.

The review of the operations of the ESLHA is still ongoing.

**Real Estate Brokers Commit Mortgage Origination Fraud**

Various real estate brokers in Camden, New Jersey, have purchased HUD-held properties, inflated the value of the properties, and used strawbuyers in securing HUD-insured mortgages.

A task force of investigators and auditors from the HUD-OIG, VA-OIG, and FBI determined that these individuals purchased properties from HUD and private citizens for nominal amounts. Through a series of methods such as using strawbuyers, creating identifying information, and inflating repair costs to a home, they assisted buyers in obtaining HUD-insured mortgages at a substantially greater value than the purchase price. They also advised applicants to use false Social Security numbers on their mortgage applications so that bad credit information about them would not be reported by credit bureaus. Many of the buyers were not qualified for their loans and could not make the mortgage payments, causing the loans to go into default. VA-guaranteed mortgages and Certificates of Reasonable Value were used in the scheme.

Three real estate brokers were indicted by a Federal Grand Jury between June and September 1984 for making false statements to HUD. One pled guilty in June 1984; two are scheduled for trial in November 1984. These three brokers are charged with fraudulently obtaining over $1 million in government-insured mortgages. There has been widespread media attention to this investigation and problem, including a segment on the "60 Minutes" show in June 1984.

For additional details, see the write-up on "Mismanagement of the Bulk Sale Program Results in Lost Revenues/Increased Costs" under Single Family Insured Programs in this chapter.

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## Assisted Housing Program

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; operating subsidies in excess of $1 billion; and modernization funding in excess of $1.5 billion.

Assistance payments for the 1.3 million Section 8 units exceed $3 billion annually. This does not include annual funding of more than $190 million for the Section 8 Moderate Rehabilitation Program.

### Improved Administration of Section 8 Moderate Rehabilitation Program Needed to Prevent Excessive Rents

The Section 8 Moderate Rehabilitation Program (MRP) was established to upgrade substandard rental housing and to provide rental subsidies for lower income families. To achieve this purpose, HUD enters into Annual Contributions Contracts (ACCs) with public housing authorities (PHAs) to administer the MRP. The PHA solicits applications from owners or developers and then determines whether units are eligible for inclusion in the MRP. To qualify, a unit must require a minimum repair expenditure of $1,000. Only certain types of repair work are eligible.

After units are determined eligible, the PHA and the owner sign an agreement to enter into a Housing Assistance Payment (HAP) contract. After the rehabilitation work has been accepted, the HAP contract is executed for 15 years and stipulates the rent to be received by the owner. Currently, there are 62,814 units under HAP agreement and 50,944 units under HAP contract.

During the last 6 months, our office audited 16 PHAs administering the Section 8 MRP to determine the adequacy of PHAs' processing of units and whether PHAs properly computed rental rates.

Among the significant deficiencies disclosed in these audits were:

- Base and contract rents were frequently calculated using excessive, unsupported, or unallowable costs.

- Units were included in the MRP even though they did not meet eligibility requirements.

Excessive base and contract rents were identified during these audits as discussed below. Recommendations in the reports included taking actions to recapture excess contract authority, recompute the questioned contract rents, and obtain repayments from owners for overpaid housing assistance payments.

The following examples illustrate the types of problems noted during our audits.

- Philadelphia, Pennsylvania Housing Authority - Three specific departures from acceptable processing procedures resulted in the computation of excess rents that could total $19.1 million over the 15-year term of the ACC. First, the PHA entered into binding agreements for 255 units after the maximum 24-month leasing period had expired. Second, the PHA accepted a 100-unit apartment complex that did not meet eligibility requirements. Third, the PHA's calculation of contract rents included questionable cost data concerning actual rehabilitation work done. The possible excess contract rents associated with each item were $16 million, $2 million, and $1.1 million, respectively.

The audit report, "Section 8 Moderate Rehabilitation Program, Philadelphia Housing Authority," was issued to the Regional Administrator-Regional Housing Commissioner on June 14, 1984. The Assistant Secretary for Housing-Federal Housing Commissioner has waived the requirement for recapturing all units not leased within the 24-month leasing period. However, funding for 124 units has been recaptured. Agreement on the resolution of the other findings has not been reached between the OIG and program staff, primarily because the findings involve legal issues.

- Winston-Salem, North Carolina Housing Authority - We questioned the acceptability of a 169-unit complex ($10.1 million in Section 8 assistance) because all required renovation work was completed prior to application. In addition, we noted that 16 of the units should have been excluded because the tenants were not eligible for Section 8 assistance and that contract rents were excessive because the owner claimed excessive debt service costs. Thus, even if the project is determined to be eligible, the excessive rents will total about $4.1 million over the 15-year contract term.

The audit report, "Housing Authority of the City of Winston-Salem, North Carolina," was issued to the Greensboro Office Manager on April 18, 1984. The owner has appealed HUD's original decision to recompute the rents; final resolution is pending a legal opinion.

- Baltimore City, Maryland Housing Authority - Because the PHA delayed program implementation, the fair market rents increased to the point that the total ACC authority for 740 units was used to fund only 555 units. In addition, 302 units were leased after the 24-month leasing period had expired. Thus, significant amounts of HUD funds were obligated in a questionable manner by the PHA. The 15-year commitments for these two items are about $8.6 million and $23 million, respectively.

The audit report, "Section 8 Moderate Rehabilitation Program, Housing Authority of Baltimore City," was issued to the Baltimore Office

Manager on June 7, 1984. On August 8, the Baltimore Office sent the report to the Housing Authority. Agreement on resolution of the findings has not been reached between the OIG and program staff.

■ Greenville, South Carolina Housing Authority - When the PHA executed the agreement to enter into a HAP contract, 23 units of a 204-unit complex were occupied by families that were ineligible for Section 8 assistance. Moreover, certain cost data furnished by the owner was questionable, resulting in excess contract rents. The amounts associated with each item were $1.2 million and $1 million, respectively, over the 15-year contract term.

The audit report, "Housing Authority of the City of Greenville, South Carolina," was issued on June 29, 1984, to the Columbia, South Carolina Office Manager. The Columbia Office advised the Authority to provide additional information in order to resolve the findings. To date, no information has been provided.

■ St. Louis County, Missouri Housing Authority - The Housing Authority financed several MRP multifamily projects using different bond issues that required bond reserve funds. Contract rent computations were excessive because debt service payments on the bond reserve funds were included as costs. About $1.4 million in excessive contract rents could be paid over the 15-year contract term.

The audit report, "Housing Authority of St. Louis County, Missouri," was issued to the St. Louis Office Manager on April 27, 1984. The St. Louis Office has agreed that interest payments on bond reserve funds should not be included in rent computations.

■ Metropolitan Dade County, Florida Housing Authority - Contract rent computations were questioned because the PHA erred in selecting rent formulas, calculating rents, and verifying owner acquisition, rehabilitation, and operating costs. We estimated that potential excess assistance over the 15-year contract term would approximate $2.4 million.

The audit report, "Housing Authority of the Metropolitan Dade County Department of Housing and Urban Development," was issued on August 1, 1984, to the Jacksonville Office Manager. A response was received on October 26, 1984, and program officials agreed to take the corrective actions recommended.

*HUD's Committee on Fraud, Waste, and Mismanagement is conducting a study on problems with HAP contracts. Currently, there is a question as to whether HUD has the authority to require adjustments to HAP contracts.* *See Chapter 3 for additional details.*

**Deficiencies Continue at the Washington, D.C. Property Management Administration**

*Problem*

Significant improvements in program operations have not been made at the Property Management Administration (PMA), Washington, D.C., despite numerous reports citing the deficiencies. Poor maintenance, high vacancies, inadequate rental collections, and ineffective management systems have caused the loss of significant amounts of Federal funds.

*Discussion*

The PMA administers a low-income housing program consisting of approximately 11,600 units. HUD subsidies amounting to $22.2 million are about 55 percent of the total revenue. The PMA was designated as financially troubled in 1979. However, because the PMA has not taken the necessary steps to correct its financial and managerial problems, it continues to have difficulties.

Our audit report points out operational deficiencies in five key areas that have been evident since 1970. Among the major weaknesses were:

■ Rental Collections. Tenant accounts receivable balances approximate $4.8 million while the monthly rent roll is $1 million. The PMA's failure to evict non-paying tenants, assess late fees, use collection agencies, and coordinate collection activities contributes to the unacceptably high balances.

■ Vacancy Problems. From 1978 through 1983, the PMA received $2.9 million in operating subsidies for units that were vacant for extended time periods. At September 30, 1983, 1,321 units were vacant; 831 units were vacant more than 6 months, of which 151 were vacant for over 3 years. The loss of approximately $1.4 million in rental income due to vacancies is attributable to an inefficient modernization program and poor performance in preparing vacated units for reoccupancy.

■ Maintenance Problems. The PMA spent $12.9 million during Fiscal Year 1983 for maintenance. However, units continue to deteriorate and costs for repairs escalate. We noted that skilled personnel were performing unskilled labor, 60 percent of staff time could not be traced to work orders, and preventive maintenance was given little or no emphasis.

■ Utility Consumption. The PMA has not controlled energy consumption. Estimated potential savings based on Fiscal Year 1983 expenses could range between $5.8 and $11.6 million by establishing an effective energy conservation program. Also, the PMA may be required to return $1.1 million in operating subsidies to HUD because it did not maintain data for its fixed base period consumption.

Additional deficiencies noted during our audit included inadequate controls over nonexpendable equipment and interest income, noncompliance with the tenant selection plan, and improper internal management and accounting practices.

Recommendations were made to: (1) improve rental collection activities and take necessary eviction actions; (2) reduce turnaround time and develop a plan for reoccupying vacant units; (3) institute effective procedures and organizational changes regarding maintenance operations; (4) establish a utility monitoring system and conduct required energy audits; (5) control nonexpendable equipment; and (6) comply with the tenant selection plan.

*Status*

The audit report, "Property Management Administration, District of Columbia, Department of Housing and Community Development," was issued on August 17, 1984, to the Manager of the Washington, D.C. Office. A response to the report was due by October 16, 1984; however, it had not been received as of October 29, 1984.

We have been advised that a draft workout plan, or "operational improvement plan," is currently under review by HUD and the D.C. Mayor's Office. The plan sets forth the PMA's problems and causes as well as the corrective actions needed to resolve them. HUD's Washington, D.C. Field Office will monitor the implementation of the plan.

**Management Improvements Needed at San Francisco Housing Authority**

*Problem*

Inefficient management practices restricted the ability of the San Francisco, California Housing Authority (SFHA) to operate its projects effectively, efficiently, and economically. As a result, significant revenues were lost and low-income families were not provided safe and sanitary housing.

*Discussion*

The SFHA administers about 9,360 low-income housing units. HUD subsidies of $17.3 million represented about 63 percent of the SFHA's total revenues of $27.5 million during Fiscal Year 1983.

The SFHA has experienced significant problems in the management of an effective maintenance program. Maintenance costs were excessive yet many units remained vacant for extended periods of time. We estimated that during the past 5 years, the SFHA received operating subsidies of $3 million on units that were vacant.

The SFHA did not operate in an efficient and economical manner in several other key areas. We noted that tenant management and procurement practices need improvement to enhance revenues and decrease expenses. Other areas requiring strong management actions include the City's sharing more of the SFHA's protective services costs, improving the accuracy and timeliness of financial reports, properly assessing tenants for damages to units, establishing work standards to improve efficiency, and equitably distributing salary costs to the various programs that the SFHA administers. We also questioned the SFHA's calculations for Fiscal Years 1983 and 1984 Performance Funding System subsidies.

Recommendations were made to: improve maintenance operations; develop plans to speed reoccupancy of habitable units; improve tenant management and procurement practices; and comply with HUD financial reporting requirements. Numerous other recommendations were made including the need for the HUD San Francisco Office to monitor the implementation of corrective actions.

*Status*

The audit report, "San Francisco Housing Authority, Low-Income Housing Program," was issued to the Acting Regional Administrator-Regional Housing Commissioner on June 20, 1984. An initial response was received on September 24, 1984; however, it did not resolve the audit report findings. The final response was received on October 15, 1984. Agreement was reached on resolution of the findings between the OIG and program staff. Final implementation of corrective action is scheduled for October 31, 1985.

**Improper Practices Diminish Return on Investments**

*Problem*

The Memphis Housing Authority (MHA), Memphis, Tennessee, violated HUD investment requirements through large scale and risky investments. The MHA could have earned $1.2 million more had they followed HUD policies.

*Discussion*

HUD provides operating subsidies to public housing authorities with the provision that the authorities follow HUD regulations as well as sound financial and management practices.

Based on the Regional Administrator's request, we audited the MHA's investment program for the 30-month period July 1981 through December 1983. During that period, the MHA investment program averaged 58 transactions and $46 million per month. The MHA's primary investment vehicle was long-term bonds considered to be risky because of possible wide fluctuation in the money market. A majority of the investments were made through a unique financing technique called the Reverse Repurchase Agreement. The MHA also speculated by buying and selling bonds on the same day. These practices were improper and without HUD approval.

Although the MHA incurred a $2 million loss at the time they liquidated their portfolio, a $300,000 net profit was realized on all transactions during the 30-month period. We estimated that by simply investing in risk-free 90-day Treasury Bills, the MHA would have earned $1.5 million, or $1.2 million more than they did earn.

Actions taken during the audit period to freeze the MHA's investment activities and obtain professional assistance in liquidating the problem portfolio have substantially corrected the improper investment practices. However, additional actions recommended included: (1) monitoring the MHA's investment program; (2) requesting Regional Counsel to review the case for possible administrative actions against responsible parties; and (3) providing regional public housing authorities with HUD instructions on allowable investment practices.

*Status*

The audit report, "Memphis Housing Authority Investment Practices," was issued on April 10, 1984, to the Regional Administrator-Regional Housing Commissioner. On July 20, 1984, program staff agreed to implement the recommendations. As of October 29, 1984, program staff were conducting a study and evaluation of the MHA's investment practices.

**$3.3 Million in Development Funds Not Recaptured**

*Problem*

Field Offices did not comply with specific Headquarters instructions dealing with the recapture of development funds in the Public Housing program preconstruction pipeline. Tests at the Philadelphia and Washington, D.C. Offices show that $3.3 million were not recaptured as required.

*Discussion*

The Fiscal Year 1984 HUD Appropriations Act required that recaptured budget authority be reused to fund the Section 202/8 program for the elderly and handicapped. To achieve the budget program agreed to with the Congressional Appropriations Committees, Headquarters issued specific recapture instructions to Regional Administrators and Field Office Managers concerning public housing projects in the preconstruction pipeline.

We reviewed managers' compliance with Headquarters instructions at the Philadelphia and Washington, D.C. Offices. The audit disclosed that only nine of 20 projects where construction start was to be achieved by May 3, 1984, actually met the deadline. In addition, we noted that only nine of 24 projects that received final site approval between May 1983 and February 1984 met HUD requirements. Thus, about $3.3 million were not recaptured as required.

Recommendations included: (1) terminating projects and recapturing fund reservations on those projects in question; (2) determining any outstanding and unpaid liabilities on the projects; and (3) requiring Field Offices to provide a copy of each letter notifying housing authorities of project termination and recapture of funds.

*Status*

The audit report, "Termination of Development Projects in the Preconstruction Pipeline, Philadelphia and Washington Field Offices," was issued to the Regional Administrator-Regional Housing Commissioner on September 14, 1984. The Regional Office has sent the report to the Philadelphia and Washington Offices for review. A response is due by November 20, 1984.

Additional review work is underway to determine the reasons for noncompliance with specific Headquarters instructions. We expect to issue a nationwide audit report in the second quarter of Fiscal Year 1985, which will identify by name, if appropriate, those Regional officials who were responsible for noncompliance with Headquarters instructions.

**Guidelines for Section 23 Leased Housing Are Inadequate to Efficiently Administer the Program**

*Problem*

HUD policies and procedures governing the Section 23 Leased Housing program have not kept pace with changing operating conditions. Consequently, funds were accumulated in public housing authority (PHA) reserve accounts, project units were allowed to deteriorate, and operating and restoration costs were excessive.

*Discussion*

The Section 23 Leased Housing program provides annual contributions to PHAs for leasing privately owned units to low-income families. Although the program was discontinued in 1974, existing units will not be phased out until about 1995. Because HUD managers consider the program obsolete, little attention is placed on keeping policies and procedures current with changing operating conditions. Moreover, little emphasis is placed on reviewing operating budgets or monitoring PHA performance.

Annual contributions payments include amounts to fund maintenance reserve accounts. However, HUD has not established guidelines for using or controlling these reserves. Over the years, 17 projects reviewed in the Atlanta Region accumulated $1.6 million in such reserves. These reserves were not considered as a funding source when HUD reviewed PHA operating budgets and were not used to offset the operating subsidies paid for the projects. We estimated that the total reserve balance for the 10,768 bond-financed units in the Atlanta Region approximates $7.3 million.

Leased project owners are responsible for some maintenance and other expenses. Thus, at any given PHA, the total operating cost per unit for the leased program should be significantly less than the conventional program. In the Atlanta Region, we noted that for the same number of units and the same services, leased operating costs exceeded conventional operating costs by about $3.6 million. HUD has neither established a limit on leased housing operating subsidy amounts as they have for conventional projects nor provided instructions for cost allocation systems. As a result, many PHAs have been allowed to receive excess subsidies by charging conventional costs to the leased program.

Due to inadequate routine maintenance, vandalism, and poor construction, leased units have deteriorated markedly in the Atlanta Region. Based on actual and budgeted costs, we estimate that for the Region's 17,184 leased units, $69 million will be needed to restore projects to their original condition for return to owners or to continue them in the conventional program after lease expiration. We attribute these conditions to HUD's poor planning regarding the ultimate use of the projects and to HUD's paying operating subsidies for uninhabitable units.

Recommendations were to: (1) establish controls over maintenance reserves, operating expense budgets, and operating subsidies; (2) develop plans for future restoration and/or disposition of leased projects; and (3) establish practices to overcome deterioration and vacancy problems.

*Status*

The audit report, "Section 23 Leased Housing," was issued to the Assistant Secretary for Public and Indian Housing on May 15, 1984. Responsibility for the Section 23 Leased Housing program was assigned to the Assistant Secretary for Housing-Federal Housing Commissioner on August 30, 1984. Housing's response to our final report has not yet been received.

**Revised HUD Instructions Needed to Preclude Subsidy Overpayments**

*Problem*

HUD's guidance continues to be inadequate concerning the performance of rent comparability tests by State Housing Finance and Development Agencies (SHFDAs). Thus, some SHFDAs are receiving significant amounts of excess subsidies.

*Discussion*

Under the Section 8 Housing Assistance Payments Contract, rents may be increased annually by a HUD-established adjustment factor. Adjustments are limited so that material differences do not exist between the rents charged for assisted units and comparable unassisted units. An exception to this comparability test is allowed if the differences existed at the time of contract execution.

We completed a review of the Connecticut State Housing Finance Agency and noted that their comparability tests were based on the percentage difference between rents charged for assisted and unassisted units. We estimated that if the comparability tests were based on actual dollar differences rather than percentage differences, subsidy payments would have been $478,000 less.

In an April 1983 audit report, we cited problems caused by Headquarters' providing inadequate guidance to Field Offices and SHFDAs concerning comparability tests. In response to that report, the Office of Housing proposed, but never issued, instructions calling for comparability tests based on dollar differences. The continued lack of clear guidance has compounded the previous problems as illustrated in the Connecticut SHFDA.

*Status*

We issued a survey memorandum to the Assistant Secretary for Housing-Federal Housing Commissioner on June 4, 1984. The rent comparability review procedures are scheduled for issuance by December 31, 1984.

## 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 government and States for the funding of local community development programs. In Fiscal Year 1984, approximately $2.4 billion were budgeted for assistance to 790 entitlement communities and approximately $1 billion were budgeted for the State Small Cities Program which serves 47 States and Puerto Rico. Another $440 million were budgeted for Urban Development Action Grants to assist severely distressed cities in the revitalization of deteriorated neighborhoods. The Jobs Bill provides an additional $1 billion for community development projects which are designed to reduce unemployment.

**Improvements Needed in Award of Consultant Contracts by Small Cities Grantees**

*Problem*

Deficiencies exist in the selection of consultants and the execution of consultant contracts by Small Cities grantees. As a result, grantees cannot ensure that they are obtaining the best prices and services.

*Discussion*

Federal regulations governing Small Cities grant recipients specify certain requirements regarding the use of consultants. These requirements cover rates of compensation, written agreements for services to be provided, and cost adjustments based on audit and monitoring reviews.

Small Cities grantees that use consultants have not established proper procurement procedures and have placed too much reliance on consultants for fulfilling the grantees' program responsibilities and requirements. As a result, grantees have not achieved maximum open and free competition in contracting with consultants and have not ensured that the best prices and services are being obtained.

We found numerous instances where: (1) the consultant first contacted the grantee and was awarded a contract; (2) the grantee contacted only one consultant before awarding a contract; (3) grantees could not demonstrate that reasonable efforts had been made to obtain more than one proposal when formal advertising was used; (4) the contract fee was determined without competitive negotiation; and (5) the consultant's qualifications were not documented.

We also found that contracts were prepared by the consultants and were not in accordance with proper procurement procedures, i.e., contracts contained cost-plus-a-percentage-of-cost provisions. This not only led to contracts which contained only a vague description of the consultant's duties and responsibilities, but also resulted in the incurrence of improper or excessive program costs.

In our draft audit report, we recommended that the Assistant Secretary for Community Planning and Development (CPD) provide the States with detailed instructions and technical assistance for use by grantees that use or intend to use consultants. We also recommended that, subsequent to providing this technical assistance, HUD should monitor the States to ensure that they are training and/or issuing program directives to grantees. On May 15, 1984, the Assistant Secretary for CPD responded that he had initiated appropriate actions in line with our recommendations.

*Status*

The audit report, "Use of Consultants to Administer Small Cities CDBG Program Activities," was issued to the General Deputy Assistant Secretary for Community Planning and Development on July 12, 1984. Program staff have agreed to implement the recommendations. This includes immediate issuance of a Notice detailing procurement procedures for recipients and a revision to the CPD monitoring handbook. The handbook revision is targeted for

March 31, 1985.

*As part of our fraud control effort, our Office has been meeting with representatives of the Council of State Community Affairs Agencies, which is an association of Small Cities block grant recipients. They have requested technical advice on management issues and fraud and abuse concerns in the Small Cities program. We are working with them to develop educational workshops which will be presented to local government administrators during the next year.*

**Use of Rehabilitation Escrow Accounts Increases Federal Borrowing Costs**

*Problem*

Community Development Block Grant (CDBG) grantees have maintained excessive amounts of CDBG funds in escrow accounts. As a result, the Federal Government could be incurring $4.3 million annually in unnecessary borrowing costs.

*Discussion*

One of the primary activities carried out by grantees under the CDBG program is rehabilitating private properties through direct loans and grants to property owners. Escrow accounts are established by many grantees to deposit funds drawn down in advance from their letter-of-credit for their rehabilitation programs. Under this procedure, a loan or grant to be provided by the grantee is drawn down on approximately the date of contractor selection or loan/grant closing. These funds are then placed in an escrow account. As rehabilitation work progresses, the contractor is paid from the escrow account.

We reviewed 10 CDBG grantees and found that the average month-end balances maintained in the escrow accounts ranged from $33,000 to $728,000. This represents from 4 to 17 times their average weekly disbursement requirements. The borrowing cost to the Federal Government for providing these funds to the grantees in advance of their immediate needs was $570,000. Based on the extent of the use of rehabilitation escrow accounts nationwide, we estimate that the government could be incurring $4.3 million annually in unnecessary borrowing costs.

Current HUD regulations and issuances do not specifically provide for rehabilitation escrow accounts, nor do they address treatment of interest earned on the escrowed funds. However, handbook instructions and CDBG regulations require grantees to time letter-of-credit drawdowns to coincide with their actual immediate cash requirements for the CDBG program, so that an escrow account should not be necessary. HUD regulations also require interest earned on advances of Federal funds to be returned to the government.

Both the Office of Management and Budget and the Department of Treasury have informed HUD that the escrow method is not an acceptable Federal cash management practice. However, since 1979, HUD's Office of Community Planning and Development (CPD) has failed to issue instructions preventing the use of escrow accounts by grantees.

Recommendations were that: (1) instructions be issued to Field Offices requiring CPD representatives to evaluate grantees' rehabilitation escrow accounts; (2) grantees be required to return any funds not immediately needed to their letter-of-credit, (3) grantees be required to limit drawdowns for their rehabilitation programs to the minimum amount needed for immediate funding; and (4) in the future, grantees be required to return to the government all interest earned on advances of Federal funds, including advances placed in rehabilitation escrow accounts.

*Status*

The audit report, "Use of Rehabilitation Escrow Accounts by Community Development Block Grant Recipients," was issued to the Assistant Secretary-Designate for Community Planning and Development on September 7, 1984. A response to the report is due by November 6, 1984.

**Weaknesses in the Buffalo Office Result in Questionable 312 Loans**

*Problem*

The Buffalo, New York Office has not processed multifamily rehabilitation loans according to proper procedures and has not adequately monitored local processing agencies. This has resulted in the approval of loans that may not have been financially feasible.

*Discussion*

Section 312 loans are made to property owners to rehabilitate single and multifamily housing and nonresidential properties. Under this program, HUD uses local processing agencies (LPAs) to process loan applications, monitor rehabilitation work, and make payments to contractors when work is completed.

Our review of 23 multifamily loans totaling $3.2 million disclosed that the Buffalo Office did not follow HUD's processing procedures. The Office routinely approved waivers of competitive bidding for the selection of contractors, or permitted borrowers to act as general contractors without adequate assurances that rehabilitation costs were reasonable or that borrowers were qualified to act as general contractors. In addition, because the Buffalo Office did not adequately evaluate borrowers' ability to repay loans, the repayment of at least four loans totaling over $1 million is questionable.

We also found that the Buffalo Office's administrative procedures were weak in three areas: tracking the progress of loans, servicing loans, and approving and monitoring LPAs participating in the program. In some cases, the Buffalo Office did not identify deficiencies in the LPAs' program administration, while in other cases, Buffalo's monitoring reviews identified deficiencies, but effective corrective actions were not taken. Similar deficiencies were disclosed in a previous audit report but have not been remedied.

Recommendations included requiring that: (1) effective procedures be implemented to strengthen the review of Section 312 loans; (2) reviews of LPA requests for waivers of competitive bidding be improved; (3) corrective actions be initiated to either rectify improprieties or prevent recurrence of deficiencies found in loans reviewed; (4) procedures used to track approved loans be strengthened; and (5) an effective system to monitor LPA performance be instituted.

*Status*

The audit report, "Section 312 Rehabilitation Loan Program, Buffalo Office," was issued to the Buffalo Office Manager on April 18, 1984. All recommendations in the report have been implemented. Based on the problems noted, we have initiated a nationwide audit to evaluate the management of the Section 312 program.

**Deficiencies in Monitoring Grantees' Cost Allocation Plans**

*Problem*

Four HUD Field Offices did not perform effective and timely reviews of cost allocation plans. They did not identify and correct the indirect costs that grantees improperly charged to the Community Development Block Grant (CDBG) Program. As a result, HUD and other Federal agencies lack assurance that indirect costs of $103 million charged to Federal programs are necessary and reasonable.

*Discussion*

Grantees are responsible for the proper allocation of indirect costs to the CDBG program on an equitable basis, in accordance with OMB Circular A-87, "Cost Principles Applicable to Grants and Contracts with State and Local Governments." The Circular defines indirect costs as those costs which are incurred for a joint purpose and are not readily assignable to a single objective. Grantees are required to support indirect cost charges through a cost allocation plan.

The Columbus, Detroit, Los Angeles, and Newark Offices did not perform effective and timely reviews of cost allocation plans. In our review of 12 plans allocating indirect costs totaling over $103 million, we found that: (1) general government expenses and costs allocable to Federal programs were not properly determined; (2) central services costs were not allocated on equitable bases; (3) duplicate and questionable costs were included; (4) benefits to Federal programs were not demonstrated; and (5) deficient indirect cost proposals were reviewed and approved.

Three of the Field Offices did not adequately identify and correct grantees' noncompliance with Federal requirements that their indirect costs be supported by time records and cost allocation plans. Neither Field Office monitoring nor Independent Public Accountant (IPA) audits identified the improper charges. Fifteen grantees under the jurisdiction of the three Field Offices charged unsupportable indirect costs of $2.6 million to the CDBG program. The grantees could not show that the costs were necessary and reasonable for the efficient administraton of the program.

Recommendations were made for HUD to: (1) establish formal procedures for the submission and review of cost allocation plans; (2) develop a guide and the necesary training for reviewing the plans and identifying deficiencies; (3) prescribe time limits for review of plans; (4) place more emphasis on indirect costs during monitoring reviews and require grantees to support indirect cost charges with proper documentation; and (5) refer to the OIG IPA reports which fail to report known indirect cost deficiencies.

*Status*

The audit report, "Field Office Review of Cost Allocation Plans and Monitoring of Indirect Costs," was issued to the Assistant Secretary-Designate for Community Planning and Development on September 28, 1984. A response is due by November 27, 1984.

**Violations of Federal Requirements Cost HUD $484,000**

*Problem*

The Municipality of Toa Baja, Puerto Rico, disregarded Federal requirements concerning procurement and financial management. Expenditures of $484,000 were made in violation of these requirements. Another $570,000 in program costs have been questioned.

*Discussion*

Community Development Block Grants (CDBG) and Jobs Bill Grants are awarded to local governments to help develop their communities and to create new jobs. Grantees must follow applicable Federal requirements when administering grant funds.

During program years 1981 to 1983, the Municipality of Toa Baja (grantee) awarded 24 construction contracts totaling over $4 million. Eleven were not awarded to the lowest responsible bidder as required by OMB Circular A-102, "Uniform Administrative Requirements for Grants-in-Aid to State and Local Governments," Attachment 0. This resulted in the grantee's paying $428,000 over the amounts proposed by the lowest bidder. Six of the 11 contracts were awarded to the same contractor, who failed to finish some work and overcharged an additional $16,000. The grantee paid $14,000 more than necessary by not buying construction materials from the lowest bidder. Over $26,000 were incorrectly used to pay flood insurance premiums.

Approximately $520,000 were used for questionable improvements (such as street paving, traffic lights, and an access road) not meeting the objectives of the CDBG program. Nearly $50,000 of Federal Insurance Contributions Act contributions and income tax withholdings were used by the grantee instead of being remitted to the Commonwealth of Puerto Rico.

The grantee also failed to maintain a financial management system as prescribed in OMB Circular A-102, Attachment G. Deficiencies existed in the grantee's accounting records, internal controls, financial reporting, and procedures for determining allowable costs.

Recommendations were to require the grantee to reimburse the CDBG program $484,000 using sources other than Federal funds. In addition, the HUD Caribbean Office should determine the eligibility of the $520,000 and $50,000 in costs cited above. The grantee should also establish accounting records, internal controls, and procedures to ensure compliance with OMB Circular A-102.

*Status*

The audit report, "The Community Development Block Grant Program, Municipality of Toa Baja, Puerto Rico," was issued to the Manager of the Caribbean Office on June 15, 1984. The grantee responded to the audit report, and the Caribbean Office is currently reviewing that response.

**UDAG Recipients Not Adequately Monitoring Subgrantees**

*Problem*

Two Urban Development Action Grant (UDAG) grantees did not adequately monitor the subgrantees administering their UDAG funds. As a result, HUD funds were misused, and major grant objectives were not met.

*Discussion*

Urban Development Action Grants are designed to assist severely distressed cities. The UDAG program allows a community to use Federal funds to stimulate private investment and to create jobs. A city which receives a grant may loan the funds or have a subgrantee administer the funds, but the grantee is expected to monitor performance to ensure that grant objectives and applicable requirements are met.

The City of Peabody, Massachusetts, received a $10 million UDAG grant in 1980 and loaned $8.5 million to a corporation to construct two new buildings and to create 1,800 new jobs. Four months before the grant agreement called for project completion, the corporation had constructed only 55 percent of the building space and created only 270 jobs. Our audit found that $1.9 million of the UDAG grant will not be needed and should be returned. In addition, the corporation incorrectly paid $175,000 to a contractor for preparing the UDAG application and misclassified as site development costs $195,000 for the installation of kitchen equipment.

The City of Pittsburgh, Pennsylvania, received a $1 million UDAG grant of which it loaned $370,000 to a developer. The developer was to provide a 1,000-passenger sightseeing boat, a 300-passenger shuttle boat, and a 3-tiered floating entertainment dock with 18,000 square feet per level. The developer purchased and renovated a 1,000-passenger sightseeing boat, but transferred it to another fleet in New York City. Two barges with a total of 15,800 square feet were obtained as a floating dock. The shuttle boat was never purchased.

Many of the deficiencies cited in these reports were directly attributable to poor monitoring. The grantees did not ensure that work was being accomplished, time schedules were being met, and other performance goals were being achieved.

Recommendations in the Peabody audit were to reduce the UDAG grant by $2.3 million. The grantee should also be required to: develop a workable plan to finish the project; achieve (to the extent feasible) the intended goals of the project; and establish a system for verifying and documenting statistics and costs.

Recommendations in the Pittsburgh audit were to recapture interest and principal payments from the developer for failure to provide the project activities. In addition, the grantee should reimburse HUD for all disallowed, unsupported, or ineligible costs and should improve its accounting controls to comply with Federal requirements.

*Status*

The audit report, "City of Peabody, Massachusetts, Urban Development Action Grant," was issued to the Regional Administrator-Regional Housing Commissioner on May 15, 1984. Amounts in two findings in the report have been agreed to by HUD management and accounts receivable have been established. The other two findings have been closed based on promised action.

The audit report, "City of Pittsburgh, Pennsylvania, Urban Development Action Grant Program," was issued to the Manager of the Pittsburgh Office on August 30, 1984. As of October 29, 1984, we had not received a response.

### Over $800,000 in Excess Grant Funds Not Returned to HUD

*Problem*

The Boston, Massachusetts, and Manchester, New Hampshire Field Offices have not obtained the required project completion certificates which are necessary to assure the final settlement of Urban Renewal projects that have been closed out. As a result, HUD has not received net proceeds amounting to over $800,000. In addition, grantees are retaining valuable parcels of land, appraised at over $3 million, which, if sold, would result in additional repayments to HUD.

*Discussion*

The HUD contract with Urban Renewal grantees provides that unused grant funds for projects closed out under Section 213 of the Housing Act of 1970 are to be returned to HUD. The net proceeds realized from the disposition of land after the projects are closed out are also to be paid to HUD.

For 10 projects closed out under Section 213, the grantees were required to submit to the Boston and Manchester Field Offices the final project settlement certificates. At least 8 years have passed, and the grantees have yet to submit these closeout financial statements. Inasmuch as project activities have been completed or are no longer to be undertaken, these Urban Renewal projects should be financially settled and the unused funds of over $800,000 returned to HUD.

The grantees have not given the sale of land a high priority, nor have they taken alternative action to dispose of undesirable land. The grantees need to reassess their disposition plans for unsold parcels of land, and the Field Offices should assist them in disposing of the properties as quickly as possible. Neither HUD nor the grantees benefit from holding vacant land appraised at over $3 million.

Recommendations were for HUD to: (1) obtain the final financial certificates for the projects in question; (2) recompute the Federal grant amounts; (3) have the grantees repay any excess funds due HUD; and (4) assist the grantees in establishing property disposition plans and assure that proceeds from land sales are promptly remitted to HUD.

*Status*

The audit report, "Field Office Monitoring of Projects Closed Under Section 213 Early Closeout Procedures," was issued to the Regional Administrator-Regional Housing Commissioner on September 21, 1984. A response is due by November 20, 1984.

*With regard to the closeouts of Urban Renewal projects, Congress has passed legislation which will allow the Cities of Baltimore, Maryland, and Denver, Colorado, to keep surplus income earned from their Urban Renewal programs. On October 17, 1984, the bill was signed into law by the President. See Chapter 5 for additional details.*

## 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 $47 billion in mortgages which are insured or held by HUD. Fifteen hundred of these mortgages, valued at nearly $3 billion, have been assigned to HUD by private mortgagees because of financial defaults. Another $5 billion represent direct loans made by HUD through the Section 202 program which provides rental housing for the elderly and handicapped. In addition, the Department directly owns or operates 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, Section 236, Section 221(d)(3), 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.

### Substantial Savings Can Be Realized Through Better Administration of the Section 202 Program

*Problem*

HUD Field Offices' administration of the Section 202 program may have resulted in increased construction costs of about $34.6 million over original fund obligations. Also, fund reservations of $134.5 million have been obligated for projects that might not be constructed.

*Discussion*

The Section 202 Direct Loan program was authorized by the Housing Act of 1959, as amended. The program was established to provide direct Federal loans to assist private nonprofit corporations and consumer cooperatives in developing new or substantially rehabilitated housing and related facilities to serve the elderly and the handicapped.

Processing of Section 202 loans has been delayed because HUD Field Offices were not adequately resolving application deficiencies during processing. Cost increases of $34.6 million for 86 projects might have been avoided had deficiencies been promptly corrected.

Fund reservations were not cancelled timely for projects that are no longer feasible. Because of significant time lags in starting construction, we questioned the viability of 86 projects for which $134.5 million were obligated. For 42 of the 86 projects, construction was not started 40 or more months after the fund reservation. Since project cancellation actions were not taken, funds for other Section 202 projects were not available.

Our review also identified two projects with excessive replacement reserve fund balances of nearly $500,000. These balances have resulted from HUD procedures requiring that: (1) any unused construction loan contingency funds be deposited in the replacement reserve fund; and (2) initial rents be established using an occupancy factor lower than necessary.

We recommended that HUD's Office of Housing improve Section 202 administration by: (1) reviewing projects awaiting construction which are over 18 months old and justifying those that are not cancelled; and (2) revising handbook instructions to require that: (a) undrawn contingency funds be used to reduce the mortgage when they exceed a predetermined amount or percentage; and (b) a 97 percent occupancy factor be used unless a lower rate can be supported.

*Status*

The audit report, "Section 202 Direct Loan Program for Housing for the Elderly or Handicapped," was issued to the Assistant Secretary for Housing-Federal Housing Commissioner on July 20, 1984. On August 21, 1984, agreement was reached between the OIG and program staff on implementing the report recommendations. The target date for implementation is October 31, 1984.

**Improvements Needed in Approval and Monitoring of Owner and Management Agent Activities**

*Problem*

Improved controls are needed to prevent the physical and financial deterioration of HUD-insured projects. Existing problems include:

- Weaknesses in HUD's approval of management agents have resulted in some unqualified agents participating in multifamily housing programs.

- Deficiencies in HUD's monitoring have allowed owners and agents to divert project funds through identity-of-interest firms.

- Reluctance to impose administrative sanctions has diminished HUD's ability to overcome regulatory violations by owners and agents.

*Discussion*

As a condition of receiving HUD insurance, owners sign a Regulatory

Agreement in which they agree to manage their projects according to applicable laws and regulations. Owners can either manage projects themselves or engage professional management services.

During the semiannual reporting period, we performed audits that identified significant weaknesses in current policies, procedures, and practices relating to multifamily project owner and management agent activities.

An internal audit of HUD's approval and monitoring of management agents disclosed that HUD's handbooks and instructions do not provide adequate guidance. Consequently, there is little assurance that Field Offices are approving only qualified management agents or that management agent deficiencies are promptly identified and satisfactorily corrected. We recommended revising and strengthening HUD guidelines on the approval and monitoring of management agents.

In two other internal audits, we noted HUD's weaknesses in identifying and controlling situations where substantial identity-of-interest transactions existed in multifamily projects. We believe related companies benefited by owners and/or agents' charging excessive costs to HUD-insured projects. We also found that HUD's reluctance to take strong administrative sanctions when significant deficiencies are disclosed tends to compound problems.

Recommendations included: (1) determining whether identity-of-interest management agents should be replaced; and (2) deciding if administrative sanctions should be taken.

One external audit issued during the reporting period further illustrates the need for HUD to improve the monitoring of owner and agent activities. In 1977, HUD insured the mortgage of Smithfield Estates/Villa Versailles for $2.9 million. The mortgagor did not make the required payments and the mortgage was assigned to HUD in 1979. During the next 4 years, the mortgagor made only two payments, and as of November 1983, was in arrears by almost $1.7 million.

Our examination found that the mortgagor, who was also the management agent for the project, diverted or was unable to provide support for over $1.5 million of the project's assets and could not account for over $800,000 of income. The mortgagor's mismanagement caused the project's financial collapse. The bankruptcy resulted in claims against HUD totalling $4.5 million, consisting of mortgage principal balance, delinquent interest, real estate taxes, and HUD service charges.

Recommendations were to immediately remove the mortgagor from any control over the project's operations and to take the necessary legal action to recover all disallowed expenditures.

*Status*

The audit report, "Approval and Monitoring of Management Agents for Multifamily Projects," was issued to the Assistant Secretary for Housing-Federal Housing Commissioner on July 3, 1984. On August 21, 1984, agreement was reached between the OIG and program staff on implementing the report recommendations. The target date for implementation is September 30, 1986.

The internal audits, "Review of Management Agents' Use of Identity-of-Interest Companies," were issued to the Regional Administrators-Regional Housing Commissioners in Boston and Chicago on July 2, 1984, and September 19, 1984, respectively. Based on the Boston report, a temporary denial of participation was issued to the management agent on September 28, 1984. A response is due on the Chicago report by November 18, 1984.

The audit report, "Smithfield Estates/Villa Versailles, North Providence, Rhode Island," was issued to the Regional Administrator-Regional Housing Commissioner on July 2, 1984. At October 29, 1984, we had not yet received a response.

**Inadequate Instructions Result in Improper Use of Funds**

*Problem*

HUD instructions regarding the use of promissory notes and working capital deposits in the development of insured multifamily projects are unclear and result in inconsistent treatment of liabilities and improper use of operating revenues.

*Discussion*

HUD Field Offices are responsible for the development processing of multifamily insured projects. As part of the process, owners must certify to the actual development costs of a project. Two key elements in the cost certification process are: (1) any unpaid obligations exceeding the final mortgage advance must be satisfied by paying cash or issuing stock or promissory notes; and (2) working capital deposits must be established to pay for initial start-up costs. The primary purpose of both these items is to preclude the need to use operating funds to pay development-related costs.

Instructions for using HUD-approved promissory notes for satisfying development cost liabilities are not uniform in all handbooks. In addition, HUD has not provided adequate instructions to Field Offices concerning the treatment of development liabilities shown on annual financial statements which are neither HUD-approved nor disclosed at final endorsement.

Our review of 34 projects disclosed that 28 had $2.2 million in development-related obligations which were not disclosed at final endorsement but appeared on subsequent financial statements, and that $903,673 of these obligations were improperly repaid from project revenues. This problem appears to be widespread. Nationwide, we have issued 196 audit reports on mortgagor operations since 1980 which show that $16.9 million have been disbursed from project operating funds for development-related costs and other unauthorized expenditures.

In addition, HUD handbook procedures on use of working capital deposits are not adequate. We examined 24 projects and found that none had properly used working capital deposits to pay start-up costs. Instead, these costs were paid from project revenues and owner advances. Fifteen projects disclosed initial cash flow problems as evidenced by owner advances and notes payable amounting to $896,300. Working capital deposits established for these 15 projects totaled $701,003. A substantial portion of the projects' liabilities could have been avoided if the working capital deposits had been used and classified as capital contributions.

We recommended that HUD's Office of Housing issue handbook revisions and/or instructions to clarify existing and provide new instructions concerning the use of promissory notes and working capital deposits. The Office of Housing agreed with our recommendation and initiated the suggested corrective action.

*Status*

The audit report, "Use of Promissory Notes and Working Capital Deposits in Multifamily Housing Projects," was issued to the Assistant Secretary for Housing-Federal Housing

Commissioner on May 8, 1984. On July 26, 1984, agreement was reached between the OIG and program staff on implementing the report recommendations. The target date for implementation is April 1985.

**Ineffective Physical Inspection Procedures Allow Projects to Deteriorate**

*Problem*

Loan management personnel have not established effective methods to assure that needed physical inspections are made or that cited physical inspection deficiencies are corrected by project owners or agents.

*Discussion*

HUD Loan Management Branches (LMBs) are responsible for monitoring the physical condition of multifamily projects in management. HUD handbooks provide instructions for performing physical inspections as well as evaluating annual inspections performed by HUD-approved mortgagees.

Our review of LMBs in New York and Newark pointed out that available data is not used to establish priority physical inspection needs. We noted that for 16 of 27 projects tested, there was information available indicating significant physical problems yet no inspections were made because the LMB did not evaluate the information. Rather, other less relevant conditions, such as project location and staff availability, were used to select projects for physical inspections.

We analyzed actions taken on HUD physical inspection reports that cited significant deficiencies. In only four of 28 cases was there evidence that the LMB followed up to obtain corrective actions. We also reviewed project files where mortgagee inspections should have served to make the LMB aware of the projects' physical condition. In 26 of 55 files, the required inspection report could not be located, and in 13 of the remaining 29 cases we noted that the LMB did not follow up on significant deficiencies cited in the inspection reports.

*Status*

The audit report, "Physical Inspection of Projects in Management," was issued to the Assistant Secretary for Housing-Federal Housing Commissioner on September 5, 1984. The Office of Housing has proposed corrective actions to revise appropriate handbook instructions and issue a mortgagee letter. We have requested their implementation dates in their response to the final audit report. The response is due by November 4, 1984.

**Flexible Subsidy Program Could Have Greater Impact on Troubled Multifamily Projects**

*Problem*

HUD Field Office performance for selecting projects, assessing needs, establishing funding levels, and closing out projects needs improvement to assure that the Flexible Subsidy Program is effective.

*Discussion*

The Flexible Subsidy Program was established to correct physical and financial deficiencies resulting from past operating deficits and to fund current estimated operating deficits. These funds supplement other available assistance tools such as mortgage modification, workout agreements, rent increases, Section 8 assistance, and owner contributions.

We reviewed the practices and procedures at two HUD Field Offices (FOs) and visited five funded projects. FOs are not developing data bases during monitoring visits that help identify projects needing physical and management improvements. Thus, flexible subsidy funding has been approved without adequate analysis to select the most needy projects, to specifically pinpoint project needs, and to reliably estimate project costs. We estimated that funds totaling $795,590 were approved for items that were ineligible or not identified as needed prior to funding.

During our reviews and site visits, we found that FOs were not adequately monitoring the flexible subsidy program to identify ineligible expenditures or to close out the projects' programs. We identified disallowed and questioned costs of $171,093 and $156,679, respectively, that FOs might have identified had they complied with HUD Handbook requirements.

Recommendations included implementing better operating practices concerning: (1) selecting projects and project needs for funding on a priority basis; and (2) monitoring project expenditures. We also recommended that FOs either recover funds spent for ineligible costs or obtain adequate supporting documentation for questioned costs.

*Status*

The audit report, "Review of Flexible Subsidy Funds for Multifamily Projects, Region IV," was issued on September 27, 1984, to the Regional Administrator-Regional Housing Commissioner. A response is due by November 26, 1984.

## Single Family Insured Programs

The mainstay of the Single Family Insured Mortgage program is the Section 203 program. As of September 30, 1984, there were 3.8 million mortgages in force for a total of $107 billion. Mortgages are insured by HUD through lenders (approved mortgagees) who originate and process applications to HUD. Also, under the Single Family Direct Endorsement program, approved mortgagees assume the responsibility for originating and closing loans without prior HUD review.

Other major programs within the Single Family area include Graduated Payment Mortgages (Section 245), Homeownership Assistance (Section 235), Temporary Mortgage Assistance, Coinsurance and Title I Programs. These and other active mortgage insurance programs, excluding the Section 203 program, have a total of 1.4 million insurance contracts in force valued at $45 billion.

### Mismanagement of the Bulk Sales Program Results in Lost Revenues/Increased Costs

*Problem*

Inadequate pricing and disposition procedures used by Field Offices may have deprived the Department of over $5 million in additional sales revenues. Sales commissions of $1.8 million authorized and paid to brokers on bulk sales appear unwarranted. In addition, HUD takes unnecessary risks in reinsuring properties previously sold by HUD in bulk packages.

*Discussion*

The primary objective of a Field Office's Single Family Property Disposition program is to reduce the inventory of acquired properties in such a manner as to ensure the maximum return to the mortgage insurance funds consistent with the need to preserve and maintain urban residential areas and communities. The Bulk Sales Program involves selling properties grouped in a package. The Program is a Departmental initiative designed to reduce HUD's acquired property inventory and return the properties to private ownership in a faster and more economical manner than in the past.

Our review was conducted in four Regions, covering six Field Offices: Camden, New York, Memphis, Detroit, Las Vegas and Santa Ana. As of February 29, 1984, 251 bulk packages containing 1,701 properties were sold at these Offices for a total of $30,752,443.

Field Offices failed to adequately consider the benefits derived from selling properties individually to the general public and did not demonstrate that the properties were hard-to-sell prior to disposing of them in bulk. Additionally, prudent care was not taken in establishing minimum acceptable sales prices for properties included in bulk packages. Data used in arriving at these sales prices was not always complete, current or fully supported and prices were often adjusted without justification. Consequently, there is no assurance that the most beneficial disposition approaches were selected and that the maximum return to the mortgage insurance funds was obtained. We estimate that over $5 million in potential sales revenues were lost as a result of inadequate pricing and disposition procedures for all bulk sales.

At the Field Offices reviewed, approximately $1.8 million in sales commissions were authorized/paid on bulk sales, even though HUD provided some of the services usually provided by a selling broker, and the sales were made to buyers who normally would not require the services of a broker. Furthermore, of the $1.8 million, a total of $734,390 in sales commissions were authorized/paid to brokers who did not have an arms-length relationship with the purchaser or who represented purchasers who were brokers themselves. Consequently, sales commissions on bulk sales appear unwarranted and may have provided an unfair advantage in the bidding process to the identity-of-interest purchasers. We attribute these deficiencies to the lack of guidance concerning the appropriateness of sales commissions on bulk sales and the failure of Field Offices to establish a system to identify questionable relationships between the purchaser and broker.

HUD needs to strengthen its controls over the approval, collection, and accounting for bulk sales Purchase Money Mortgage (PMM) payments. Field Offices have inconsistently handled PMM payments and have inadequately reviewed the credit worthiness of PMM mortgagors and investors. Consequently, internal controls over PMMs are weakened and the potential for loss and misuse of funds has unnecessarily increased. We attribute these deficiencies to the inaccurate and incomplete information provided in the computer-generated reports and to insufficient guidelines concerning Field Office responsibilities for controlling PMM payments.

Unnecessary risks have been taken by the Department in reinsuring properties sold by HUD in bulk packages. We believe that these reinsured cases need special attention by Field Office staff, since a higher default/foreclosure rate than usual has already been experienced on these mortgages at the New York and Memphis Offices. Our review disclosed patterns of irregularities such as: (1) questionable sources of funds for mortgagors' deposits and closing costs; and (2) homeowners who do not have the minimum statutory cash investment in the properties and are marginal credit risks. These irregularities are currently under investigation. Additionally, of 38 cases reviewed at New York and

Memphis, 17 are already in default or foreclosure representing $567,558 in mortgage insurance. Failure to exercise caution in underwriting mortgage insurance results in the recycling of HUD's inventory at the expense of the mortgage insurance fund.

Recommendations were made to: (1) reemphasize the objective of maximizing return to the insurance fund and the need to advertise all properties individually to first demonstrate that they are hard-to-sell prior to resorting to bulk sales; (2) discontinue the payment of sales commissions on bulk sales and seek recovery of all unallowable sales commissions nationwide; (3) require Mortgage Credit staff to perform a 100 percent review of all bulk sales reinsured cases; (4) determine why credit risks on reinsured properties exceed other insured mortgages and establish special mortgage credit procedures for review of these cases; and (5) coordinate efforts with the Assistant Secretary for Administration to ensure that bulk sales PMM payments are properly deposited and accounted for.

*Status*

Six Field Office audit reports were issued during July, August, and September 1984. The nationwide findings were discussed with the Assistant Secretary for Housing-Federal Housing Commissioner on September 13, 1984. On October 19, 1984, a response was received from the Assistant Secretary for Housing-Federal Housing Commissioner and the Assistant Secretary for Administration. This response should resolve the recommendations made in this report as well as the Single Family Acquired Property Sales report (see the following write-up). A nationwide report is scheduled for issuance on November 5, 1984.

**Significant Losses Incurred In Property Disposition Program**

*Problem*

Field Offices in the Atlanta Region are not achieving the primary objective of the Single Family Property Disposition program. Decisions based on inaccurate or inadequate information have resulted in unnecessary losses to the mortgage insurance fund, and delays in processing properties for sale have caused excessive holding costs.

*Discussion*

When HUD acquires a single family property, HUD's local Field Office must decide how to dispose of the property. There are two major ways of selling properties: (1) as-is sale, in which the property is sold as-is, without any warranty or mortgage insurance, for cash; and (2) insured sale, in which the property meets the criteria established by FHA mortgage insurance and/or by local codes. Repairs or upgrading may be necessary to bring a property up to the insured sale level.

HUD's Field Offices in the Atlanta Region have excessively used the as-is disposition method. Decisions have been based on information (provided by Area Management Brokers) that was incomplete or inaccurate. The Field Offices did not identify these deficiencies and correct them.

We reviewed 45 properties and found that 30 were sold as-is. In 24 of these 30, an insured sale would have produced an estimated $5,532 additional return per property. During the 12-month period ended June 30, 1983, the Region sold 3,355 properties as-is.

The Region also incurred $8.2 million in unnecessary holding costs in the year ended October 31, 1983, because of delays in processing acquired properties for sale. The delays were attributable to general inattention on the part of the Field Office staffs. However, the Region has reduced its average processing time from 13.1 months in June 1982 to 6.8 months in February 1984.

Recommendations included making improvements in the quality of information provided by Area Management Brokers and the disposition decision process. Because the Region is taking steps to reduce its processing time, we made no additional recommendations concerning processing delays in our final report.

*Status*

The audit report, "Single Family Acquired Property Sales," was issued to the Regional Administrator-Regional Housing Commissioner on April 30, 1984. The finding on unnecessary losses due to as-is sales was referred to Headquarters on July 6, 1984, for resolution. On October 19, 1984, a response was received from the Assistant Secretary for Housing-Federal Housing Commissioner and the Assistant Secretary for Administration. This response should resolve the recommendations made in this report as well as the Bulk Sales report (see the preceding write-up).

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## Government National Mortgage Association

The Government National Mortgage Association (GNMA) is a government corporation within HUD which administers mortgage support programs. The best known of these is the Mortgage-Backed Securities (MBS) Program. In this program, GNMA guarantees to investors the timely payment of principal and interest on MBS securities which are issued by private lending institutions and backed by pools of federally-underwritten mortgages. There are over 78,000 mortgage pools representing MBS securities worth more than $194 billion.

### GNMA Needs More Automation and Better Measurement Standards to Monitor MBS Issuers

*Problem*

Reports used to monitor the financial stability of mortgage-backed security (MBS) issuers were unnecessarily costly, not timely, and did not present the evaluative data needed to effectively analyze issuer performance.

*Discussion*

Since 1968, the Federal National Mortgage Association (FNMA) has performed certain servicing functions for the Government National Mortgage Association (GNMA) under the terms and conditions of a Combined Services Agreement. GNMA pays FNMA approximately $8 million annually for services performed under the cost-reimbursable agreement.

The information GNMA received from FNMA to monitor mortgage-backed security issuers was not available for up to 6 weeks after the close of each reporting period. In addition, the information was not structured in the most effective way to identify potential problems. This existed because: (1) FNMA received 78,000 issuer reports each month in a form which had to be keypunched, edited, and processed rather than in a form that could be readily used, such as magnetic tape; and (2) GNMA's criteria for measuring the risk associated with an issuer's delinquent loans did not necessarily relate to the issuer's financial status. Consequently, a portion of the annual contract cost devoted to the Mortgage-Backed Securities Program and the $732,000 per year for keypunch services could be eliminated.

Recommendations were that GNMA. (1) require issuers who service a large number of mortgages to report through electronic media; (2) consider the monetary value of delinquencies as compared to the issuer's ability to pay current debts; and (3) generate an automated report to show the trend of an issuer's delinquent loan status.

*Status*

The audit report, "GNMA's Monitoring and Cost Control Over Functions Performed by FNMA," was issued to the President of GNMA on June 14, 1984. On August 7, 1984, he advised the OIG that GNMA had initiated action to implement our recommendations. Issuers will be required to submit monthly accounting reports electronically. Monitoring reports will include the monetary amount of delinquencies as a measure of the severity of delinquency. GNMA is completing a thorough analysis of its entire financial reporting and analysis system.

## General Administration

General administration consists of support functions that are necessary to carry out HUD's programs responsibly and effectively. These functions include: contracting; accounting; information management; budgeting; personnel management; training; and general building and office services. HUD has budgeted about $200 million for these functions in Fiscal Year 1984.

**Proposed Loan Servicing Contractor Withdraws Offer**

*Problem*

HUD was negotiating to award a multi-million dollar, fixed price, incentive fee contract for multifamily mortgage servicing that was inappropriate in form and questionable in terms of current requirements.

*Discussion*

In December 1981, HUD contracted with a private mortgage firm to perform loan servicing and accounting functions for HUD-held multifamily mortgages in the Philadelphia Region. HUD staff service the multifamily mortgage portfolio in the other nine Regions. In 1982, HUD requested proposals to contract out this servicing activity on a nationwide basis, and selected one company for final negotiations and contract award.

Following negotiations, the OIG was requested to perform an evaluation of the company's cost and price proposal. We identified $8 million of proposed costs as excessive or unnecessary, and reported an additional $1.7 million in proposed costs as unsupported. We also reported on several contract and programmatic issues that needed to be resolved prior to final negotiations and contract award. These issues included: (1) the need for a more definitive Statement of Work; (2) whether nationwide contract services were necessary in view of declining workload and changes in inventory composition; (3) whether a fixed price contract was appropriate in the absence of adequate data to accurately forecast costs; (4) the need for further analysis of portfolio size and composition prior to negotiating base and incentive fees; and (5) potential conflict of interest problems which could arise because the company's operations involve participation in other HUD programs.

*Status*

The audit report was issued to the Director, Office of Multifamily Housing, on June 25, 1984. On July 24, 1984, the company voluntarily withdrew its offer.

## Proposed Technical Assistance Contract Cancelled

*Problem*

As the result of inadequate contract development and analysis, HUD was prepared to award an unnecesary contract in the amount of $500,000 for technical assistance to sites participating in the Minority Youth Training Initiative (MYTI).

*Discussion*

MYTI is a demonstration program that provides job training and employment placement services for disadvantaged youth in the fields of housing maintenance and management. Under this program, HUD committed $2 million of Comprehensive Improvement Assistance Program funds directly to demonstration sites for youth training and employment.

We reviewed a proposed contract in the amount of $500,000 for technical assistance to sites participating in HUD's MYTI. Our review showed that: (1) the contract budget was based on technical assistance to more sites than were participating in the demonstration program; (2) an unreasonably high percentage of the proposed budget (57 percent) was for administrative tasks; (3) budgeted costs for several proposed tasks were excessive; and (4) the need for technical assistance was minimal since all participating sites either had experience with training programs or had subcontracted training.

In a memorandum to HUD's Under Secretary dated May 16, 1984, we recommended that: (1) the specific need for technical assistance be fully evaluated and clearly established; (2) a determination be made whether the technical assistance required could be done by HUD staff; and (3) if HUD staff is not capable of doing the technical assistance, a meaningful Statement of Work be developed and used for contract award.

*Status*

HUD's Office of Policy Development and Research determined that it could provide the limited technical assistance needed with existing staff and on August 13, 1984, cancelled the proposed contract.

## Chapter 2

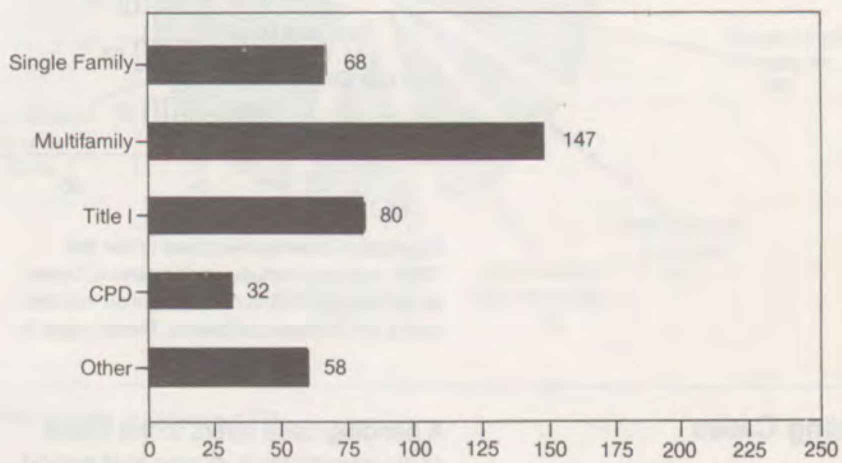
### Investigation Activities

The following is a summary of investigative activities during the period April 1, 1984, through September 30, 1984. 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 626 new investigation cases involving HUD personnel and/or persons or firms doing business with HUD. The majority of case openings are False Statement cases (385). The table below is a breakdown of these cases.

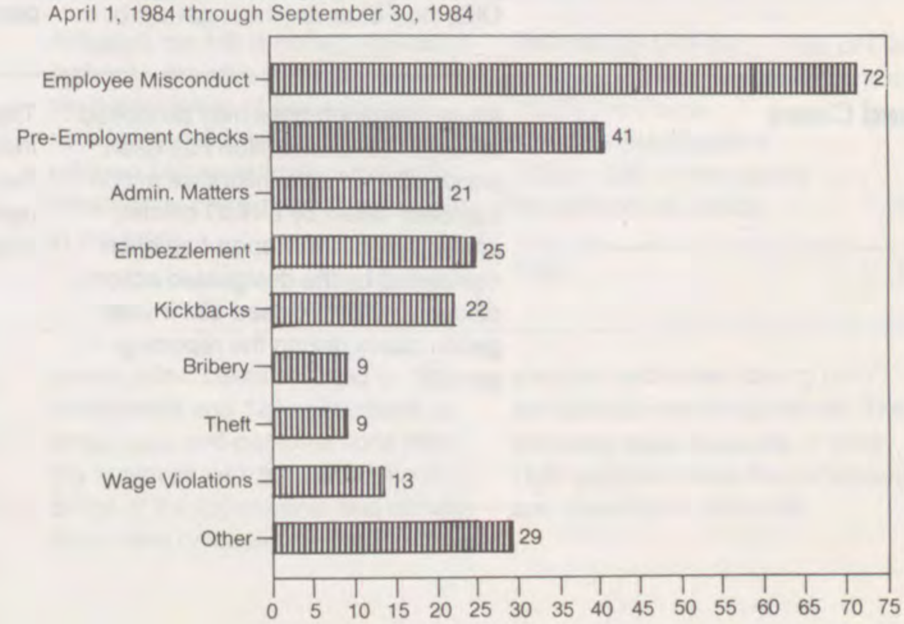
**Investigation Cases Opened Concerning False Statements**
April 1, 1984 through September 30, 1984




The cases opened in the multifamily area include investigations of individual tenants in HUD's rental assistance programs.

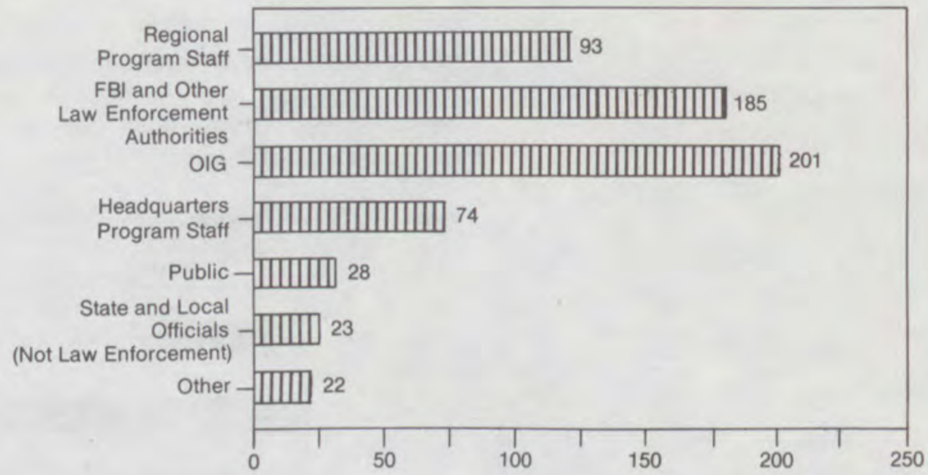
The remaining 241 case openings are in categories displayed in the following table.

**Other Categories of Investigation**
April 1, 1984 through September 30, 1984



Investigation cases which are opened by the HUD-OIG originate from various sources. The graph below depicts the origin of the 626 case openings in the OIG during the semiannual reporting period.

**Sources of Investigative Cases**
*April 1, 1984 through September 30, 1984*




Sources of investigative cases under the "OIG" category include audit referrals, Operational Surveys, Office of Investigation initiated cases and Hotline complaints. Those cases in the "Other" category include matters referred by other Federal officials, including Members of Congress, and reported by HUD employees in other than their official capacity.

## Pending Cases

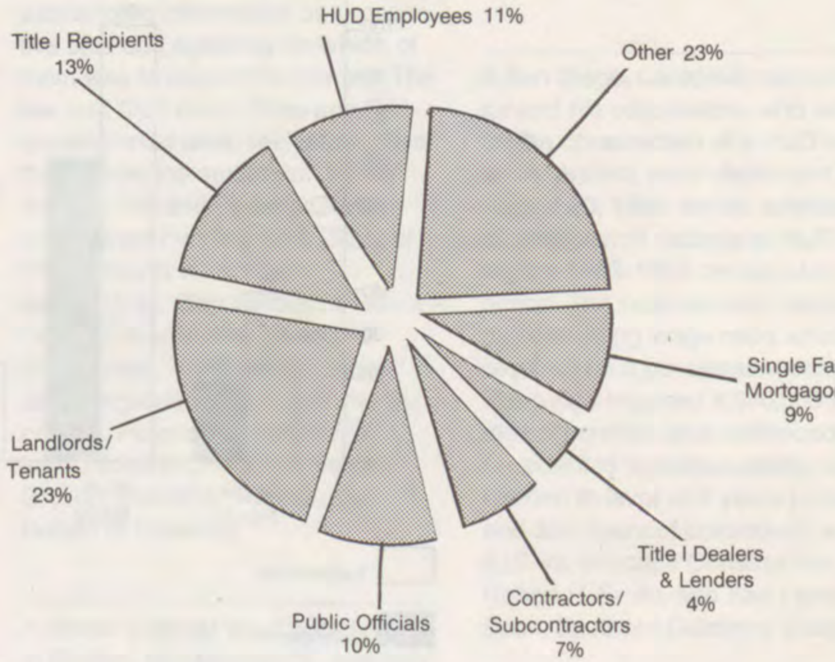
A pending case refers to the status of an investigation during that period between the opening of the case and dissemination of the investigation report(s) to a HUD official for action. Investigations in this category include those in which the investigation has not been completed by the OIG, the FBI or another agency, or in which a completed investigation is pending with a prosecutive official. At September 30, 1984, we had 1,506 investigation cases either in process or awaiting investigation. Of these cases, 525 were FBI/other cases, 722 were cases of the OIG, and 259 were OIG-completed cases pending with the U.S. Attorney.

## Closed Cases

An investigation case may be closed when prosecutive action has been accomplished, administrative action has been taken by a HUD official, and a Disposition Report has been completed by the designated action official. The OIG closed 624 investigation cases during the reporting period.

The 624 cases closed involved 771 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, 1984 through September 30, 1984*




Total Number of Subjects = 771

The "Other" group includes a wide diversity of subjects such as builders, architects, and Area Management Brokers. Each of these comprises 3 percent or less of the total.

## Investigaton Cases Referred for Prosecution

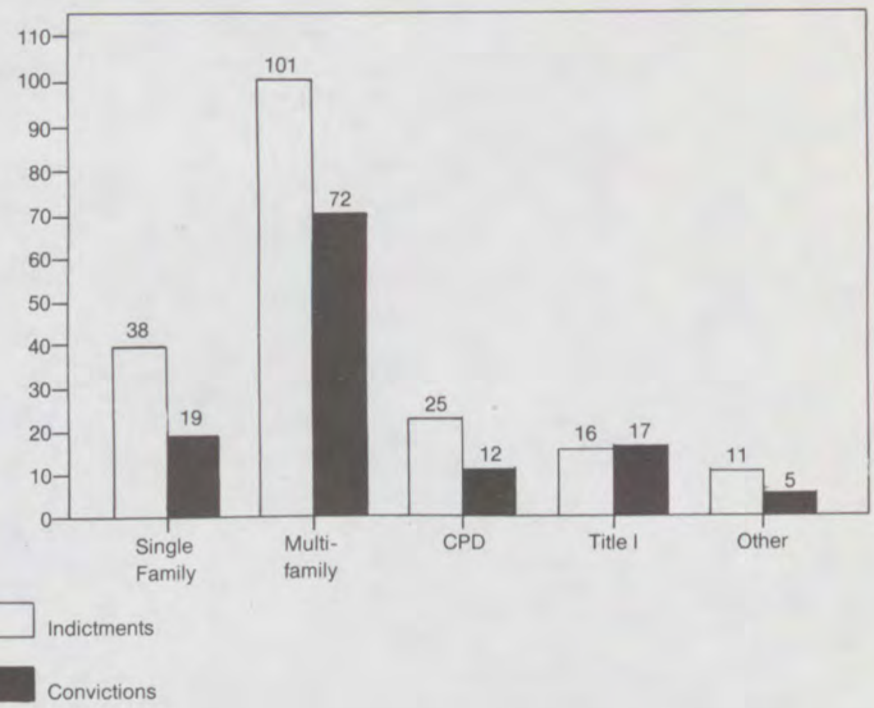
Although the FBI is not a prosecutive authority, referrals to it may result in the presentation of a case for prosecutive consideration. The OIG referred 143 investigation cases for prosecutive consideration as shown in this table:

| *Referred by OIG to:* | *No. of Cases* |
|---|---|
| FBI (Prima Facie-OIG Investigation) | 3 |
| FBI (No OIG Investigation) | 32 |
| Department of Justice | 108 |
| Total | 143 |

## Prosecutions and Convictions

Investigation cases resulted in 191 indictments and 125 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 following table illustrates in what HUD program areas the indictments and convictions occurred.

**Indictments and Convictions**
*April 1, 1984 through September 30, 1984*




*The prosecutions shown for the multifamily area include indictments and convictions of individual tenants who participate in HUD's rental assistance programs.*

The 125 persons/firms convicted received a total of 56 years imprisonment, 311 years probation, suspended sentences of 62 years, and fines amounting to $314,475. Of the 624 cases closed by the OIG during the semiannual reporting period, 25 percent resulted in prosecutive action being taken.

Monetary recoveries resulting from investigations from April 1, 1984, through September 30, 1984, totalled $770,383. This figure includes court-ordered restitution and recoveries resulting from administrative actions. Of the 624 cases closed during the semiannual reporting period, 54 percent resulted in some administrative action being taken.

## Description of Selected Prosecutive Actions

Below is a brief description of selected indictments and/or convictions which occurred during the reporting period. The cases are among the more significant investigations and are listed by HUD program area. Some of these indictments and/or convictions resulted from investigations referred to prosecutive authorities prior to April 1, 1984.

### ■ Community Development Block Grant

Fourteen contractors were charged on August 5, 1984, in a civil lawsuit for conspiring to fix bids on home improvement contracts awarded in 1980 by the Providence, Rhode Island Mayor's Office of Community Development. The contractors allegedly conspired to submit artificially high bids for work to improve the homes of low-income and elderly residents. This ensured that the conspirators would each win a portion of 24 contracts totaling $151,302 at an inflated price. The contractors were charged with exchanging information on prospective bids and agreeing on which of them was to submit the low bid. The law suit, filed under State and Federal anti-trust laws, seeks to recover three times the amount of money that the City and Federal Governments were overcharged. (State of Rhode Island vs. Anthony E. Abbruzzi, Jr., Blair Barbieri, Frederick Dunphy, Alan Jones, Salvatore Abbruzzese, Victor Abbruzzese, John Taglione, John Turchette, Stephen A. Potenza, Salomao Monteiro, Richard Chiaverini, Daniel Gryzch, Robert A. Tritendi, and Robert R. Picerno.)

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A former political ward coordinator in Boston, Massachusetts, was convicted on September 19, 1984, for fraudulently receiving housing repair rebates in the amount of $6,974. He was found guilty of making false statements to obtain rebates for repair work reported as completed on two houses when the work was never accomplished. The rebates were paid by the City of Boston as part of the HUD-funded Housing Improvement Program. This indictment resulted from a joint investigation by the FBI, the IRS, and the HUD-OIG. (U.S. vs. Michael F. Larkin, District of Massachusetts.)

- **Multifamily Housing**

A Scranton, Pennsylvania subcontractor was sentenced on July 18, 1984, for submitting false statements to the government and accepting kickbacks from May 1980 to May 1981. The subcontractor underpaid workers and required them to kick back part of their weekly wages while they were employed by the subcontractor on a HUD-funded project. He was sentenced to 3 years probation, ordered to make restitution of nearly $22,820 to workers and prohibited from doing business with HUD during his probation. (U.S. vs. Joseph Sheaman, Middle District of Pennsylvania.)

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A San Diego, California subcontractor and his corporation, who worked on the construction of a HUD multifamily project, were sentenced on August 20, 1984, for the submission of false payroll records to HUD during the 1983-1984 construction period. The subcontractor failed to pay prevailing wage rates which are required on a government contract. The judge imposed a $10,000 fine on the corporation and sentenced its president to 5 years custody, suspended in favor of 5 years probation, and 350 hours of community service. (U.S. vs. Irriscape Construction, Inc., Robert H. Smith, and Karl Lance Scott, Southern District of California.)

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A real estate developer and his son each pled guilty to one count of a two-count charge filed on July 19, 1984. The father pled guilty to one count of conspiring to defraud HUD, and the son to one count of supplementing a HUD employee's salary for services as a HUD employee. They purchased a project from HUD in 1982 for $151,000. As a condition of sale, the owner provided an irrevocable letter of credit in the amount of $989,000 to cover costs of repairs at the project. The defendants attempted to bribe a HUD employee to reduce their obligation to HUD by the letter of credit. The HUD employee reported the bribe attempt to the HUD Office of Inspector General. A joint investigation was initiated between the OIG and the FBI. The HUD employee cooperated in the investigation and met with the subjects on several occasions. During the meetings, the employee was paid $2,000 in bribes and was promised an additional $3,000. The subjects were each sentenced on

September 7, 1984, to pay a total of $15,000 in fines and received prison terms of 3 and 6 months, respectively. (U.S. vs. Herschel Elias and Gabriel Elias, District of New Jersey.)

**■ Public Housing**

The general manager of a contracting firm in Milwaukee, Wisconsin, pled guilty on June 18, 1984, to a two-count charge of making false statements to HUD concerning a multifamily project administered by a public housing authority (PHA). The general manager misrepresented the payment of minimum wages to employees and falsely stated that all bills for labor had been paid in accordance with the terms of a contract with the PHA. This resulted in wage underpayments of approximately $40,000 for 15 employees. (U.S. vs. Raymond Houston, Eastern District of Wisconsin.)

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A contractor entered a plea of guilty on September 6, 1984, to two counts of submission of false statements to HUD. He had been charged with falsifying bid/performance bonds, submitting false statements to HUD, and mail fraud to obtain contracting work from a public housing authority. The false bid bond was in the amount of $100,000 and the false performance bond was for $83,360. By misrepresenting his bonding status and certifying that project bills had been paid, the contractor received construction draws of over $66,800 even though payments of about $32,400 were not made to subcontractors and suppliers. (U.S. vs. Florzell Hawkins, Northern District of Indiana.)

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A rehabilitation coordinator for a local housing authority in Georgetown, South Carolina, was charged in a four-count indictment on August 8, 1984, with embezzlement of public funds. The employee was charged with converting approximately $6,600 to his use during 1983. The coodinator used four checks to pay personal debts. The checks had been payable to a contractor for work done for the housing authority. (U.S. vs. James Clayborn Craven, Jr., District of South Carolina.)

**■ Single Family Housing**

A borrower in Fort Worth, Texas, was indicted on May 22, 1984, on charges of submitting false statements to HUD to obtain mortgage insurance. When applying for the insurance, the borrower allegedly failed to list a prior HUD-insured loan on which he defaulted. The borrower defaulted on the second loan and both loans went into foreclosure. The foreclosures cost HUD over $22,700 in mortgage insurance claims. (U.S. vs. Earnest S. Ewings, Northern District of Texas.)

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A real estate broker in Puerto Rico was charged on May 14, 1984, with falsifying income of two mortgagors obtaining a HUD-insured mortgage. The mortgagors were subsequently unable to make the mortgage payments on the property. HUD incurred a loss of $17,155 in the resale of the property. (Commonwealth of Puerto Rico vs. Vidal Perez Cotto.)

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A real estate investor in Naperville, Illinois, was sentenced on July 26, 1984, to 1 year and 1 day in jail and 5 years probation on 19 counts of mail fraud, submitting false statements to the government, and aiding in the commission of a felony. He has also been suspended from participating in HUD programs. In a scheme to acquire properties for his own use, the investor misrepresented the intentions of purchasers to be owner-occupants of properties purchased with HUD-insured mortgages, and he used the mail to transmit false verifications of purchasers' employment and deposit. The loss to the government was estimated at $136,000. (U.S. vs.

James R. Elliott, Northern District of Illinois.)

**■ Rental Assistance**

The HUD Office of Investigation conducts investigations of violations of the provisions of various HUD programs that provide housing for low- and moderate-income families. Most of these cases concern recipients' falsifying their eligibility so that they receive assistance when they are not eligible or receive assistance in excess of that to which they are entitled. While the majority of these cases relate to tenant recipient fraud, many cases involve investigations of landlords, management agents and project owners who administer or are otherwise involved in rental assistance programs. The Office of Investigation completed 124 housing assistance type cases during the reporting period. An additional 206 cases were opened during the same period. The following actions were taken during the period:

| | |
|---|---|
| – Individuals Indicted | 126 |
| – Individuals Convicted | 70 |
| – Monetary Recoveries | $331,660 |
| – Total Fines | $65,902 |

Frequently, it is discovered that if tenants are making false statements in HUD programs to obtain rental assistance, they are also defrauding other government assistance programs, such as Aid to Families with Dependent Children (AFDC), Food Stamps, and Medicare. These issues are referred to the Inspector General of the responsible departments or agencies when they are discovered.

One of our more successful efforts resulted from a computer matching project in Atlanta, Georgia, where wage data was compared with records of reported income. Five tenants were sentenced on June 14, 1984, for submitting false income statements to receive increased rental assistance benefits. They were sentenced to 17 years probation, fined a total of $1,000, entered into repayment agreements totaling $4,690, and were ordered to make restitution of $10,344.

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A tenant in Pittsburgh, Pennsylvania, was sentenced on June 4, 1984, to 3 years probation and required to make restitution of $17,900 for falsifying income and employment information and receiving ineligible subsidy for 5 years.

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Two Federal employees in Washington, D.C., pled guilty in September 1984 to one count of submitting false statements in order to receive nearly $25,000 in rental assistance to which they were not entitled. They also defrauded the AFDC, Food Stamps, and Medicare programs of more than $25,000. Sentencing is scheduled for October 1984.

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Three student aliens were indicted for defrauding HUD programs. These individuals entered the United States with student visas, certifying to the Immigration and Naturalization Service (INS) that they were financially solvent. Once in this country, they applied for HUD housing assistance and Department of Education (DOEd) student loans, falsely certifying their income and need for assistance. Two of the individuals have been convicted. The third is awaiting trial. All three individuals attend college in Austin, Texas. A joint investigation by HUD-OIG, DOEd-OIG, and INS continues on student aliens in Texas and other locations.

These examples of housing assistance violations further reflect the importance and need for statutory authority to obtain Social Security numbers and have access to State unemployment wage data files. In addition, these violations show the need for a strong quality control system for tenant eligibility. The items are discussed in more detail on page 47.

**■ Title I**

A borrower in San Antonio, Texas, was indicted on July 11, 1984, for submitting false statements to HUD to obtain three property improvement loans totaling $15,475. The borrower allegedly omitted liabilities or debts on the loan applications. He defaulted on all three loans, and HUD reimbursed the respective lenders $14,808. (U.S. vs. George Rodriguez, Western District of Texas.)

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Two mobile home dealership owners, a sales manager, and a salesperson in Spokane, Washington, were indicted on April 4, 1984, for making false statements in connection with Title I mobile home financing. The transactions involved inadequate downpayments, false set-up invoices, unauthorized trade-ins, and removal of invoiced items on loans made between April 1979 and April 1981. (U.S. vs. Gary Austin, Donald C. Ingalls, and Gil Anderson, Eastern District of Washington.)

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A loan applicant and her boyfriend in Oakland, California, pled guilty on April 26, 1984, to a two-count indictment charging them with embezzlement of government monies. The loan applicant, with the aid of her boyfriend, obtained two home improvement loans from lending institutions in two different cities to complete repairs on two properties between August 1981 and June 1983. The repairs were never completed and the loan applicant defaulted on the loans resulting in a loss of $21,562 to HUD. The boyfriend was sentenced to 1 year in jail, with 6 months suspended, and upon release he will be placed on 5 years probation and required to perform 350 hours of community service. The Title I applicant was placed on 5 years probation and ordered to perform 350 hours of community service. The loan applicant and boyfriend were ordered to make full restitution of $21,562. (U.S. vs. Mary Denham and Gregory Allen, Northern District of California.)

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A former mobile home loan manager of a lending institution in Boise, Idaho, was sentenced on June 4, 1984, after pleading guilty to making a false statement on a mobile home loan application. The charge arose from a joint HUD-OIG and FBI investigation which disclosed that the manager approved improper mobile home loans between August 1978 and August 1980. The former loan manager was fined $3,500 and sentenced to 5 years probation. (U.S. vs. Marc E. Lindsey, District of Idaho.)

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A borrower in San Antonio, Texas, was indicted on July 12, 1984, for submitting false statements to obtain a $5,000 Title I Property Improvement Loan in April 1980. The indictment charged that the borrower did not use the proceeds of the loan for the purpose stipulated on the loan application. The loan went into default and HUD reimbursed the lender $4,366. (U.S. vs. Dennis Lamb, Western District of Texas.)

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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 the 52 administrative actions taken against HUD employees during the semiannual reporting period, in connection with investigations, are shown below.

■ A Realty Specialist was suspended for 7 days for owning more than six investment properties in violation of HUD Standards of Conduct and for receiving Section 8 payments as a landlord. The employee was also directed to stop his participation in the Section 8 program as a landlord.

■ A Housing Management Officer received a letter of reprimand for unprofessional and inappropriate conduct by making derogatory and offensive comments toward those with whom the employee had an official business relationship.

■ An Appraiser received a letter of reprimand for failing to follow time-keeping procedures by not signing in and out, being absent from duty without taking annual leave, and for conducting personal business while on duty.

■ A Special Assistant to a Regional Administrator received a letter of admonishment and was ordered to reimburse the government for charging personal telephone calls to the government while on official travel.

■ A Community Planning and Development Representative was suspended for 60 days following an investigation which disclosed he misused a government vehicle. The employee was found to have been involved in a traffic accident while under the influence of alcohol during non-duty hours.

■ A clerical employee was suspended from duty for 2 days for falsely claiming overtime hours worked. The employee was also required to submit repayment based on the fraudulent claim.

■ A housing program supervisor was suspended for 30 days. The suspension was based on misusing a government vehicle by driving between work and his residence and allowing a subordinate to violate the Department's leave regulations by being absent from work without taking proper leave.

■ An Assignment Clerk was terminated from Federal employment for falsifying official documents, attempting to use public office for private gain, and for absence without leave. The Clerk attempted to obtain an FHA-insured loan for himself that far exceeded the actual value of the property he desired to purchase.

■ A Regional Administrator was given a letter of caution from the Secretary. An OIG investigation revealed that another HUD employee, while using a GSA vehicle for official business, occasionally transported the Regional Administrator to and from his home. The Secretary's letter of caution stressed that while the GSA vehicle was not used expressly for the purpose of transporting the Regional Administrator to his domicile, its use was improper.

■ A Construction Analyst was given a reprimand for a violation of the HUD Standards of Conduct by extending preferential treatment to a contractor. The contractor purchased the employee's home and the employee subsequently recommended the contractor for employment with a mortgage company whose principals were doing business with the Department and the Construction Analyst on a regular basis.

■ A HUD manager was given a reprimand for giving preferential treatment to a HUD program participant. The manager allowed the assumption of a Section 312 loan under questionable circumstances even though the manager had received a contrary recommendation from his staff.

■ A Supervisory Realty Specialist received a letter of reprimand for conducting personal business during official duty hours. The employee managed a building which was located one block from the HUD office and showed office space to prospective tenants during duty hours.

## Chapter 3

### Fraud Control Activities

This Chapter highlights activities we have undertaken to reduce and prevent fraud. The Secretary and the Principal Staff continue to maintain a high interest in obtaining the involvement of all Departmental managers and employees in minimizing fraud and abuse.

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### Microcomputers

The Office of Inspector General's (OIG) use of microcomputers has significantly increased our effectiveness and enabled auditors and investigators to perform tasks impractical or infeasible to perform manually. During Fiscal Year 1984, 130 OIG staff members attended microcomputer training. OIG staff applied this training to a wide variety of assignments. The following are examples of how the microcomputers have been used.

**1. Analysis of Financial Transactions**

Our staff used microcomputers to schedule, sort, and analyze several thousand financial transactions involving the East St. Louis, Illinois Housing Authority. The microcomputer permitted OIG staff to sort data chronologically and by category of financial transaction, to include deposits of particular types and amounts, and to examine cash withdrawals by specific parties. Use of the microcomputer facilitated analysis of the subjects' accounts by date and asset levels to determine the use of certain monies and the subjects' ability to provide promised services. The microcomputer saved scheduling and analytical time and decreased response time in providing information to Assistant U.S. Attorneys. See Chapter 1, "Diversions of Money from East St. Louis Housing Authority," for the details and results of the investigation.

**2. Single Family Housing Violations**

OIG staff used microcomputers to analyze a large number of single family housing cases in Camden, New Jersey, in which fraud was suspected. Data was obtained from HUD's automated Federal Housing Administration (FHA) insurance file and from the Office of Housing's property disposition file. It was then merged with data from other available sources, such as interviews and county real estate records. The microcomputer was used to sort items by property address, FHA or Veterans Administration case number, real estate broker, buyer, seller, mortgage company, and property disposition contractor. In this way, suspected fraudulent schemes were confirmed, and additional targets were identified. See Chapter 1, "Real Estate Brokers Commit Mortgage Origination Fraud," for the specifics of this case.

**3. Section 8 Moderate Rehabilitation**

OIG auditors reviewed public housing authorities' (PHAs) compliance with regulations and requirements under the Section 8 Moderate Rehabilitation Program. Contract rents for projects administered by the PHAs were verified and adjusted to determine whether Housing Assistance Payments were correctly computed. Although the formula used to compute these rents is very complex, the use of electronic worksheets promoted consistency among Regional Audit staff, ensured accuracy and avoided tedious manual calculations. Microcomputers have been used to calculate questioned and disallowed costs exceeding $15 million. More audits of the Section 8 Moderate Rehabilitation Program are planned, and the dollar figure is expected to increase.

#### 4. External Contract Audits

Microcomputers were used on external contract audits to accumulate, analyze, and summarize data on costs incurred, including the calculation of indirect cost rates and presentation of schedules of final audit results. We have developed a standard application in which: (a) the auditor enters direct cost and indirect cost pool data; (b) the computer calculates and applies fringe benefit, overhead, and general and administrative costs rates using normal allocation methodologies; and (c) direct and indirect cost data are automatically summarized in budget line item cost categories by contract in our standard contract audit report schedule format. This format includes the presentation of costs incurred, costs questioned, unresolved costs, and audit accepted costs.

Our standard microcomputer application for external contract audits was first developed as part of our final audit of a $21 million HUD contract which spanned 6 fiscal years. We used a similar microcomputer application to summarize the results of our review of an Independent Public Accountant's audits of a recipient which covered 41 awards from 12 agencies over a 4-year period valued at $6.6 million.

#### 5. Labor Law Violations

OIG auditors used microcomputers to assist in identifying contractors and subcontractors in the San Francisco area who repeatedly violated labor laws and to compute penalties to be assessed against them. Using the sorting capabilities of the microcomputer, auditors identified contractors and subcontractors who violated provisions of the Davis-Bacon Act on numerous construction projects. After examining 92 contractors and 147 projects, auditors calculated $1.2 million in penalties due to labor law violations.

#### 6. Section 8 Rents and Assistance Payments

Using a commercial software package designed for microcomputers, OIG auditors calculated tenant rents and assistance payments and evaluated tenant eligibility for HUD's Section 8 New Construction Program. The commercial software was tailored to solicit information about the family, the housing project, the housing unit, and the applicable income limits based on individual circumstances. Use of the software reduced the time required to perform calculations and evaluate the eligibility determinations. This allowed auditors to increase the number of payment computations tested.

#### 7. Presentations to Prosecutors and Jurors

In several instances, investigators have used microcomputers to present their investigative results to Federal and State prosecutors. Similar use regarding jury presentation is planned. The microcomputer's graphics capabilities have enabled the government to: (a) demonstrate trends and reference timeframes; (b) show statistical investigative results between two or more subjects; (c) show percentages of fraud, waste, or mismanagement within a defined area or timeframe; and (d) highlight specific areas of complex fraudulent schemes.

#### 8. Telephone Logs Analyzed

Investigators used the microcomputer to analyze telephone toll call logs obtained from a telephone company through Grand Jury subpoena. Telephone calls were sorted to provide evidence of a landlord's whereabouts during a specific period of time. Although the landlord stated that a housing unit had been rented to a subsidized tenant, the analysis of over 1,200 entries during a 2-year period disclosed a number of telephone calls to close relatives of the landlord. These calls, which the landlord effectively charged to HUD, would not have otherwise been made by an unrelated tenant.

## 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 includes HUD officials designated by Assistant Secretaries or other Principal Staff and is chaired by the Inspector General. Several of the current projects reflect problems which were identified in audit work.

### 1. Quality Control System for Tenant Eligibility

This project, started in May 1983, recommended a Departmental Quality Control System for Tenant Eligibility. Specifically, the Committee examined how a quality control system could improve the ability of program administrators to accurately determine tenants' eligibility for housing assistance.

The Committee found a need for a better method of evaluating the quality of tenant eligibility determinations being made in HUD's Assisted Housing program. The Committee recommended that a quality control system be developed to monitor how well program administrators comply with HUD regulations. The implementation of this system could: (a) considerably reduce fraudulent tenant reporting by increasing the reliability of income verification procedures (i.e., computer matching techniques); and (b) reduce errors by simplifying procedures and encouraging the use of verification practices which have proven to be effective. Such a system would provide a major tool for monitoring the $7 billion spent annually by HUD on rental assistance programs.

On February 16, 1984, the Secretary approved the report recommendation to develop a quality control system. A task force has been established, under the leadership of the Under Secretary, to assess various options and coordinate the implementation. On August 2, 1984, the task force issued an interim report on the design features of such a system. A prerequisite for computer matching in this system is legislative authority to obtain certain information. This is discussed in the following paragraph.

### 2. Fraud Reform Legislation

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

On November 16, 1983, the House Subcommittee on Housing and Community Development held a hearing on "Public Housing Income Verification" (report Serial No. 98-56). The Assistant Secretary for Public and Indian Housing and the Deputy Inspector General testified for the Department. Both officials emphasized the need for statutory authority to obtain Social Security numbers and have access to State unemployment wage data files. Representatives of the Public Housing Authorities Directors Association and the National Association of Housing and Redevelopment Officials also testified in favor of these two proposals. We are continuing our work with Departmental officials to get these provisions enacted. The proposal will be resubmitted in next year's legislative package.

### 3. Review of the Fraud Vulnerability Assessment System

This project reviewed the operation of the Fraud Vulnerability Assessment System (FVAS) to evaluate its effectiveness. As described later in this chapter under Management Control Improvements, the FVAS is used to measure the risks and needed management controls for new or substantially revised programs or activities.

In its August 1984 report to the Under Secretary, the work group made several recommendations designed to increase management support for the system, clarify responsibilities, and help identify and perform fraud vulnerability assessments. The report is currently under review by the Under Secretary. If accepted, major revisions to the FVAS will be required.

### 4. Multifamily Loan Management

In November 1983, the Committee began a project to examine problems in the servicing of multifamily loans. The working group researched previous reports and sent questionnaires to Field Office loan management staff, Housing managers in Headquarters and Field Offices, and the Regional Inspectors General. The research found that the following long-standing problems in HUD's loan management program have not been fully corrected:

- Heavy workloads on individual loan servicers.
- Need for training and guidance to staff.
- Need to further target resources to highest risk projects and owners/agents.
- Inadequate automated systems and too many manual systems.
- Need to upgrade skill in the servicing of HUD-held project inventory.

The Committee found that despite progress made by the Office of Housing to correct long-standing problems affecting multifamily loan servicing, three principal obstacles have hampered resolution:

- Support for implementation of corrective actions begun by top managers in the Office of Housing has been interrupted because of repeated turnover in key positions.
- Basic servicing requirements and targeting of those efforts have not been adequately adjusted or reduced to offset increases in the number of multifamily projects and program requirements.
- Basic skills and support functions have not kept pace with workload or new and more complex program requirements.

The Committee has drafted a report which makes specific suggestions for improvements in the loan management program.

### 5. Deterrents to Sound Management of the Public Housing Program

This project is designed to identify deterrents to sound management of the Public Housing program by local administrators and HUD.

We previously reported that the Committee had completed its research and discussed this project with the Public Housing Authorities Directors Association (PHADA) and the National Association of Housing and Redevelopment Officials (NAHRO).

Based on the management issues identified during the research phase and cooperative efforts with constituent groups, a questionnaire consisting of the 20 most commonly mentioned issues was prepared. This questionnaire, sent to PHADA's membership and HUD Field staff, asked recipients to rate each issue. For issues receiving the highest ratings, recipients were asked also to provide their reasons for the problems and recommendations to correct them.

Early analysis of the questionnaires indicates that many parallel views exist about management problems by Public Housing Authority Directors and HUD Field staff.

### 6. Model Prevention Plan

In November 1983, the President's Council on Integrity and Efficiency issued a Model Prevention Plan to be used by agency management as a guide for assessing fraud prevention activities and for determining where improvements can be made.

The Plan provides a Departmental mechanism to: (a) reduce fragmentation and duplication of existing prevention activities, possibly resulting in reduced resource requirements; (b) increase the effectiveness of any single initiative by allowing it to draw upon the experiences of others; and (c) better focus accountability on appropriate officials.

The Committee established a working group in April 1984 based on a request from OMB to assess the Department's fraud prevention profile using the Plan and to recommend, where needed, additional prevention activities that the Department should consider to adequately address all elements of the Model Prevention Plan. The working group has drafted a Departmental plan to accomplish these objectives.

### 7. Seattle Region Review of Section 8 Moderate Rehabilitation Housing Assistance Payments Contracts

Recent audits of the Section 8 Moderate Rehabilitation program in several Regions have identified errors in the computation of contract rents by housing authorities administering the program.

Housing Assistance Payments (HAP) contracts, however, do not contain language allowing for adjustments to contract rents based on mistakes discovered during audits or monitoring reviews. This problem is compounded because the applicable regulations and handbooks do not provide for such adjustments. If unresolved, this issue could result in substantial excessive subsidies being paid by HUD over the 15-year term of the contracts, as discussed in Chapter 1.

The Seattle Regional Committee on Fraud, Waste, and Mismanagement started a project to propose modifications to the HAP contract in coordination with the Headquarters Committee to allow for necessary adjustments (retroactive or otherwise) to contract rents that were originally miscalculated, and to implement an enforcement mechanism if the owner fails to comply with housing authority directives regarding rent adjustments. The Seattle Region's report and proposed HAP contract language will be furnished to the Headquarters Committee for review.

## Management Control Improvements

The Fraud Vulnerability Assessment System requires Departmental managers to formally evaluate the risk in new or substantially revised HUD programs or activities. These early reviews help prevent potential errors or irregularities. As of September 30, 1984, four assessments were in draft and 37 were under consideration or in process. During the reporting period, a detailed assessment was completed on the Section 312 cash management system. The results of the assessment indicated that the overall system provided adequate safeguards against fraud and abuse. The assessment discussed the various controls needed to address vulnerabilities identified in HUD's procedures for assigning funds to the Regions and in disbursing funds to the contractors.

## Employee Awards

During the reporting period, OIG processed recommendations for awards to two HUD employees for their extra efforts in uncovering fraud and mismanagement. In the first case, Mr. Thomas Sharlow, an Administrative Officer in the Newark, New Jersey Office, cooperated with OIG and other Federal authorities in uncovering bribery by a real estate developer and his son. A summary of this case is provided in Chapter 2 under "Description of Selected Prosecutive Actions, Multifamily Housing."

The investigation, indictment, and conviction of the subjects in this case would not have taken place were it not for the honesty, integrity, and cooperation of Mr. Sharlow. He worked long hours above and beyond the requirements of his position. Under the direction of the FBI and the OIG, he used covert investigative techniques at considerable risk to himself. For these efforts, he was awarded a Special Achievement Award and a cash award.

In a second action, Mr. Charles Hargrove, a Housing Management Officer in the Philadelphia Regional Office, assisted the OIG in identifying significant findings of program mismanagement. A summary of audit work resulting from Mr. Hargrove's disclosures is shown Chapter 1 under "Improved Administration of the Section 8 Moderate Rehabilitation Program Needed to Prevent Excessive Rents."

Mr. Hargrove's timely and accurate disclosure was directly responsible for the OIG's involvement and subsequent determination that $7.8 million of Section 8 assistance were not committed and should be recaptured, and that another $15.9 million were improperly committed, a portion of which may also be recaptured. At the end of the reporting period, a Special Achievement Award and a cash award were in process.

*It should be noted that these awards were presented using incentive awards authority other than the IG Cash Awards program. A bill to extend the IG Cash Awards program was not passed by Congress and the program lapsed on September 30, 1984. The Inspector General testified before Congress on the program (H.R. 5646) and noted that existing authorities were sufficient and preferable. (See Chapter 5 for additional details.)*

## Employee Awareness Program

We continue to issue our series of Fraud Information Bulletins. They are designed to inform HUD auditors, investigators, and program personnel of the major types of abuse and the indicators of fraud in HUD activities and programs. There are now 19 Bulletins published by the OIG with several more in process. Earlier Bulletins were described in previous Semiannual Reports. The four latest Bulletins are summarized below:

- Improving Internal Controls. This Bulletin makes HUD managers and employees aware of their internal control responsibilities and describes some important benefits achieved by HUD managers who have addressed these responsibilities.

- Conventional Low-Rent Housing Program. This Bulletin informs HUD employees of some of the potentially wasteful and fraudulent practices to which public housing authorities (PHAs) are vulnerable. The Bulletin outlines seven major areas of PHA operations that are particularly susceptible, including: (1) maintenance; (2) utilities and energy conservation; (3) personnel; (4) tenant selection, placement, and eviction; (5) local services; (6) procurement and inventory; and (7) internal accounting controls.

■ Tenant Eligibility. This Bulletin alerts HUD employees to problems and abuses that exist in determining, monitoring, and verifying tenant eligibility. The Bulletin explains the various types of fraud that can occur, including: (1) underreporting assets; (2) underreporting income; (3) falsifying family size/composition or income; and (4) conspiring with owners or managers.

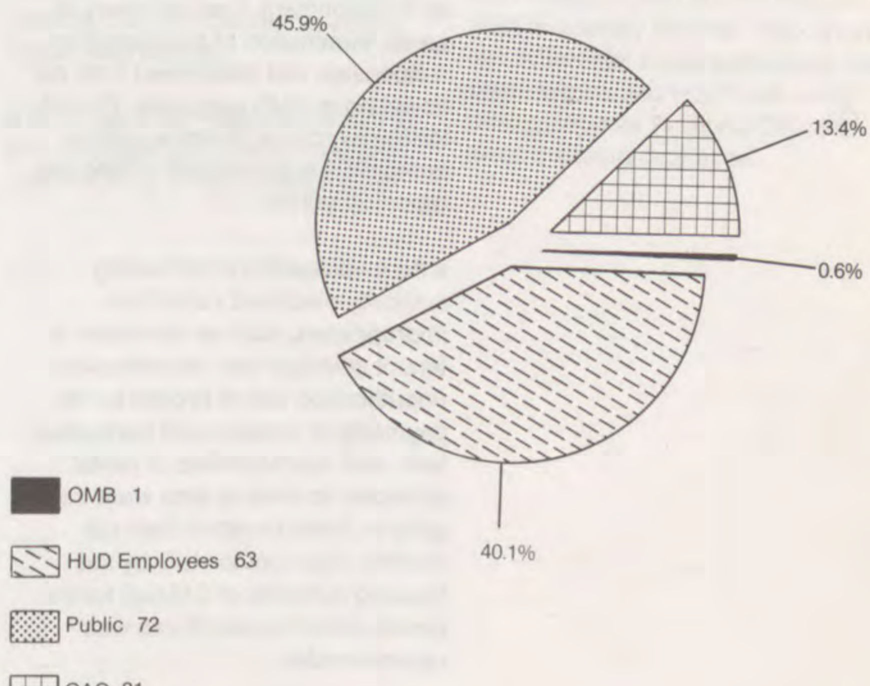
■ Diversions of Funds from Multifamily Projects. This Bulletin gives HUD auditors, investigators, and program personnel guidance in identifying potential project diversions and outlines appropriate steps for HUD personnel to follow to disclose these problems. The Bulletin describes findings from recent audits and investigative cases by the Office of Inspector General.

## Hotline Activities

HUD hotline complaints originate from HUD employees or the general public. Complaints are also referred to the OIG by the General Accounting Office and the Office of Management and Budget. We received 157 complaints during the reporting period. We also received 251 inquiries over the HUD hotline. These inquiries include questions regarding HUD matters and requests for complaint status information.

The following chart breaks down the origin of the 157 complaints.

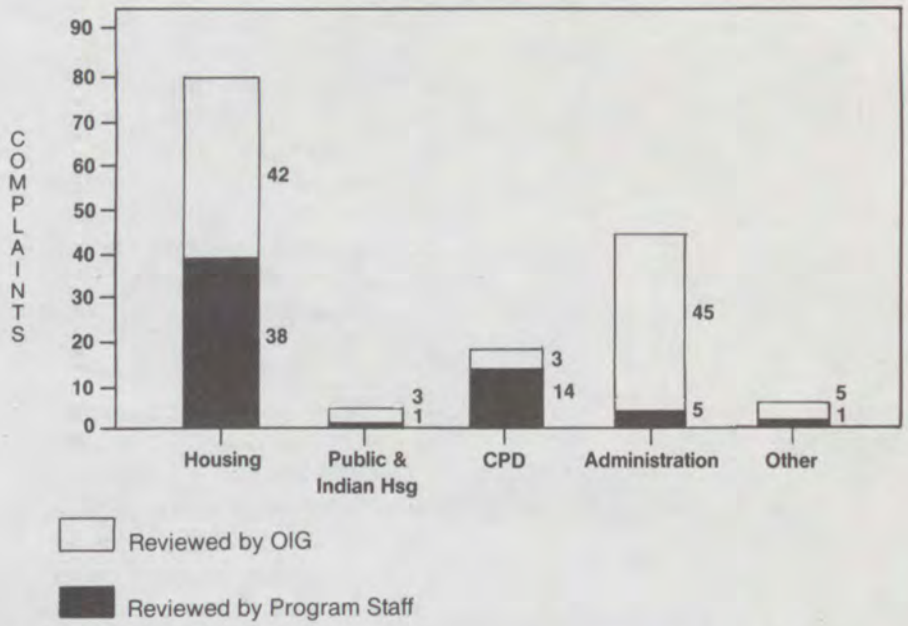
**Sources of Hotline Complaints**
*April 1, 1984 through September 30, 1984*



The chart below shows the program areas affected and the offices assigned to review and resolve the complaints.

**Distribution of Hotline Complaints**

*April 1, 1984 through September 30, 1984*




During this reporting period, 213 hotline complaints were closed. Of these, 61 (29 percent) were valid and resulted in corrective actions such as imprisonment, fines, recovery of funds, termination of assistance, or suspension and debarment from participation in HUD programs. The following synopses illustrate hotline complaints substantiated during this reporting period.

■ An investigation of a housing authority disclosed numerous improprieties, such as favoritism in tenant selection and recertification, unauthorized use of project funds, payments of unapproved consultant fees, and overpayments of rental subsidies to tenants who were ineligible or failed to report their full income. Payment to HUD by the housing authority of $18,000 for the unauthorized expenditures was recommended.

■ A complainant alleged misuse of housing authority funds and vehicles and nepotism by a housing authority Executive Director. A review by the OIG Office of Investigation and the Office of Housing disclosed evidence of misuse of housing authority funds, gasoline credit cards, and vehicles by the Executive Director. In addition, competitive bidding was not used for six housing authority contracts, and the Executive Director had provided his son and brother-in-law with jobs which were not advertised or offered to anyone else. Subsequently, the Executive Director resigned and made restitution in the amount of $750 for funds misused for personal expenses.

■ The following synopses typify the complaints we receive on a recurring basis related to ineligible tenants' residing in subsidized housing or making false statements to obtain Section 8 housing assistance payments:

– An investigation disclosed that several tenants understated their total family income resulting in overpayments totaling $3,325. The tenants agreed to make restitution.

- A tenant failed to report total household income resulting in overpayments of $4,158. The tenant moved out. However, the project manager continued to bill HUD for this vacant apartment. The project manager was required to reimburse HUD $1,920 for improperly collecting housing assistance payments after the tenant moved out. Claims collection action was initiated against the former tenant.

- An investigation determined that several tenants within the same project failed to properly report their employment and total household income. This resulted in rental assistance overpayments of $11,643. The tenants have moved and claims collection action has been initiated to collect the overpayments.

- A complaint was made that several Section 8 tenants in the same areas were allegedly underreporting their total household income. An investigation disclosed that eight tenants substantially understated their income and received overpayments totaling $38,052. Claims collection action was initiated.

■ A complainant alleged that a project manager was awarding subsidized housing to ineligible families and denying housing to eligible tenants. A comprehensive management review performed by the Office of Housing substantiated the allegations. Numerous recommendations were made to the owner including the need to relocate some tenants to smaller apartments, initiate proper procedures to verify income, and develop a new waiting list system. It was also recommended that the owner replace the present office staff.

■ A complainant alleged waste and misuse of funds for an unnecessary temporary move prior to the permanent move. A review by the Office of Administration determined that the complaint was valid. The combination of delays in accepting the office space and in developing satisfactory layouts required a temporary move which cost HUD $5,787. In order to prevent a recurrence, the Office of Administrative and Management Services advised the appropriate Field personnel of the need to develop layouts in accordance with the Handbook and submit them to GSA in a timely manner. Also, a system to monitor lease expirations has been established which will notify the appropriate Regional Office of the impending expiration.

## Chapter 4

### Cooperative Efforts

During the current semiannual reporting period, we participated in several special cooperative efforts with other Federal agencies and non-Federal organizations. 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 are in addition to our regular activities 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.

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### 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 is chaired by the Deputy Director of the Office of Management and Budget. The HUD Inspector General is the Vice Chairperson. The Council also 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. The PCIE was established as an integral part of a broader plan to attack fraud, waste, and inefficiency in Federal programs.

**1. Inspection Activities Project**

The Inspection Activities Project was undertaken by the PCIE Prevention Committee to survey existing inspection activities of the Inspectors General and to evaluate them for wider application within the Inspector General (IG) community. The HUD Inspector General chaired this project and was assisted by staff from six other Offices of Inspector General.

An inspection is any independent, objective examination (other than an audit or investigation) of a Federal activity or program conducted by IG staff to evaluate the effectiveness and economy of operations; compliance with laws and regulations; and/or the effectiveness of techniques to detect and prevent fraud, waste, and mismanagement.

In September 1984, the PCIE published a report which describes the various inspection activities and presents their results. The report points out that, although inspections are relatively new, they have already achieved significant results in terms of program capacity enhancements, cost savings, improvements in program efficiencies, and referrals for audits and investigations.

**2. Communications and Awareness**

The Communications and Awareness Committee was created to improve communication in the IG community and to enhance the image of the IG community with agencies and the general public.

The Committee is chaired by the HUD Inspector General. The Committee completed a survey of PCIE members, and in its September 1984 report recommended specific ways to assist the PCIE membership in exchanging information on PCIE work. The Committee called for a clearinghouse mechanism to exchange information within the IG community on prevention and detection techniques, communication and awareness practices, and new or ongoing PCIE projects. It will also provide coordination for the preparation of the PCIE Semiannual Report to the President.

**3. Other PCIE Projects**

■ The PCIE Prevention Committee initiated a project aimed at promoting cooperative fraud prevention efforts with Federal contractors. This project is chaired by the Department of Defense Inspector General with staff assistance from other IGs including our Office. The purpose of the project is to identify potential joint efforts between Federal contractors and the Inspectors General that can be undertaken to prevent and detect fraud by contractor employees. At the end of this reporting period, the project participants had developed the first version of a videotape presentation entitled "Integrity in Government Contracting" and an explanatory brochure.

■ In our last semiannual report, we reported on the Prevention Committee's Legislative and Regulatory Review Approaches project. The project is led by the IG at the General Services Administration. Our Office is providing staff assistance. The project's draft report, which contains responses from all OIGs, discusses their experiences in this area, identifies common elements, and highlights successful practices and suggested procedures such as HUD's Fraud Vulnerability Assessment System.

■ We have continued our assistance on the Front-End Eligibility Verification project. The project is chaired by the IG at the Department of Health and Human Services. The purpose of the project is to identify the best practices used by Federal, State, and local governments for front-end computer matching techniques. Questionnaires have been distributed and project participants are in the process of analyzing the responses.

## Single Audit Concept

**1. 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," provides for a single audit that encompasses all grants or activities of an organization that receives Federal funds.

In HUD, the single audit concept currently applies only to State and local governments and Indian tribes. However, we are expanding the concept to other recipients as well. We have been working with the International City Management Association (ICMA), a nonprofit organization, and their Independent Public Accountants to implement the single audit concept at the ICMA. This initial effort at the ICMA covers 41 different awards from 12 Federal agencies over a 4-year period with a total Federal share of over $6.6 million.

Legislation mandating the single audit concept was passed by Congress in early October 1984. The President signed the bill on October 19, 1984.

## Intradepartmental Projects

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

The Assistant Secretary for Administration is responsible for HUD's implementation of OMB Circular A-123, "Internal Control Systems," and the Federal Managers' Financial Integrity Act (FMFIA). 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 consultation and technical advice.

During this reporting period, major efforts in which we assisted included: (1) preparing the annual report to the President and the Congress as required by the FMFIA; (2) revising the internal control review guide; (3) issuing HUD's Internal Control Handbook; (4) taking corrective actions on more than 340 problem areas identified; (5) initiating and completing approximately 100 Regional Office preliminary reviews; and (6) completing 16 internal control reviews.

Our Office is conducting a joint review with the General Accounting Office to validate the results of the processes established by HUD last fiscal year. See "Interagency Projects" in this chapter for more details.

## Interagency Projects

**1. Joint Review With The General Accounting Office**

Our Office and the General Accounting Office (GAO) began the second year 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 the Act require an assessment of internal control systems throughout the Federal Government and development of improvements as necessary.

The joint review is being conducted to enable the OIG and the GAO to carry out similar audit assignments, while avoiding a duplication of effort and minimizing the disruption of HUD operations. Our review is required for the Secretary's use in preparing his annual statement to the President and to the Congress on the adequacy of HUD's internal control systems. The GAO effort is being conducted as part of a governmentwide review of the implementation of the Act covering 23 Federal agencies.

This cooperative review is being performed in three major areas within HUD: Housing, Community Planning and Development, and Administration. The review is being performed in Headquarters and four Regions to update the status of the Department's compliance with the Act and the Circular for Fiscal Year 1984. Our first year review looked at HUD's implementation of the internal control evaluation process. The second year review will concentrate on validation of the results of that process. We will also follow up on the recommendations in our first year report and look at the stages of the process which were still under development at the conclusion of our field work for the first year review.

**2. Cash Management Practices**

Office of Management and Budget (OMB) Bulletin 83-6, "Action Plan," requires that each major Federal agency institute an aggressive plan for strengthening its cash management practices. The plan should identify: (1) initiatives which would accelerate the collection and deposit of funds to the U.S. Treasury; (2) specific timeframes for completing the applicable initiatives; and (3) annual interest savings which would result from implementing the initiatives. The Bulletin requires each agency to designate a Cash Management Officer who is responsible for developing and implementing the Cash Management Plan. At HUD, the Assistant Secretary for Administration is the Cash Management Officer.

At the request of OMB, we participated in a governmentwide audit of cash management. The lead agency was the Department of the Treasury's Office of Inspector General. The audit objectives were to: (1) review existing collection procedures to determine whether funds were promptly received and deposited; (2) identify alternative collection and deposit mechanisms that would improve the deposit process; and (3) assess the effectiveness and timeliness of the Cash Management Plan.

Our review of HUD's cash management practices centered on four major collection programs: Multifamily Mortgage Note Collections; Single Family Property Sales Proceeds; HUD-owned Multifamily Rental Payments; and Government National Mortgage Association Securities Guaranty Fees. HUD's cash management initiatives for the four programs reviewed would result in annual interest savings of $1.6 million. However, our review showed that HUD could realize an additional $1 million in savings if different deposit mechanisms for certain collections were used, and if improved deposit procedures for other receipts were followed.

## Chapter 5

### Review of Legislation and Regulations

During the current semiannual reporting period, we reviewed selected current legislation in addition to various draft legislative proposals, regulations, and other issuances relating to the economy and efficiency of programs and operations and the prevention and detection of fraud and abuse.

Some of the more significant current legislation, legislative proposals, regulations, and other issuances with which we are concerned are described as follows:

### Legislation

**Section 119(g)** of Title I of the Housing and Community Development Act of 1974 does not permit HUD to recapture funds that have already been expended on eligible activities even though the conditions of the original grant agreement were never met. An Independent Public Accountant audit report disclosed that the City of Quincy, Illinois, received an accelerated repayment of over $5.8 million in Urban Development Action Grant (UDAG) funds as a result of a default on a loan agreement.

The City of Quincy, Illinois, entered into an agreement with the Cummins Engine Company for the purchase and refurbishing of a vacant industrial facility in the City. UDAG funds of over $5.8 million were granted to the City for the purpose of loaning the funds to Cummins to purchase the property.

After it purchased the property, Cummins ceased operations in Quincy because of economic conditions. The loan was repaid to the City in June 1983. The conditions of the grant agreement which called for a capital investment by the company and the hiring of employees for the facility were not accomplished. However, because the funds were spent on eligible activities (the purchase of an industrial facility), the Department has not authority to recapture the funds.

We examined block grant funding provided to Quincy, Illinois, through the State Small Cities Program and found that between 1975 and 1982, the City received $5.5 million in block grant funds. However, through the loan default, the City has received an additional $5.8 million in unused UDAG funds plus nearly $400,000 in interest to date. We do not believe the Act intends a city to be permitted to retain funds when the economic development benefits intended by Congress were not accomplished. A change to the legislation may be necessary to prevent cities from gaining windfall revenues in situations where the objectives of the UDAG program are not met. We have scheduled an internal audit for Fiscal Year 1985, and will examine this matter in greater detail at that time.

**H.R. 5646** would repeal the expiration of authority for OIG awards for cost savings disclosures which expired on September 30, 1984. On August 7, 1984, the HUD Inspector General testified on the Inspectors General Cash Awards Program before the U.S. House of Representatives Post Office and Civil Service Subcommittee on Civil Service.

Although we have reservations about legislation concerning employee awards for disclosure of fraud, waste, and abuse, we supported a 3-year extension of the program in order to more fully evaluate it. Our concerns are:

- It is usually impractical to determine whether any immediate savings to the government will occur due to any proposed operating changes or actions as a result of such disclosures.

- We believe that Federal Government employees have an existing responsibility to report fraud, waste, and mismanagement. It is unclear where agencies are to draw the line when it comes to granting cash awards to employees for actions that are expected of them and are part of their assigned responsibilities.

■ Since enactment of the Omnibus Budget and Reconciliation Act of 1981, no awards have been made to HUD employees because the submissions have not clearly demonstrated savings to the Federal Government. Therefore, we question the program's future effectiveness.

This bill to extend the Cash Awards Program was not passed by Congress and lapsed on September 30, 1984.

**S. 2819** concerns various housing and community development laws and amends the Housing and Urban-Rural Recovery Act of 1983. We strongly oppose the amendments to Section 112 concerning relieving select cities of their repayment obligations, its precedent setting nature, and the ultimate cost to the Federal Government. Our comments were as follows:

■ A 1982 OIG audit of the Denver Urban Renewal Authority found that the Authority had placed $15 million from the project in another non-federally aided project account. This legislation could jeopardize the outcome of current litigation on this matter.

■ We disagreed with the practice of permitting cities to retain such income. Program staff stated that the Federal Government could lose $149 million in future repayments and past payments totaling $12 million could be in jeopardy.

Our concerns in this matter were relayed by HUD's Office of General Counsel to the Office of Management and Budget who in turn transmitted them to Congress on September 18, 1984. The bill passed the Senate on June 29, 1984, and the House on September 11, 1984. As a result of a conference between the House and Senate, a compromise was agreed to on October 2, 1984. On October 17, 1984, the bill was signed into law by the President.

## Regulations

**Proposed Rule 24 CFR Part 570** would amend the provisions of HUD's Community Development Block Grant (CDBG) regulations which set forth requirements under which a block grant recipient may draw grant funds in one lump sum for the purpose of financing the rehabilitation of privately owned real property. An OIG audit report entitled, "Lump Sum Drawdown for CDBG Rehabilitation Financing," dated May 11, 1983, found that grantees were not operating their lump sum programs effectively and economically. Since these draft regulations do not address the problems identified in this audit report, we nonconcurred with the draft regulations for the following reasons:

■ We believe activities such as grants, direct and deferred loans, administrative costs of financial institutions, and interest buydowns are more economically financed by a direct draw from the grantee's letter of credit. In addition, we believe Congress intended that only loans would be part of the lump sum since the Housing and Community Development Act of 1974 states ". . . for use in establishing a revolving fund. . . ." We have referred these areas of disagreement to the Headquarters Audits Review Group.

■ The word "staff" should be replaced with "administrative." This was the subject of an audit finding which was closed based on the HUD Office of Community Planning and Development's (CPD) promise that administrative costs would be excluded.

■ The time limits established for the first loan and substantial disbursements do not indicate how the interest earned would be treated. We suggested that substantial reimbursements be 25 percent plus interest earned. This would be in line with a prior Office of General Counsel opinion.

We lifted our nonconcurrence on August 25, 1984, because CPD made the necessary changes to the proposed rule to satisfy our concerns.

**Proposed Rule 24 CFR Parts 207, 220, 221,** etc., Mortgagor Risk on HUD-insured Projects, amends HUD regulations governing the insurance of mortgages for newly constructed and substantially rehabilitated multifamily rental housing and nursing homes. We nonconcurred in its issuance because it does not provide effective management control over the proposed risks and does not include sanctions for failure to comply with HUD multifamily project requirements. We had the following specific comments:

■ We believe the administrative control of the funds under the undefined conditions in the rule is highly risky. The use of irrevocable letters of credit under conditions where the funds may be disbursed for project operating purposes is questionable and it may be costly to pay fees for reissuance at frequent, unspecified time intervals.

■ Deposits should be in accounts fully insured by the Federal Deposit Insurance Corporation and be interest bearing.

■ Based on comments from Field responses to a Committee on Fraud, Waste, and Mismanagement loan management questionnaire, we believe the personal indemnity agreement may not be of value because of HUD's reluctance to take legal or administrative sanctions against mortgagors who do not comply with HUD requirements.

## Other Issuances

**Forms HUD-9740 and 9740.1** concern the Project Management Contract. We nonconcurred because they lack adequate controls over the project manager or contractor. Our specific nonconcurring comments were:

■ The article pertaining to conflict of interest should specify where, when, and to whom such conflicts should be disclosed for review or investigation.

■ The provision to exempt the contractor from assessment of damages incurred for a 2-month learning period should be revised to be null and void where it is determined that such damages were the result of willful, fraudulent, or negligent behavior on the part of the contractor, subcontractor or their employees.

■ Stronger internal controls are needed including: placing security deposits in interest-bearing accounts; using prenumbered receipts to limit possible alterations; and advising the tenant in writing of any withholding of security deposits by the contractor.

■ The contract provisions should provide for audits by the Inspector General or Independent Public Accountants.

■ The provisions should specify the method of determining project management fees, billing, and payment by HUD of such fees and provide for incentive compensation to promote cost control. We also recommend requiring some demonstration of the capacity to act as project manager or a requirement to complete a HUD-approved course in the invitation to bid.

■ We recommend adding a general

provision to specify the legal recourse the Department possesses where the contractor violates any of the project management provisions.

**HUD Handbook 2210.13 REV-2,** Government Technical Representative Handbook, provides guidance and information to Departmental personnel designated as Government Technical Representatives (GTRs). Although the revision is a substantial improvement, we nonconcurred for the following reasons:

- Although assistance instruments are discussed, the Handbook is used specifically for procurement. Since there is no other Departmental guidance on GTRs' responsibilities for assistance instruments, a separate chapter on this subject should be included.

- The Handbook states that the GTR is not authorized to commit the government. Since there are penalties available to the Department, they should be discussed here, at least in general terms.

- The procedure requires that new GTRs attend GTR procurement training "when possible, or within 6 months after appointment." Training should be required prior to a GTR appointment to ensure that government interests are protected.

HUD's Office of Procurement and Contracts agreed to take actions to address our concerns.

## 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.

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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 necessary to exercise our subpoena authority seven times. Four of the subpoenas were issued with respect to investigations, and three were issued in connection with audits.

Since the passage of the IG Act, we have, to date, issued a total of 92 subpoenas. It has been necessary to seek enforcement in District Courts nine times.

# Chapter 7

## 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.

## Cash Recoveries

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 abuse. Highlights for the 6-month period are as follows:

- Cash recoveries resulting from audits – $28.9 million.
- Questioned/disallowed costs sustained by HUD management – $40.7 million.
- Value of unresolved audit findings – $91 million.

## Follow-up on Audit Findings

During the current reporting period, we reviewed monetary audit findings agreed to by HUD program officials to determine whether HUD program management complied with the Department's procedures for collecting sustained costs. Our analysis showed that, in some cases, HUD officials did not act promptly on sustained audit findings, thus diminishing the possibility of collection. In the second quarter of Fiscal Year 1985, we plan to issue a nationwide internal audit report providing recommendations addressing these issues.

The following synopses highlight the amounts of claims outstanding, the last actions taken by management prior to this current review, and the action official currently responsible for assuring collection actions are taken.

| Audit Report Title and Number | Synopsis |
|---|---|
| Terrance Cook and Co., Inc.<br>Management Agent<br>Stamford, Connecticut<br>Audit Period: 1/1/80-7/31/82<br>83-BO-214-1002<br>Issued 10/27/82<br>Responsible Regional Administrator (RA): John C. Mongan | Claims of $50,254 due project were sustained in February 1983. The auditee appealed the sustained amounts and was granted several extensions. In January 1984, the OIG reviewed the findings at management's request and advised that the original decisions should stand. The sustained amount is still outstanding. |
| Sentry Property Management Corporation<br>Project Manager<br>Brookline, Massachusetts<br>Audit Period: 1/1/80-4/30/81<br>82-BO-215-1011<br>Issued 11/27/81<br>Responsible RA: John C. Mongan | A claim of $23,539 due HUD was sustained by management in March 1982. Program staff sent 3 demand letters, the last in November 1982. In January 1983, the auditee appealed to the Regional Administrator. In April 1983, the claim was forwarded to Headquarters. In May 1983, it was returned because, "it is not appropriate to forward uncollected claims to the Departmental Claims Collection Officer while matters are still pending." The claim remains outstanding. |
| UPACA Nonprofit Housing Corporation<br>New York, New York<br>Audit Period: 1/1/80-10/31/81<br>82-NY-212-1029<br>Issued 2/16/82<br>Responsible RA:<br>Joseph D. Monticciolo | Claims due HUD of $190,140 were sustained in June 1982. In September 1982, the auditee was instructed to submit a repayment plan which would commence in September 1983. To date no repayment plan has been implemented, and the claim remains open. |
| Virgin Islands Water and Power Authority<br>Project PFL VI-2(L)<br>Saint Thomas, Virgin Islands<br>Audit Period: 6/1/72-6/30/76<br>82-NY-257-1058<br>Issued 9/21/82<br>Responsible RA:<br>Joseph D. Monticciolo | Claims due HUD of $1,238,193 were sustained in January 1983. Files show no correspondence between April 1983 and August 1984. No collections have been made and claims are outstanding. |

| Title and Number | Synopsis |
|---|---|
| Jen-Kel, Incorporated<br>Management Agent<br>Brooklyn, New York<br>Audit Period: 5/29/79-11/22/81<br>83-NY-215-1026<br>Issued 4/29/83<br>Responsible RA:<br>Joseph D. Monticciolo | Claims due HUD of $107,431 (questioned) were agreed to by management in June 1983. No action has been taken since August 1983, and the claims remain outstanding. |
| Municipality of Guaynabo<br>Community Development Block<br>Grant Program<br>Guaynabo, Puerto Rico<br>Audit Period: 3/1/80-9/30/81<br>82-NY-241-1030<br>Issued 2/25/82<br>Responsible RA:<br>Joseph D. Monticciolo | Claims of $202,166 due project were agreed to by management in June 1982. The only correspondence on file was a June 1982 demand letter and the auditee response. The claim remains open. |
| Philadelphia Housing Authority<br>Philadelphia, Pennsylvania<br>Audit Period: 10/1/74-3/31/79<br>80-PH-201-2028<br>Issued 12/28/79<br>Responsible RA:<br>Kenneth J. Finlayson | Claims of $26,960,548 were agreed to by management in September 1981. In December 1981, $287,977 was recovered. In May 1982, an additional $81,500 was sustained. There were no collection efforts on the $26,672,571 outstanding after December 1981 and on the $81,500 outstanding since April 1983. The claim remains outstanding. |
| Wilmington Housing Authority<br>Low-Income Housing Program<br>Wilmington, Delaware<br>Audit Period: 4/1/77-8/31/79<br>80-PH-202-1019<br>Issued 6/20/80<br>Responsible RA:<br>Kenneth J. Finlayson | Claims totalling $1,066,793 were established during September and October 1981. This amount was reduced by $741,851 through collection or supporting documentation. The balance of $324,942 ($196,415 due project, $128,527 due HUD) remains outstanding. There is no evidence that collection efforts were pursued after February 1983. |
| Cambridge Square Apartments<br>Project No. 051-35062-PM<br>Danville, Virginia<br>Audit Period: 11/1/73-6/30/78<br>78-PH-212-1010<br>Issued 2/16/79<br>Responsible RA:<br>Kenneth J. Finlayson | Claims of $388,812 due HUD were agreed to by management in September 1981. Requests for payment were made in July, September, and October 1982, but no collection efforts have been made since then. The claim remains outstanding. |
| Wilmington Housing Authority<br>Low-Income Housing Program<br>Wilmington, Delaware<br>Audit Period: 4/1/82-3/31/83<br>83-PH-201-1025<br>Issued 9/30/83<br>Responsible RA:<br>Kenneth J. Finlayson | Claims of $261,415 due project were established in December 1983. Repayment was to be accomplished in 24 installments commencing in April 1984. No payments have been received and there is no evidence that collections have been pursued. |

| Title and Number | Synopsis |
|---|---|
| Reversal of Sustained Costs<br>Philadelphia Regional Office<br>Baltimore and Washington<br>Field Offices<br>Audit Period: 7/1/82-3/31/83<br>83-PH-169-0007<br>Issued 7/25/83<br>Responsible RA:<br>Kenneth J. Finlayson | Claims of $1,452,851, previously written off, were reinstated in March 1984. Subsequently, $322,856 was resolved, but $1,129,995 due the project remains outstanding. |
| Use of Identity-of-Interest<br>Companies and Central Services<br>Facilities for Multifamily<br>Project Services<br>Baltimore and Washington<br>Field Offices<br>Audit Period: 1/1/77-5/31/78<br>79-PH-119-0005<br>Issued 11/27/78<br>Responsible RA:<br>Kenneth J. Finlayson | A claim of $14,851 due project was agreed to by management in March 1982. No evidence was furnished that the Regional Office staff was pursuing the claim or that the Field Office had followed up to ascertain the status of the claim since May 1982. |
| City of Flint, Community<br>Development Block Grant Program<br>Flint, Michigan<br>Audit Period: 7/1/80-12/31/81<br>82-CH-241-1072<br>Issued 7/13/82<br>Responsible RA:<br>Judith Y. Brachman (Acting) | Questioned costs of $879,854 and disallowed costs of $2,104 were agreed to by management in November 1982. The grantee was to submit a cost allocation plan to HUD before February 1983. Although the RA advised in July 1984 that a plan was approved, additional data from the grantee is still needed. The sustained amount remains outstanding. |
| City of Pontiac, Community<br>Development Block Grant Program<br>Pontiac, Michigan<br>Audit Period: 7/1/77-6/30/81<br>82-CH-241/243-2731<br>Issued 7/15/82<br>Responsible RA:<br>Judith Y. Brachman (Acting) | Questioned costs of $58,750 were agreed to by management in November 1982. Although the grantee submitted a cost allocation plan update in September 1982, the RA advised that final action is still awaiting submission of additional data requested from the grantee in March 1984. The claim remains open. |
| Chateau Ames Apartments<br>Marrero, Louisiana<br>Audit Period: 10/1/76-1/31/81<br>82-FW-209-1016<br>Issued 11/27/81<br>Responsible RA:<br>I.L. Sanchez-Davis (Acting) | Claims due HUD of $154,433 were agreed to by management in April 1982. Of this amount, $22,426 was due from the current owner and $1,132 was recovered. No collection efforts were pursued against the former owner ($132,007) and a total of $153,301 remains outstanding. |
| Holly Park Apartments<br>New Orleans, Louisiana<br>Audit Period: 11/1/76-6/30/81<br>82-FW-209-1015<br>Issued 11/20/81<br>Responsible RA:<br>I.L. Sanchez-Davis (Acting) | Claims due HUD of $19,219 were agreed to by management in March 1982. The finding was closed based on a promise that all payments would be reviewed for eligibility. In March 1983, program management requested closing questioned costs based on a review of 20 files rather than all cases as originally promised. OIG did not concur in this closing. No further work was done by program management. The claim remains open. |

| Title and Number | Synopsis |
|---|---|
| Urban Properties, Inc.<br>Shreveport, Louisiana<br>Audit Period: 12/1/78-8/31/81<br>82-FW-214-1027<br>Issued 1/27/82<br>Responsible RA:<br>I.L. Sanchez-Davis (Acting) | Claims of $51,490 due project were agreed to by management in April 1982. Due to a dispute, resolution was contingent upon receipt of a CPA audit report. The audit report was provided to HUD in August 1982; however, there is no evidence of follow-up by HUD staff. No further corrective action has been taken on the finding. |
| Berkeley Housing Authority, City of Berkeley, California<br>Audit Period: 7/1/78-8/30/80<br>81-SF-203-1008 Issued 12/17/80<br>Responsible Headquarters (HQ) Official: Judith L. Tardy, Assistant Secretary for Administration | A claim due HUD of $214,000 was agreed to by management in September 1981. Subsequent City attempts to collect on the local level were unsuccessful. In February 1984, the claim was forwarded to the Departmental Claims Collection Officer, but no action was taken until September 1984, when the Office of General Counsel was asked for a legal opinion. |
| City of East St. Louis<br>East St. Louis, Illinois<br>Audit Period: 1/1/76-12/31/79<br>81-CH-257-1098 Issued 11/26/80<br>Responsible HQ Official:<br>John J. Knapp, General Counsel | A claim of $103,622 due program was agreed to by management in September 1981. In September 1982, the claim was transferred to the Departmental Claims Collection Officer, who transferred it to the Office of General Counsel in May 1983. The Office of General Counsel was unable to locate the claim or determine whether the requested opinion was given. The claim remains outstanding. |
| City of New Orleans<br>Model Cities Program<br>New Orleans, Louisiana<br>Audit Period: 8/1/72-1/31/75<br>76-FW-257-2001 Issued 3/1/76<br>Responsible HQ Official:<br>Alfred Moran, Assistant Secretary-Designate for Community Planning and Development | A claim due HUD of $1,583,300 was agreed to by management in June 1979. The claim was transferred to the Departmental Claims Collection Officer in August 1981 and to the Office of General Counsel for possible litigation in May 1983. In January 1984, the claim was transferred to the Office of Block Grant Assistance and no action has been taken. |
| Niles Township (Final Audit)<br>Niles Township, Michigan<br>Audit Period: 9/3/76-5/31/82<br>82-CH-243-1079 Issued 8/20/82<br>Responsible HQ Official:<br>Alfred Moran, Assistant Secretary-Designate for Community Planning and Development | Claims due HUD of $164,065 were agreed to by management in November 1982. The claims were transferred to the Departmental Claims Collection Officer in June 1983, who transferred the claims to the Office of General Counsel in July 1983. In January 1984, the General Counsel transferred the claim to the Director, Office of Block Grant Assistance. No further action has been taken. |
| Massachusetts Energy Management Company<br>Boston, Massachusetts<br>Audit Period: 12/18/78-4/18/80<br>80-BO-219-1700 Issued 9/25/80<br>Responsible HQ Official:<br>John J. Knapp, General Counsel | Claims due HUD of $774,680 were agreed to by management in February 1981. In July 1983, the Departmental Claims Collection Officer transferred the claim to Office of General Counsel for litigation. The Department of Justice, Civil Division, declined to take a civil action, and, because of doubts concerning collectibility, no further action has been taken. |

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

- Open audit findings at 4/1/84 - 1,457
- Audit findings issued during the period - 3,187
- Audit findings resolved during the period - 3,155
- Audit findings unresolved at 9/30/84 - 1,489

Following is a listing of 13 unresolved audits which were over 6 months old at the end of the period.

| *Title* | *Date Issued* | *Number of Findings* | *Amount* |
|---|---|---|---|
| First Columbia Management, Inc. (83-SF-214-1009) | 11/24/82 | 1 | $ 85,863 |
| CDBG Rehab Activities (83-CH-144-0007) | 03/23/83 | 1 | -0- |
| CDBG - Lump Sum Drawdowns for CDBG Rehab. Financing (83-TS-145-0007) | 05/11/83 | 2 | $48,614,381 |
| Kansas City, MO - CDBG (83-KC-241-1014) | 05/13/83 | 2 | -0- |
| Detroit Housing Department (83-CH-201-1051) | 08/26/83 | 1 | -0- |
| Preservation and Protection of Properties (84-TS-113-0002) | 11/25/83 | 1 | -0- |
| King County, WA Housing Authority (84-SE-201-1001) | 12/15/83 | 1 | $ 251,000 |
| Mankato, MN - CDBG (84-CH-242-1008) | 02/10/84 | 2 | $ 115,624 |
| Percy Wilson Financial Corp. (84-TS-221-1007) | 02/13/84 | 1 | -0- |
| Eugene Berger Mgmt. Corp. (84-SF-214-1011) | 02/29/84 | 1 | $ 192,455 |
| Denver, CO - CDBG (84-DE-241-2094) | 03/14/84 | 1 | $ 1,884,010 |
| Detroit, MI - CDBG (84-CH-241-1011) | 03/30/84 | 4 | $ 4,888,897 |
| Bellingham, WA Housing Authority (84-SE-203-1003) | 03/30/84 | 1 | $ 10,818 |
| Total | | 19 | $56,043,048 |

The Inspector General Act of 1978 requires the Inspector General to identify each significant recommendation described in previous semiannual reports on which corrective action has not been taken. Appendix 3 lists the audit reports that were identified in previous semiannual reports as having recommendations on which corrective action has not been completed. Target dates for completed action are also shown.

## Resolution of General Accounting Office Findings

HUD managers are responsible for taking appropriate action on the recommendations addressed to the Department in GAO reports. The OIG Liaison with GAO is the focal point for information from Primary Organization Heads on actions promised and/or taken by HUD on GAO recommendations. We furnish the Under Secretary with a quarterly report on the status of corrective actions on all GAO report recommendations. When HUD's response satisfactorily addresses a GAO recommendation or when HUD management nonconcurs 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 4/1/84 - 34
- Recommendations issued during the period - 10
- Recommendations closed during the period - 23
- Recommendations open at 9/30/84 - 21

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

| *Title* | *Date Issued* | *Number 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 Hazards 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 | 1 |

| *Title* | *Date Issued* | *Number of Recommendations* |
| --- | --- | --- |
| Defaulted Title I Home Improvement Loans (AFMD-82-14) | 12/7/81 | 1 |
| Rental Rehabilitation with Limited Federal Involvement: Who Is Doing It? At What Costs? Who Benefits? (RCED-83-148) | 7/11/83 | 2 |
| Increasing the Department of Housing and Urban Development's Effectiveness Through Improved Management (RCED-84-9) | 1/10/84 | 4 |
| Insights into Major Urban Development Action Grant Issues (RCED-84-55) | 3/5/84 | 2 |

## 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.

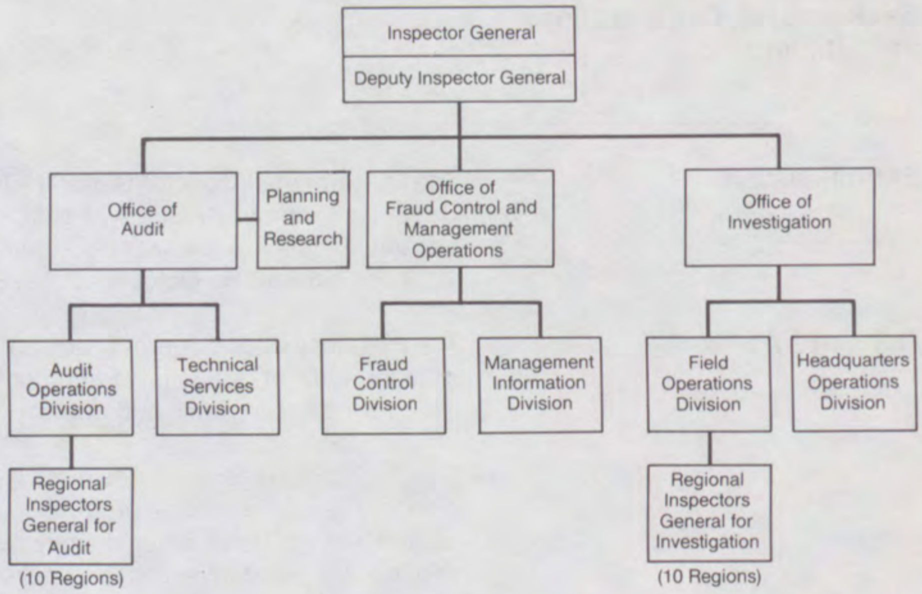
### Organization and Staffing

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 10 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 are on the following page.

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




**Staffing Distribution**

FY 1984

| | Headquarters | Field | Total |
|---|---|---|---|
| **Inspector General** | 6 | — | 6 |
| **Office of Audit** | 63 | 288 | 351 |
| **Office of Investigation** | 21 | 82 | 103 |
| **Office of Fraud Control & Management Operations** | 35 | — | 35 |
| **Total** | 125 | 370 | 495 |

## Appendix 2

## Audit Reports Issued

The Inspector General Act requires the identification of each audit report completed by the OIG during the reporting period. The following is a list of these reports.

### Internal Audit and Survey Reports

| Report No. | Title | Issue Date |
|---|---|---|
| *Housing* | | |
| 84-AT-123-0007 | Report on Internal Audit of Single Family Properties sold under Bulk Sales Program-Memphis, TN | 9/6/84 |
| 84-AT-111-0009 | Review of Flexible Subsidy Funds for Multifamily Project, Region IV | 9/27/84 |
| 84-AT-102-0004 | Internal Memorandum-HUD Inspections of City of Hickory, NC, PHA Construction Work | 7/10/84 |
| 84-AT-103-0005 | Internal Audit-Monitoring of Section 8 Moderate Rehabilitation Program-Fayetteville, NC Metro Housing Authority | 7/18/84 |
| 84-AT-101-0006 | HUD Monitoring of PHA Procurement and Contracting Activities-Birmingham and Nashville Offices | 8/8/84 |
| 84-AT-123-0003 | Single Family Acquired Property Sales | 4/30/84 |
| 84-BO-111-0003 | Review of Management Agents' Use of Identity-of-Interest Companies | 7/2/84 |
| 84-CH-111-0009 | Review of Management Agents' Use of Identity-of-Interest Companies | 9/19/84 |
| 84-CH-123-0008 | Internal Audit of the Bulk Sales Program-Detroit, MI | 9/19/84 |
| 84-CH-101-0007 | HUD Monitoring of PHA Procurement and Contracting Activities | 8/2/84 |
| 84-NY-123-0005 | Review of Single Family Bulk Sales Program-Camden, NJ | 9/14/84 |
| 84-NY-123-0006 | Review of Single Family Bulk Sales Program-New York, NY | 9/14/84 |

| Report No. | Title | Issue Date |
|---|---|---|
| 84-NY-101-0007 | Estimated Utility Expense Level and Year End Settlement | 9/26/84 |
| 84-NY-111-0008 | Flexible Subsidy Funds for Multifamily Projects | 9/28/84 |
| 84-PH-101-0004 | Termination of Development Projects in the Preconstruction Pipeline | 9/14/84 |
| 84-SE-103-0003 | Need to Improve Monitoring of Moderate Rehabilitation Programs | 6/20/84 |
| 84-SF-123-0008 | Review of Bulk Sales Program-Las Vegas, NV | 8/7/84 |
| 84-SF-129-0009 | Selection and Performance of Fee Personnel in Region IX | 9/21/84 |
| 84-SF-121-0011 | Assignment and Servicing of Secretary-Held Mortgages | 9/27/84 |
| 84-SF-123-0007 | Review of the Bulk Sales Program-Santa Ana, CA | 7/11/84 |
| 84-TS-119-0011 | Sec 202 Direct Loan Program for Housing for the Elderly or Handicapped | 7/20/84 |
| 84-TS-122-0013 | Collection & Write-off of Title I Home Improvement Loans | 8/30/84 |
| 84-TS-101-0008 | Reasonableness of Administrative Salaries paid by Public Housing Agencies | 6/29/84 |
| 84-TS-123-0016 | Mortgagee Protection & Preservation of Single Family Properties Prior to Conveyance to HUD | 9/11/84 |
| 84-TS-113-0009 | Approval and Monitoring of Management Agents for Multifamily Projects | 7/3/84 |
| 84-TS-112-0014 | Inadequate System to Identify Physically Troubled Projects for Inspections | 9/5/84 |
| 84-TS-108-0007 | Section 23 Leased Housing | 5/15/84 |
| 84-TS-112-0006 | Use of Promissory Notes and Working Capital Deposits in Multifamily Housing Projects | 5/8/84 |
| 84-TS-112-0012 | Multifamily Project Development Process-ing | 8/10/84 |

| Report No. | Title | Issue Date |
| --- | --- | --- |
| *Community Planning and Development* | | |
| 84-BO-151-0004 | Field Office Monitoring of Projects Closed under Section 213 Early Closeout Procedures | 9/21/84 |
| 84-NY-144-0004 | Section 312 Rehabilitation Program | 4/18/84 |
| 84-SF-145-0006 | CDBG Field Office Review of Cost Allocations Plans | 5/15/84 |
| 84-TS-145-0019 | Implementation of the Jobs Bill Program | 9/28/84 |
| 84-TS-145-0017 | Field Office Review of Cost Allocation Plans and Monitoring of Indirect Costs | 9/28/84 |
| 84-TS-144-0015 | Use of Escrow Accounts by Community Development Block Grant Recipients | 9/7/84 |
| 84-TS-142-0010 | Report on Survey of Use of Consultants to Administer Small Cities CDBG Program | 7/12/84 |
| *Administration* | | |
| 84-AO-162-0006 | Report on Audit of HUD's Cash Management Project | 5/29/84 |
| 84-AO-161-0005 | Year-End Spending and Procurement Reforms (OFA, OPC, and GTR's) | 4/27/84 |
| 84-AT-162-0008 | Control over Receipt and Deposit of Funds-Birmingham and Knoxville Offices | 9/26/84 |
| 84-BO-161-0005 | Recapture of Section 8 Contract and Budget Authority | 9/28/84 |
| 84-DE-169-0802 | Review of Actions Taken for Sustained Audit Findings | 9/12/84 |
| 84-PH-161-0003 | Regional Accounting Division Operations and Related Programmatic Practices | 5/4/84 |
| 84-SF-162-0010 | Control over Receipt and Deposit of Funds-Los Angeles, CA and Phoenix, AZ Offices | 9/26/84 |
| 84-TS-161-0018 | National Audit Report-Regional Accounting Division Operations | 9/28/84 |
| *Other* | | |
| 84-AO-171-0007 | GNMA's Monitoring and Cost Control over Functions Performed by FNMA | 6/14/84 |

## External Audit and Accounting System Evaluation Reports

| Report No. | Title | Location | Issue Date |
|---|---|---|---|
| *Housing* | | | |
| 84-AT-203-1033 | PHA Activities-Section 8 Moderate Rehabilitation Program-Dade County | Miami, FL | 8/1/84 |
| 84-AT-202-1023 | Section 8 Activities-East Point Housing Authority | East Point, GA | 5/7/84 |
| 84-AT-203-1020 | PHA & Section 8 Activities-St. Petersburg Housing Authority | St. Petersburg, FL | 4/13/84 |
| 84-AT-203-1021 | PHA Activities-Housing Authority of Winston-Salem | Winston-Salem, NC | 4/18/84 |
| 84-AT-203-1026 | PHA Activities-Section 8 Moderate Rehabilitation Program-Roanoke-Chowan Regional Housing Authority and Redevelopment Commission | Gaston, NC | 6/21/84 |
| 84-AT-202-1037 | PHA Activities-Summerville Housing Authority | Summerville, GA | 9/20/84 |
| 84-AT-203-1028 | PHA Activities-Section 8 Moderate Rehabilitation Program-Housing Authority of the City of Greenville | Greenville, SC | 6/29/84 |
| 84-AT-214-1035 | Multifamily Management Agent-U.S. Shelter | Greenville, SC | 8/30/84 |
| 84-AT-214-1030 | Multifamily Management Agent-Das A. Borden and Co. | Muscle Shoals, AL | 7/12/84 |
| 84-AT-202-1022 | PHA Activities-Graham Housing Authority | Graham, NC | 4/25/84 |
| 84-AT-203-1027 | PHA Activities-Section 8 Moderate Rehabilitation Program-Housing Authority of Jefferson County | Louisville, KY | 6/26/84 |
| 84-AT-202-1032 | Public Housing Agency Activities-Limited Review-Housing Authority of Gordo | Gordo, AL | 7/30/84 |
| 84-AT-212-1034 | FHA Multifamily Mortgagor Operations-Pittsburgh Civic League, Inc. | Atlanta, GA | 8/21/84 |

| Report No. | Title | Location | Issue Date |
|---|---|---|---|
| 84-AT-201-1019 | PHA Activities-Investment Practices-Memphis Housing Authority | Memphis, TN | 4/10/84 |
| 84-AT-202-1015 | PHA Activities-City of Hickory | Hickory, NC | 7/10/84* |
| 84-BO-203-1014 | Sec 8 Moderate Rehab Program-Commonwealth of Massachusetts | Boston, MA | 6/8/84 |
| 84-BO-212-1015 | Multifamily Mortgagor Insured Operations-Smithfield Estates-Villa Versailles | North Providence, RI | 7/2/84 |
| 84-BO-212-1016 | Springfield Central Associates-Morgan Square Apartments | Springfield, MA | 7/5/84 |
| 84-BO-202-1019 | Public Housing Agency Activities Falmouth Housing Authority | Falmouth Town, MA | 8/1/84 |
| 84-CH-221-1022 | Mortgagee Audit (Section 221)-Waterfield Mortgage Company | Forth Wayne, IN | 8/27/84 |
| 84-CH-212-1024 | Multifamily Mortgage Insurance Program-Section 232-St. Mary's Square | Galesburg, IL | 9/27/84 |
| 84-CH-212-1025 | Direct Loan Program for Housing for the Elderly or Handicapped-St. David's Gate | Plymouth, MI | 9/28/84 |
| 84-CH-203-1019 | PHA Section 8 Moderate Rehab Program Columbus Metro. Hsg. Authority | Columbus, OH | 6/15/84 |
| 84-CH-203-1020 | Public Housing Agency Activities-Indiana State Housing Board | Indianapolis, IN | 7/26/84 |
| 84-FW-212-1026 | Mortgagor Operations-Cedar Hill Apartments | Monticello, AR | 4/6/84 |
| 84-FW-203-1030 | Community Improvement Agency-Section 8 Moderate Rehabilitation Program | New Orleans, LA | 5/24/86 |
| 84-FW-202-1033 | Cash Shortage and other Irregularities | Cotulla, TX | 7/31/84 |

*Delayed Release

| Report No. | Title | Location | Issue Date |
|---|---|---|---|
| 84-FW-202-1032 | Hsg. Authority Annual Contributions and Section 8 Housing Assistance Payments | Cuero, TX | 6/19/84 |
| 84-FW-202-1029 | Hsg. Authority of Lordsburg, NM | Lordsburg, NM | 4/19/84 |
| 84-FW-201-1027 | Special Review-Computation of Target Investment Income under the PFS | San Antonio, TX | 4/13/84 |
| 84-FW-203-1025 | Housing Authority-Section 8 Mod. Rehab.-Natchitoches Parish | Natchitoches Parish, LA | 4/5/84 |
| 84-KC-229-1007 | Springfield Better Homes-Title I | Springfield, MO | 6/13/84 |
| 84-KC-221-1008 | Gershman Investment Corporation-Mortgagee | Clayton, MO | 6/15/84 |
| 84-KC-203-1011 | Section 8 Moderate Rehabilitation Program-Hsg. Auth. of Kansas City, MO | Kansas City, MO | 7/27/84 |
| 84-KC-202-1006 | Housing Authority of St. Louis County | St. Louis, MO | 4/27/84 |
| 84-KC-203-1012 | PHA Moderate Rehab. Des Moines PHA | Des Moines, IA | 8/13/84 |
| 84-NY-221-1039 | Non-Supervised Mortgagee-New York Guardian Mortgage Co. | Hempstead, NY | 7/2/84 |
| 84-NY-214-1036 | Management Agent-Social Enterprise Associates | Newark, NJ | 5/31/84 |
| 84-NY-201-1035 | PHA-Section 8 Moderate Rehab. Program-Puerto Rico Urban Renewal & Hsg. Corp. | Rio Piedras PR | 5/14/84 |
| 84-NY-212-1033 | Survey Report-Mortgagor Operations-Waterville School Rehab Apts. | Waterville, NY | 5/9/84 |
| 84-PH-212-1013 | Mortgagor Operations-Lexington Woods | Manchester Twp., PA | 4/16/84 |
| 84-PH-202-1012 | Section 8 Moderate Rehabilitation Program-Philadelphia Housing Authority | Philadelphia, PA | 6/14/84 |
| 84-PH-202-1018 | Section 8 Moderate Rehabilitation-Housing Authority of Baltimore, MD | Baltimore, MD | 6/7/84 |

| Report No. | Title | Location | Issue Date |
|---|---|---|---|
| 84-PH-214-1019 | Limited Review-Management Agent-First Columbia Mgt. Inc. | Fairfax, VA | 7/6/84 |
| 84-PH-201-1020 | Public Housing Agency Troubled PHA's-Property Management Admin. | Washington, D.C. | 8/17/84 |
| 84-PH-212-1015 | Mortgagor Operations-John S. Perry House | Woodstock, VA | 5/16/84 |
| 84-SE-202-1005 | PHA-Annual Contributions-Tacoma Hsg. Authority | Tacoma, WA | 7/20/84 |
| 84-SE-214-1006 | Mortgagor Activities-Management Agent-First Columbia Management, Inc. | Seattle, WA | 9/12/84 |
| 84-SF-201-1019 | Low-Income Housing-San Francisco PHA | San Francisco, CA | 6/20/84 |
| 84-SF-212-1018 | Multifamily Mortgagor-Centennial Park Arms I and II | North Las Vegas, NV | 5/18/84 |
| 84-SF-212-1022 | Multifamily Mortgagor Village Avante Redevelopment Ltd. | Morgan Hill, CA | 8/23/84 |
| 84-SF-212-1021 | Multifamily Mortgagor Operations-Alice Manor, Ramona Estates, Whitfield Manor | Los Angeles, CA | 8/17/84 |
| 84-SF-212-1017 | Multifamily Mortgagor-Union Plaza | Santa Maria, CA | 4/11/84 |
| 84-SF-214-1023 | Multifamily Management Agent-First Columbia Mgt. | Mill Valley, CA | 9/6/84 |
| 84-SF-212-1024 | Multifamily Mortgagor-West Tennyson Road Apts. | Hayward, CA | 9/11/84 |
| 84-TS-222-1016 | Title I Lender-Burlington Northern Credit Union | Fargo, ND | 8/13/84 |
| 84-TS-221-1011 | Mortgagee Activities-R and G Mortgage Company | San Juan, PR | 6/6/84 |
| 84-TS-229-1010 | Title I Originations-Property Improvement Loans Mellon Bank of Pittsburgh | Pittsburgh, PA | 5/22/84 |

| Report No. | Title | Location | Issue Date |
|---|---|---|---|
| 84-TS-229-1013 | Title I Property Improvement Loan Insurance Program-Co-America, Incorporated | Detroit, MI | 7/25/84 |
| 84-TS-221-1015 | Mortgagee Audit-House of Holmes | Carson, CA | 8/10/84 |
| 84-TS-221-1017 | Ryan Mortgage Company | Arlington, TX | 9/21/84 |
| *Community Planning and Development* | | | |
| 84-AT-252-1025 | 1983 City-wide Central Service Cost Allocation Plan and Indirect Cost Proposal | Atlanta, GA | 5/14/84 |
| 84-AT-248-1036 | CDBG-UDAG Activities-Accounting System Evaluation | Crossville, TN | 9/14/84 |
| 84-AT-242-1024 | CDBG Activities-UDAG-City of Knoxville | Knoxville, TN | 5/9/84 |
| 84-AT-248-1029 | CDBG Activities-Accountting System Evaluation-City of Oak Ridge | Oak Ridge, TN | 7/11/84 |
| 84-BO-241-1020 | Community Development Block Grant Activity-City of Waterbury | Waterbury, CT | 8/27/84 |
| 84-BO-259-1018 | Special Review of Land Sales Norwich Redevelopment Agency | Norwich, CT | 7/16/84 |
| 84-BO-249-1017 | Community Development Block Grant Activity-City of New Haven | New Haven, CT | 7/6/84 |
| 84-BO-242-1013 | Urban Development Action Grant-City of Peabody | Peabody, MA | 5/15/84 |
| 84-CH-248-1016 | Accounting System Evaluation-UDAG-City of Monticello, MN | Monticello, MN | 5/2/84 |
| 84-CH-248-1017 | Accounting System Evaluation-UDAG-City of Cambridge, MN | Cambridge, MN | 5/2/84 |
| 84-CH-248-1015 | Accounting System Evaluation-UDAG-City of Cloquet, MN | Cloquet, MN | 5/2/84 |

| Report No. | Title | Location | Issue Date |
|---|---|---|---|
| 84-CH-243-1012 | Community Development Block Grant Activities-Yates Township, MI | Yates Twp., MI | 4/5/84 |
| 84-CH-242-1021 | Urban Development Action Grant Program-City of Minneapolis | Minneapolis, MN | 8/20/84 |
| 84-CH-242-1023 | CDBG Activities City of Warren | Warren, OH | 9/25/84 |
| 84-FW-242-1035 | Urban Development Action Grant Activities-San Antonio, TX | San Antonio, TX | 8/8/84 |
| 84-FW-248-1031 | Accounting System Evaluation-Muskogee, OK | Muskogee, OK | 6/8/84 |
| 84-FW-248-1028 | Accounting System Evaluation-UDAG-Ringling, OK | Ringling, OK | 5/1/84 |
| 84-NY-248-1030 | CDBG-Financial Mgmt. System Evaluation Village of Whitehall | Whitehall, NY | 5/4/84 |
| 84-NY-242-1029 | UDAG-City of Salamanca, NY | Salamanca, NY | 5/2/84 |
| 84-NY-248-1028 | CDBG Financial Mgmt. System Evaluation-Town of Chester | Chester Town, NY | 5/3/84 |
| 84-NY-248-1031 | CDBG-Village of Cobleskill | Cobleskill, NY | 5/7/84 |
| 84-NY-257-1034 | Indirect Costs Rate Proposal-Year Ended Dec. 31, 1981-City of Poughkeepsie | Poughkeepsie, NY | 5/22/84 |
| 84-NY-242-1037 | UDAG-Village of Port Chester | Port Chester, NY | 6/22/84 |
| 84-NY-241-1038 | CDBG-Municipality of Toa Baja | Toa Baja, PR | 6/15/84 |
| 84-NY-248-1032 | CDBG Financial Mgmt. System Evaluation-Cooperstown and Otsego County | Otsego County, NY | 5/7/84 |
| 84-NY-248-1027 | Accounting System Evaluation-Town of Sand Lake | Sand Lake, NY | 4/27/84 |

| Report No. | Title | Location | Issue Date |
| --- | --- | --- | --- |
| 84-NY-248-1026 | Accounting System Evaluation-Franklin County | Franklin County, NY | 4/27/84 |
| 84-NY-248-1025 | Accounting System Evaluation-Town of Indian Lake | Indian Lake, NY | 4/20/84 |
| 84-NY-241-1023 | CDBG-City of Newburgh | Newburgh, NY | 4/18/84 |
| 84-PH-242-1021 | UDAG-Pittsburgh, PA | Pittsburgh, PA | 8/30/84 |
| *Administration* | | | |
| 84-AO-262-1011 | McClure-Lundberg Assoc. Inc. | Washington, DC | 6/27/84 |
| 84-AO-262-1008 | Final Cost for Inter-America Research Associates | Rosslyn, VA | 5/18/84 |
| 84-AO-261-1015 | Evaluation of Cost Proposal-Housing Assistance Council | Washington, DC | 9/21/84 |
| 84-AO-262-1007 | Final Cost for National Conference of Catholic Charities | Washington, DC | 4/10/84 |
| 84-AO-262-1014 | Advisory Report on Incurred Cost for Fiscal Years 81-84-The Match Institute | Washington, DC | 8/8/84 |
| 84-AO-262-1012 | Final Cost of National Committee Against Discrimination in Housing Inc. | Washington, DC | 6/28/84 |
| 84-AO-262-1009 | National Conference of States on Building Codes and Standards, Inc. | Herndon, VA | 6/8/84 |
| 84-AO-262-1013 | Advisory Report on Costs Submitted by The Match Institute | Washington, DC | 7/13/84 |
| 84-AO-262-1010 | National Conference of States on Building Codes and Standards, Inc. | Herndon, VA | 6/8/84 |
| 84-AT-262-1031 | Advisory Report on Final Costs-Forsyth County | Winston-Salem, NC | 7/25/84 |

| Report No. | Title | Location | Issue Date |
|---|---|---|---|
| 84-BO-261-1022 | Contract Price Proposal-Comm. Opportunities Group, Inc. | Boston, MA | 9/18/84 |
| 84-BO-261-1021 | Contract Price Proposal-City of Cranston | Cranston, RI | 9/6/84 |
| 84-CH-262-1018 | Advisory Report on Final Costs-Leadership Council for Metropolitan Open Communities | Chicago, IL | 5/4/84 |
| 84-CH-262-1014 | Advisory Report on Final Costs-Sealed Insul. Glass Mfg. Assoc. | Chicago, IL | 5/1/84 |
| 84-CH-261-1013 | Evaluation of Cost and Price Proposal-Lomas and Nettleton Company | Dallas, TX | 4/26/84 |
| 84-DE-262-1006 | Advisory Report on Costs Incurred by the National Conference of State Legislatures, Denver, CO | Denver, CO | 6/5/84 |
| 84-DE-261-1007 | Cost and Price Proposal-Dennis E. Johnson & Co. | Denver, CO | 9/21/84 |
| 84-NY-262-1040 | Final Cost-Metropolitan Action Institute | New York, NY | 7/31/84 |
| 84-NY-262-1024 | Final Cost Audit-People's Development Corp. | Bronx, NY | 4/20/84 |
| 84-NY-261-1022 | International Charter Mortgage Corp. | San Juan, PR | 4/3/84 |
| 84-PH-262-1017 | Advisory Report on Final Costs AMAF Industries, Inc. | Columbia, MD | 6/5/84 |
| 84-PH-262-1016 | Advisory Report on Final Costs-University of Pittsburgh | Pittsburgh, PA | 6/5/84 |
| 84-PH-262-1014 | Advisory Report on Final Costs William Brill Associates, Inc. | Annapolis, MD | 4/30/84 |

| Report No. | Title | Location | Issue Date |
|---|---|---|---|
| 84-SF-261-1020 | Evaluation of Cost and Price Proposal for Proposed Contract-Coldwell Banker | Los Angeles, CA | 6/25/84 |
| *Government National Mortgage Association* | | | |
| 84-TS-271-1018 | GNMA Issuer-Mortgage Backed Securities Program Commercial Credit Mortgage Co. | Baltimore, MD | 9/25/84 |
| 84-TS-271-1014 | GNMA Issuer-Guardian Mtg & Investment Corp. | Springfield, VA | 8/8/84 |
| 84-TS-271-1012 | GNMA Issuer Activities-MNC National Mortgage Corp. | Southfield, MI | 7/10/84 |
| 84-TS-271-1009 | GNMA Issuer-Mortgage Backed Securities-First Interstate Bank of Wash. | Seattle, WA | 5/11/84 |

## Appendix 3

**Previously Reported Items - Corrective Actions Not Completed**

The audit reports listed below were discussed in prior Semiannual Reports to Congress disclosing significant problems, abuses, and deficiencies. As of September 30, 1984, findings are either unresolved or corrective actions agreed upon to resolve these matters were in the process of being implemented but were not yet completed.

| Report Number | Title | Report Issue Date | Target Date |
|---|---|---|---|
| 80-SF-244-1018 | City of Santa Paula, California-CDBG | 7/10/80 | 12/31/84 |
| 82-TS-111-0001 | Section 236 Rental Income | 11/6/81 | 6/ |
| 82-TS-113-0004 | National Survey Report-Disposition of Acquired Multifamily Properties | 3/25/82 | 12/31/84 |
| 82-AO-161-0006 | Review of GPA's Management Practices and Procedures | 4/16/82 | 12/31/84 |
| 82-CH-212-1062 | Yellowbird Limited, Xenia, Ohio | 5/19/82 | 3/ |
| 82-PH-202-2270 | The Philadelphia Housing Authority-Philadelphia, Pennsylvania | 5/28/82 | 1/ |
| 82-TS-111/112-0008 | Management Input Into Processing Multifamily Housing Projects | 7/12/82 | 12/31/86 |
| 82-TS-182-0009 | Title I-Mobile Home Loans-Special Operational Survey | 7/13/82 | 12/31/84 |
| 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 | 6/30/85 |
| 83-SF-214-1002 | Executive Services Company | 10/22/82 | 2/ |
| 83-BO-241-1005 | City of Boston, Massachusetts | 12/3/82 | 3/ |
| 83-FW-203-1006 | Housing Authority of Houston, Texas | 12/3/82 | 12/31/84 |
| 83-CH-241-1008 | Athens County, Ohio | 12/23/82 | 2/ |
| 83-BO-243-1008 | Town of Orange, Massachusetts | 1/7/83 | 2/ |

| Report Number | Title | Report Issue Date | Target Date |
|---|---|---|---|
| 84-CH-182-0006 | Compliance with Uniform Relocation Act, Region V | 3/29/84 | 10/29/84 |
| 84-NY-201-1020 | Newark Redevelopment and Housing Authority, Newark, New Jersey | 3/29/84 | 3/31/85 |
| 84-CH-241-1011 | Community Development Grant and Urban Development Action Grant Programs, City of Detroit, Michigan | 3/30/84 | 1/13/85 |
| 84-SE-241-1004 | Community Development Block Grant Program, City of Portland, Oregon | 3/30/84 | 3/31/85 |
| 84-SE-203-1003 | Housing Authority of the City of Bellingham, Washington, Section 8 Moderate Rehabilitation Program | 3/30/84 | 4/ |

1/ *Numerous findings were repeated in an audit issued during this reporting period.*

2/ *Recovery of sustained monetary amounts is in process.*

3/ *Final corrective actions are pending litigation or investigation.*

4/ *Currently under review by Headquarters officials as prescribed in HUD Audits Management System.*

5/ *Target date extended from previously reported date due to changes in scope or dates for implementing automated systems or delays in obtaining clearance of revised regulations/guidance.*

6/ *During this reporting period, action officials reversed the original decision to adopt the recommendations. The audit findings will be reopened.*

7/ *Systems promised to implement the recommended corrective actions were delayed and are a subject of current audit efforts.*

## 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.**

November 1984
HUD-927-16

EQUAL HOUSING OPPORTUNITY