



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

Office of Inspector General Report to the Congress

Number 15

**for the six month period
October 1, 1985 through March 31, 1986
Pursuant to Section 5(b)
of Public Law 95-452**



Profile of Performance

Department of Housing and Urban Development

October 1, 1985
through
March 31, 1986

| | | |
|---|--|--------------|
| Office of Inspector General Activities | ■ Cash Recoveries/Savings | \$30,585,854 |
| | ■ Commitments to Recover Funds | \$33,548,379 |
| | ■ Cost Efficiencies | \$13,184,824 |
| | ■ Total Fines Levied | \$89,869 |
| | ■ Persons/Firms Indicted (Convicted) | 155(175) |
| | ■ HUD Employees Indicted (Convicted) | 2(4) |
| | ■ Debarments of Persons/Firms Doing Business with HUD | 78 |
| | ■ Suspensions of Persons/Firms Doing Business with HUD | 82 |
| | ■ Mortgagees/Lenders Sanctioned as a Result of Referrals to HUD Mortgagee Review Board | 9 |
| | ■ Subpoenas Served | 41 |
| | ■ Awareness Publications Issued | 12 |
| | ■ Proposed Legislation and Regulations Reviewed | 93 |

For additional details on OIG Audit, Investigation, and Fraud Control Activities, see Chapter 5, Statistical Summary.

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Executive Summary

This is our fifteenth report to Congress. It summarizes our efforts during the past 6 months and highlights significant audits, investigations, and fraud control activities. During this period, there were 155 indictments and 175 convictions; management's actions on audits and investigations resulted in cash recoveries and savings to the Department in excess of \$30.5 million; and there were cost efficiencies of \$13.1 million.

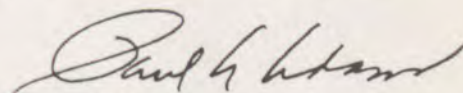
This report again highlights significant problems in Single Family Insured Programs. However, I am pleased to report that the Secretary has endorsed the recommendations of the Single Family Task Force which issued its report in April 1986. These recommendations include strengthening loan underwriting, improving property appraisal procedures and taking more aggressive action against those who abuse HUD programs. Once fully implemented, these procedures should effectively address many of the systemic weaknesses noted in our audits and investigations. We will monitor implementation of these recommendations.

We continue to advocate a Quality Control System for tenant eligibility which would provide greater assurance that HUD subsidies are benefiting only eligible families. It is estimated that up to \$200 million could be better spent if an effective system were in place. However, as I testified in February before the House Subcommittee

on Housing and Community Development, legislation is needed to give HUD the authority to require applicants to provide their Social Security numbers and to require States to provide access to wage data, so that periodic sampling to measure error rates and income matching techniques could be more effectively utilized. We urge that such legislation be passed.

The Department continues to make only limited progress in evaluating its accounting and financial management controls, as required by the Federal Managers' Financial Integrity Act and OMB Circulars A-123 and A-127. For the third consecutive year, HUD could not provide Congress with reasonable assurance that its accounting and financial systems were not susceptible to fraud and abuse. A detailed plan for developing a system to evaluate controls is in process and should be implemented in Fiscal Year 1987.

Many of the conditions reported herein might have been detected earlier and corrected had the Department targeted available monitoring resources at high risk activities and program participants. Such targeting is extremely critical at this time when the Department is facing staff and resource losses. We will continue to work with Departmental management to maintain program integrity and improve Departmental operations.



Paul A. Adams
Inspector General

April 30, 1986

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Chapter 1

Significant Problems, Abuses, Deficiencies And Recommendations

This Chapter details the significant problems, abuses, deficiencies and recommendations for corrective action relating to the Department's programs and operations. The Chapter is divided into the fol-

lowing parts: Single Family Insured Programs; Assisted Housing Programs; Multifamily Insured Programs; Community Planning and Development; and General Administration.

Single Family Insured Programs

In prior Semiannual Reports, we focused attention on fraud and abuse in HUD's Single Family Insured Programs. During this period, our investigative and audit efforts continued to disclose significant weaknesses. More importantly, the Department took or proposed several steps concerning legislative, policy, and procedural changes that should help prevent recurrence of the types of abuses discussed in this section.

1. Single Family Problems

Repeated cases of fraud and abuse within HUD programs have resulted in substantial losses to HUD and the taxpayer. Investors, speculators, real estate agents and salespersons have misused the programs for personal gain. The following investigations illustrate that the problems are nationwide and have existed, in some cases, for years:

■ Camden, New Jersey. The efforts of a task force from the FBI, the Veterans Administration, and our office have thus far resulted in the prosecution of 24 individuals. Some examples are:

- A father and son, both mortgagee officials, and an accountant were charged in an 11-count indictment with conspiracy, mail fraud, making false statements, and obstruction of justice. From 1981 to 1984, the three purchased vacant homes and sold them to unqualified buyers for whom they obtained HUD-insured mortgages. (United States vs. James A.

Smedley, Sr., et al, District of New Jersey.)

- A speculator using the same scheme was sentenced to 1 year in prison, fined \$3,000, and ordered to repay \$87,000. (United States vs. Thomas Vogdes, Jr., District of New Jersey.)

- A real estate broker caused false information to be submitted to HUD during 1981 and 1982, so that unqualified buyers could obtain HUD-insured mortgages. He was sentenced to 5 years in prison and fined \$70,000. (United States vs. William J. McDevitt, District of New Jersey.)

■ Milwaukee, Wisconsin. A Federal Grand Jury and the U.S. Attorney charged 13 real estate investors and brokers with conspiracy and submitting false statements to HUD in originating HUD-insured mortgages. They were charged with falsifying down payments and closing costs, utilizing false gift letters, falsifying owner-occupancy intentions of certain mortgagors, and misrepresenting employment and income information in order to make unqualified buyers eligible for insured loans. Many of the offenses dated back to 1981. One real estate broker was sentenced to 5 years probation, fined \$5,000 and ordered to perform 500 hours of community service. A second broker has pled guilty, but has not yet been sentenced. An investor was sentenced to 2 years probation and fined \$1,500. (United States vs. Howard Kemp, et al, Eastern District of Wisconsin.)



This Milwaukee house was purchased by a speculator for \$13,950 and was later resold to an unqualified buyer. Following foreclosure, HUD paid a claim of \$43,100 to the lender. The speculator was eventually convicted of falsifying gift letters and down payments on behalf of unqualified buyers. (United States vs. Lestor Simon, Eastern District of Wisconsin.)

■ Tulsa, Oklahoma. Two couples were indicted and charged with conspiracy, mail fraud, and equity skimming. They allegedly assumed 17 HUD-insured or VA-guaranteed mortgages, rented out the properties, and failed to make any mortgage payments. (United States vs. Thomas E. Arterburn, et al, Northern District of Oklahoma.)

■ Washington, D.C. The president of an escrow company pled guilty to interstate transportation of property obtained by fraud. He converted \$325,000 of customers' escrow funds to his own personal use. This is the first charge stemming from an ongoing FBI/OIG task force investigation of mortgage fraud in the Washington, D.C. area. (United States vs. George F. Thacker, District of Columbia.)

■ Little Rock, Arkansas. A homebuilder pled guilty to eight counts of submitting false statements to HUD in order to

obtain HUD-insured mortgages. Potential losses to the government on nine defaulted loans exceed \$250,000. He was sentenced to 4 years probation, fined \$5,000, and ordered to perform 624 hours of community service. (United States vs. Willie D. Mooney, Western District of Arkansas.)

■ Salt Lake City, Utah. A developer was sentenced to 5 years probation and ordered to repay \$45,000 for submitting false statements to HUD. From 1980 to 1985, he paid individuals to act as "strawbuyers," who, after obtaining HUD-insured loans, conveyed the properties back to the developer. The loans went into foreclosure, and HUD paid the insurance claims. (United States vs. Stephen P. Bruno, District of Utah.)

■ Memphis, Tennessee. A broker and his wife were found guilty of conspiracy and submitting false statements to HUD. They caused

an elderly lady to deed her property to them and then paid a third party to obtain a HUD-insured loan. The couple received \$9,000 from the loan closing. They also helped obtain HUD-insured loans on properties which were never occupied. The broker was sentenced to 1 year in prison and ordered to repay \$5,000 to the victim. The wife was placed on probation for 3 years. Four other individuals involved in this scheme were fined a total of \$7,000 and placed on probation for a total of 6 and one-half years. (United States vs. Robert L. Watts, et al, Western District of Tennessee.)

■ Alexandria, Virginia. A real estate agent was sentenced to 60 days confinement and ordered to repay \$10,000 and all Federal income taxes owed for years in which he did not file a return. He was convicted of submitting false statements to HUD to obtain a single family mortgage. (United States vs. Larry J. Haley, Eastern District of Virginia.)

2. Agency Actions

In order to address problems such as those cited above, HUD took several significant steps during the reporting period. These include:

■ Single Family Task Force. On April 3, 1986, the Secretary announced that the Department's Single Family Task Force, which was established in response to the widespread and growing abuse, had issued its report. The Task Force, with technical assistance from our office, conducted reviews of single family policy issues and analyzed data from 1.7 million loans endorsed since 1980. They found that a tighter loan assumption policy must be considered, that stricter penalties for mortgagors who default on HUD loans are needed, and that many of the current problems can be traced to investor-related activities. Typical abuses are:

- Some investors refinanced their properties, took out cash, and

then defaulted on their new mortgages.

- Some investors refinanced with HUD-insured loans and then allowed unqualified buyers to assume the loans.
- Some investors engaged in equity skimming, in which they assumed an existing mortgage, rented the property to the former owner or a new tenant, and collected the rent but did not pay the mortgage.
- Some builders purchased their own properties, failed to sell or rent them, and then defaulted on the mortgages.

The Task Force recommended that:

- New HUD-insured loans be denied to any mortgagor for whom a claim has been paid within the last 3 years or who has a loan currently in default.
- All mortgagors who default on HUD-insured loans be reported to credit bureaus.
- Credit worthiness reviews be required of all those seeking to assume HUD-insured mortgages within certain time periods.
- The 1-year conditional commitment on new construction be reduced to 9 months.
- HUD aggressively pursue sanctions against those who abuse HUD programs, including seeking deficiency judgments against defaulting mortgagors.
- HUD publicize actions taken against mortgagors, mortgagees, and others who abuse HUD programs.
- The Mortgagee Review Board be strengthened and instructed to take a firm stand against mortgagees who violate HUD programs.
- The Department adopt cash

equivalency appraisals as a method of valuation and impose more restrictive underwriting practices for builder buydowns.

We believe these recommendations will help address single family abuses, and we will monitor the implementation of these recommendations.

- **Office of Housing Initiatives.** Internal directives were issued requiring the close monitoring of early defaults and claims as a means of detecting fraud schemes. Housing mortgagee monitors stepped up their efforts to quickly focus on imprudent lenders and other parties and to take strong monetary or administrative sanctions. Certain program changes were made, such as requiring special reviews of mortgage applications for previously owned HUD properties and eliminating the ability to refinance by taking all the cash equity out of a property.
- **Mortgagee Letter.** The Office of Single Family Housing, with technical assistance from our office, developed a mortgagee letter on equity skimming. It instructed all HUD-approved mortgagees to alert homeowners to various single family equity skimming schemes.
- **False Claims Act.** HUD prepared material (developed from an OIG investigation) which the Department of Justice used to file a civil suit on March 5, 1986, against the former President of Bonafide Investment Corporation, Camden, New Jersey, to recover \$710,000. He was previously found guilty of conspiracy, mail fraud, and making false statements and is currently serving a 5-year prison sentence. The False Claims Act can be used against certain individuals who obtain funds from the government through fraudulent means. We expect this approach will be used in other locations throughout the country.

3. Mortgagee Review Board Activities

During this reporting period, the Board took action against nine mortgagees. Seven of them were subjects of audits or investigations done in prior reporting periods. These mortgagees disregarded HUD requirements and prudent lending practices by overstating mortgagors' income and assets, understating mortgagors' liabilities, providing false down payment statements and employment verifications, having mortgagors sign blank loan documents, failing to conduct face-to-face interviews with mortgagors, or allowing sellers and brokers to process and handle loan documents. Settlement Agreements were executed with Lomas and Nettleton, Fleet Mortgage Corporation, Columbus First Mortgage Company, M&I Grootemaat Mortgage Corporation, Paine Webber Mortgage Finance, Inc., and Universal Mortgage Corporation. The Board also suspended the HUD approval of Presidential Mortgage Services, Inc., Cherry Hill, New Jersey, based on an 11-count indictment of the firm's president and his son.

In addition to these seven companies, we referred four companies to the Mortgagee Review Board during the reporting period because of serious problems in their origination of HUD-insured loans. They were Bell Funding of Hempstead, New York; First Tier Mortgage Company of Tulsa, Oklahoma; Investor's Mortgage Service Company of Burbank, California; and Mortgages, Inc., of Las Vegas, Nevada. The Board will consider Bell Funding and Mortgages, Inc., at its next meeting. The Board notified:

Investor's Mortgage Service Company that it was considering taking administrative action, but would accept a Settlement Agreement which would include: indemnification to HUD

for claim losses on eight improperly originated mortgages; continued implementation by Investor's of a Quality Control Plan; an audit performed by an Independent Public Accountant or Certified Public Accountant of Investor's compliance with HUD loan origination requirements; a review of HUD-insured mortgages originated by Investor's during the audit period on which a claim has been paid; and indemnification by Investor's on any of the loans which HUD would not have endorsed if it had been aware of Investor's misstatements.

FirsTier Mortgage Company that it was willing to enter into a Settlement Agreement in lieu of taking administrative action against the company if employees of FirsTier responsible for the irregularities at the Tulsa branch office were no longer employed by FirsTier. The Settlement Agreement would include indemnification to HUD on 11 improperly originated mortgages and many of the same terms proposed to Investor's Mortgage Service Company.

We also prepared a Program Integrity Bulletin entitled "The Mortgagee Review Board" to increase program participants' awareness of fraud and the Board's role in sanctioning mortgagees.

4. Ongoing OIG Efforts

■ **Audit/Investigative Task Force.** In January 1986, a task force comprised of staff from the U.S. Attorney's office, the FBI, HUD and the Veterans' Administration was established in Houston, Texas, to probe fraudulent activities originally uncovered during a joint review by OIG auditors from HUD and the VA. The audit report describes various irregularities and questionable practices in the Houston area, such as fraudulent

loan originations, equity skimming violations, various forms of strawbuyer schemes, and falsification of credit, income, and employment data. These improper practices involve not only HUD and VA program operations, but private mortgage insurance as well. The task force's results will be summarized in future Semi-annual Reports to Congress.

■ **OIG Investigations of Equity Skimming.** Our office currently has 50 investigative cases of equity skimming in progress in 33 locations. Equity skimming has become a frequent scheme whose victims include the government and homeowners in financial difficulty seeking to sell their homes. A new buyer usually assumes an existing mortgage on a property, rents the property to the former owner or to a tenant, and collects the rent but does not make the mortgage payments. The property then goes into foreclosure and HUD pays an insurance claim. The potential losses to the Department's insurance fund are very high. We have coordinated our work with the Department of Justice and the Federal Bureau of Investigation so that our combined resources can be utilized to the fullest extent.

During this reporting period, we commented on two legislative proposals which could have a major impact on Single Family Program abuse: the Mortgagee Review Board Legislation and the Single Family Mortgage Insurance Fraud Detection and Prevention Act. See Chapter 3 for details.

5. Other Audit and Investigative Activities

Our audit and investigative activities during this reporting period disclosed additional problems as well. They are in the Direct Endorsement and the Coin-surance Programs, the Title X Land Development Program, and the Title I Property Improvement Program.

Direct Endorsement and Coinsurance Program Case Processing

HUD processing of direct endorsement cases and reviews of loans insured under the Coinsurance Program have not kept pace with the record volume of HUD-insured loan activity. As a result, HUD has little assurance that its quality controls are effective or that its risks of insurance losses are minimized.

Our review of the Direct Endorsement Program showed that as of January 1986, HUD had a backlog of at least 70,000 cases throughout the country. The backlog was growing and causing serious problems because data integral to quality control systems was not entered into HUD's automated data bases. The absence of timely data meant that HUD could not: (1) reconcile millions of dollars of mortgage insurance premiums that were collected on endorsed cases; (2) process some insurance claims in a timely manner, thereby resulting in substantial interest expense; and (3) effectively monitor direct endorsement lenders because data indicating possible adverse trends and patterns was not available.

Our Coinsurance Program audit showed that HUD's inadequate reviews of coinsurance claims caused overpayments in 42 of 82 cases tested. We noted that mortgagees were not properly controlling appraisal activities and HUD Field Offices were not monitoring mortgagees sufficiently to detect and correct the appraisal deficiencies. Consequently, appraisals were unsupported, properties were overvalued and HUD's insurance risks increased.

The underlying cause for the identified problems was management's inattention to shifting staffing patterns and workloads at the same time that HUD's role was changing from one of first line loan approval to one of lender oversight. The Office of Housing

subsequently took steps to reduce the backlog of unprocessed cases. However, we remain concerned about the effectiveness of the quality control systems. (Audit Report Nos. 86-TS-121-0007 and 86-TS-121-0014.)

Title X Land Development

The Title X Mortgage Insurance for Land Development Program is not being administered by HUD in compliance with statutory requirements and is experiencing a high default rate. We found that the Department: approved several risky projects; did not adequately encourage the inclusion of low- or moderate-income housing and the participation of small builders in the Program; approved two ineligible projects that were oriented toward recreational/resort housing markets; approved three projects whose water supply may be contaminated in the future by a hazardous waste site; and failed to adequately monitor projects to ensure they are carried out as approved by HUD. We estimate that losses on nine defaulted projects already disposed of by HUD could range from \$27 million to over \$40 million. Moreover, 16 of 32 active projects were seriously delinquent as of the end of 1985. We recommended: revising HUD guidelines and regulations to ensure the proper balance of moderate or low income housing and the participation of small builders; developing procedures to monitor sponsors' compliance with program requirements; centralizing all Title X project and commitment application processing in Headquarters; developing an operating plan and early warning system to identify financially troubled projects and potential project defaults; initiating administrative sanctions against sponsors who fail to construct their projects as agreed to by HUD; and announcing a moratorium on the approval of HUD-assisted projects or properties in the area of a hazardous waste site. (Audit Report No. 86-TS-112-0012.)

Title I Property Improvement Loans

We completed an audit of dealer-originated loans in the Title I Property Improvement Loan Insurance Program and found serious problems of waste and abuse by dealers and lenders. Using a statistical sampling plan, we reviewed 38 lenders, 187 dealers, and 602 loans nationwide. Over 53 percent of the dealers overcharged for their work and 38 percent did work which was shoddy or incomplete. Dealers and contractors also: manipulated borrowers' credit information; had borrowers sign completion certificates before work was completed; promised or gave cash or gifts as inducements; and used other unethical selling techniques. The primary reason dealer improprieties were not detected was lack of adequate lender supervision. Lenders did not: adequately evaluate dealers before approving them; maintain complete experience records; analyze dealer performance; or conduct required property inspections and borrower interviews. Loan underwriting by lenders was also unsatisfactory. Loans were approved even though credit applications were incomplete or improperly executed; questionable or adverse data was not resolved; and employment and income were not adequately verified. We estimate that over 5,900 loans valued at \$3.5 million were poorly underwritten during our 6-month audit period. Due to the nature and extent of the deficiencies disclosed in our audit and the inherent problem in attempting to control a program in which the person collecting the eligibility information from the applicant makes no money if the loan is not approved, we recommended that the dealer loan portion of the Title I Program be terminated. (Audit Report No. 86-TS-122-0010.)

As part of the Department's

Employee Awareness Program, our office issued a Program Integrity Bulletin on Title I to make lenders, dealers, and borrowers aware of areas susceptible to fraud and abuse.

The following are significant investigations in the Title I area:

- A bank loan processor in New York and her husband pled guilty to conspiracy and making false statements. Four borrowers also pled guilty to making false statements. The bank employee processed fraudulent loans for friends and relatives, who in turn returned most of the money to the employee and her husband. (United States vs. Charles and Daria Vanderhall, et al, Eastern District of New York.)
- A borrower in Three Rivers, Michigan, was sentenced to 5 years probation and ordered to repay \$14,000. The borrower falsified applications for two home improvement loans and used the loans for personal business instead of improving his residence. (United States vs. Jeffrey M. Crawford, Western District of Michigan.)
- A borrower was sentenced to 3 years probation for submitting false statements to HUD. He certified that a Title I loan was to be used for home improvements, but he used the loan proceeds for other purposes. He subsequently defaulted on the loan. (United States vs. John W. Lester, Jr., Western District of Tennessee.)
- A borrower submitted false statements to obtain \$7,000 loans from three lenders to make repairs to his house. He defaulted on all three loans, causing HUD to pay over \$19,000 in insurance claims. He was subsequently sentenced to 1 year in prison. (United States vs. Clarence E. Scott, Eastern District of Missouri.)

Assisted Housing Programs

During the reporting period, we focused our efforts on five major areas within Assisted Housing: Indian Housing Programs; Section 8 Programs; Public Housing Programs; the Performance Funding System; and Tenant Fraud/Rental Assistance Administration.

Indian Housing Programs

On March 7, 1986, we forwarded a draft audit report to the General Deputy Assistant Secretary for Public and Indian Housing. The draft report concluded that the development of Indian housing is a slow, costly and poorly controlled process. Once developed, the housing is not well managed; Indian Housing Programs are therefore subject to waste and abuse. The conclusions were based on audits at HUD's five Indian Field Offices as well as seven Indian housing authorities (IHAs). The IHAs reviewed were: Ho-Chunk Housing Authority, Black River Falls, Wisconsin; Ponca Tribal Housing Authority, White Eagle, Oklahoma; Crow Creek Housing Authority, Fort Thompson, South Dakota; Northern Cheyenne Housing Authority, Lame Deer, Montana; Navajo Housing Authority, Window Rock, Arizona; Zuni Housing Authority, Zuni, New Mexico; and Fort Hall Housing Authority, Fort Hall, Idaho.

About 5,700 of the 19,500 units that were allocated between 1979 and 1983 were still not under construction at November 30, 1984, our audit cut-off date. The delays translate into the loss of approximately \$40 million, or in excess of 600 dwelling units, annually. We found that 40 months elapsed from the time development funds were appropriated until an Indian housing unit was occupied. Poor controls over key aspects of the process including unit allocations, project planning, fund advances, budget and cost controls and project financing contributed to the

delays. The most significant delays occur from the time funding is appropriated until construction actually starts.

The IHAs that we reviewed were financially troubled and were experiencing serious management problems in all facets of their operations. Tenant management practices were generally very weak. Improper rents were charged and rents were not collected. The weak rental collection practices coupled with the IHAs' inability to properly manage their maintenance functions caused significant deterioration of the housing stock. The IHAs also failed to reduce utility consumption and in some instances, utility costs actually increased after new heating systems were installed. Five IHAs were so poorly managed that decent, safe and sanitary housing was not provided.

The Office of Public and Indian Housing implemented several steps to speed the development process and to improve program management. However, we believe more needs to be done.

Along these lines, we recommended that HUD develop a comprehensive strategy for simplifying and enforcing Indian Housing Program requirements including: (1) recommending to Congress that it transfer the responsibilities of the numerous Federal agencies that deal with Indian Housing to one agency that will more effectively and efficiently direct and overview Indian Housing Programs; (2) placing the primary responsibility for the overall housing administration directly with the local tribal government rather than with a separate entity, the IHA, which is often unable to function because of conflicts between it and the local tribal government; (3) reducing the number and different types of housing programs being administered by an IHA into a single housing rental program and

a single homeownership program, thereby eliminating the confusing Old Mutual Help, New Mutual Help, and Turnkey III Homeownership Programs; (4) eliminating some of the complex accounting requirements, thereby enabling IHA staffs to better understand how to maintain their own financial management systems; and (5) enforcing the requirement that

IHAs be audited by an Independent Public Accountant every year.

Weak management practices and inadequate administration of maintenance functions caused serious problems at some projects managed by the IHAs we reviewed, as shown in the following pictures.



Water from an unknown source has caused structural damage to this house.



Streets are in need of repair because of lack of maintenance. The maintenance responsibility has not been transferred to the tribe.

Section 8 Moderate Rehabilitation Program

Under the Section 8 Moderate Rehabilitation Program (MRP), HUD allocates funding for eligible public housing authorities (PHAs) or other eligible entities to upgrade substandard rental housing and provide rental subsidies for lower income families. As reported in our prior Semiannual Report, the major problem disclosed by our MRP audits is excessive rents, which ultimately result in excess HUD subsidies (Housing Assistance Payments). Because of the extent of excessive MRP rents and the need for timely remedial action on the part of HUD, we recommended that the Office of the Assistant Secretary for Housing-Federal Housing Commissioner recompute existing Section 8 MRP rents nationwide and prepare new guidelines and instructions to prevent the recurrence of excessive MRP rents in the future.

Based on our recommendations, HUD's Office of Housing decided to test a sample of projects that contain 50 or more units. However, the only steps taken since October 1985 were to request and obtain from Field Offices data on potential PHAs to sample. No tests were made to date and no revised instructions were prepared.

During the past 6 months, we completed three additional MRP audits and found potential excess rents of \$998,000 at Oakland, California, \$723,000 at Chattanooga, Tennessee, and \$372,000 at Seattle, Washington. We recommended that the PHAs recompute rents and amend contracts where necessary in order to recover excess rents. (Audit Report Nos. 86-SF-203-1002; 86-AT-203-1006; and 86-SE-201-1003.)

Investigation efforts in the Section 8 MRP resulted in the filing of a criminal complaint in U.S. District Court, Buffalo, New York,

charging a former inspector of the Housing Council of the Niagara Frontier, Inc., with one count of conspiracy. Between April 1981 and July 1982, the inspector allegedly conspired with others to falsely certify that rehabilitation work was completed on three properties in Buffalo. In so doing, the inspector caused the Housing Council to improperly enter into long-term Section 8 MRP contracts with the property landlords. (United States vs. Anthony Fiorella, Western District of New York.)

Section 8 Existing Housing Program

We also continued our effort to evaluate the Section 8 Existing Housing Program by reviewing activities at various PHAs and HUD Field Offices. We completed audits at four PHAs during this reporting period. The results parallel those in two audits discussed in our prior Semiannual Report. Three basic problems are common to most PHAs: (1) our inspections of units previously inspected by PHAs found that a high percentage of units in the Program have significant violations of HUD's Housing Quality Standards; (2) PHAs are not properly conducting or documenting rent reasonableness tests and rents for assisted units are higher than necessary; and (3) PHAs are not adjusting utility allowances as required and some tenants are paying too little while others are overcharged. (Audit Report Nos. 86-B0-203-1004; 86-PH-203-1002; 86-CH-203-1001; and 86-SF-203-1014.)

Public Housing Programs

During this report period, our audit work as well as Congressional and media attention focused on public housing authorities (PHAs) that were unable to implement the needed corrective actions recommended in our prior audits. The following examples illustrate the adverse conditions that persist. During the next 6

months, we plan to review several other PHAs that were previously audited.

■ The Cuyahoga Metropolitan Housing Authority (CMHA), Cleveland, Ohio, has not administered its Low-Income Housing Program in an efficient and effective manner. Although the CMHA has improved its management and planning processes since our 1982 audit report, it has steadily lost ground in alleviating two of its major problems: high vacancies and deteriorating properties.

From 1977 through 1980, the CMHA's vacancies increased from 809 to 1,092; however, from 1981 through 1985, its vacancies increased more than two and one-half times, rising to 2,843 units. Between 1977 and 1985, the CMHA's vacancy rate increased from about 7 percent to 24 percent. Because of its high vacancies, the CMHA has not realized potential rental income estimated at about \$2.4 million annually, while at the same time, it received performance funding subsidies from HUD amounting to about \$5.5 million annually for its vacant units.

Additionally, the CMHA has not implemented its modernization and maintenance programs in a timely, efficient, and effective manner. Repairs and improvements to properties were inadequate, modernization work progressed at an extremely slow pace, and deteriorated building components were not replaced. As a result, the CMHA cannot ensure that its properties are physically and socially viable for continued operation as public housing.

Other significant deficiencies included the CMHA's incurrence of about \$1.7 million annually for salaries, wages, and fringe benefits in excess of those prevailing locally for comparable work; non-implementation of energy cost reduction measures resulting in nearly \$800,000 of lost revenue over a 6-year period; inadequate actions to fill vacancies; inefficient processing of applications for housing units; inadequate controls over maintenance vehicles and inventories; excessive uncollected rents and eviction delays; and weaknesses in contracting for services.

We recommended that the Cleveland Office Manager: closely



Examples of CMHA units boarded up for long periods of time because of inadequate maintenance program.



Example of CMHA unit requiring extensive repairs before occupancy.

monitor CMHA's planning and progress and provide no further modernization funds until CMHA develops a reasonable plan with timetables and demonstrates the capability to carry out the plan efficiently. Other recommendations included: reducing vacancies by admitting single persons, moving tenants into proper size units, and improving procedures for processing applications, collecting rents, and evicting tenants. (Audit Report No. 86-CH-201-1005.)

■ The Columbus Metropolitan Housing Authority continues to experience problems with tenant

accounts receivable, vacancy, and maintenance issues. The Authority did not take the corrective actions they promised to initiate in response to our December 1983 audit report. Problems still exist in these three areas and, in some cases, are more severe. The Columbus Field Office recently conducted a comprehensive management review of the Authority and has included our recommendations to correct the problems in their report.

■ The Property Management Administration (PMA), Washington, D.C., has major

problems in managing its Public Housing Programs. In March 1986, Secretary Pierce established a team of high level Headquarters staff to review PMA's actions to resolve audit findings discussed in our August 17, 1984 report. The ten-member team plans to issue a final report by May 15, 1986, discussing the steps needed to overcome past problems and prevent their recurrence.

Our office also reviewed activities at other PHAs during this reporting period. Highlights include the following:

- We reviewed a development project administered by the Chicago Housing Authority (CHA) and found that the CHA mis-managed the development and completion of the project. At the time of our review, the project was 3 years behind schedule and

30 percent of its units were either incomplete or not yet started. Also, in May 1985, the CHA submitted to HUD a revised budget for the project, increasing total development costs from about \$26.1 million to \$43.1 million - an increase of over 65 percent. We found that this budget request was overstated and recommended that it be reduced by about \$13.3 million. Our reduction includes about \$3 million of previously incurred costs that we considered ineligible or questionable and \$10.3 million of costs which we determined were not needed to complete the project.

We also recommended splitting off the elderly phase of the project into a separate project, thereby reducing capitalized interest for the project by over \$3.1 million. (Audit Report No. 86-TS-101-0011.)



Over \$218,000 was already spent for rehabilitation work on this 6-unit structure managed by the CHA. We estimate that it will cost \$212,000 more to complete rehabilitation than to build a new structure.



This 8-unit CHA structure still requires over \$280,000 for repairs. Since the buildings are not structurally sound, we believe it may not be cost efficient to rehabilitate the structure.

■ The Pontiac, Michigan Housing Commission (PHA) did not effectively administer its Low-Income Housing Program. Excessive vacancy rates (36 percent) at two elderly projects resulted in a loss of revenue of \$482,000 over 4 years. Without adequately marketing existing elderly units, the PHA embarked on an expensive process of converting efficiency units at one project into one- and two-bedroom units. The PHA tolerated shoddy work done by a contractor on a \$2.7 million project funded under the Comprehensive Improvement Assistance Program (CIAP). The "repaired" units we inspected did not meet HUD modernization standards and major structural problems were not slated for repair. In addition, the PHA allowed a medical clinic to operate in a renovated building rent free, resulting in a loss of revenue of \$785,000.

We recommended that: (1) the CIAP unit conversion be suspended; (2) the PHA develop an alternative modernization program that would likely result in full occupancy in its elderly projects; (3) the PHA require its contractor

to correct deficient work; and (4) the PHA collect proper rent from building occupants. (Audit Report No. 86-CH-202-1003.)

■ Inefficient management practices restricted the ability of the Housing Authority of the City of New Haven, Connecticut, to operate in an effective, efficient and economical manner. Our audit disclosed that: accounting records were inaccurate and incomplete; internal controls over cash were poor; bank accounts were established without the authorization or knowledge of the Executive Director and/or the Board of Commissioners; budgets were not accurately prepared; operating expenses were not controlled or reduced to match operating receipts; and an excess operating subsidy for utility expenses of \$716,682 was received for Fiscal Year 1985. Over \$338,800 in financing fees were: (1) collected from developers doing business with the Authority; (2) deposited in a non-General Fund bank account together with development and other Federal funds; and (3) used to finance unapproved or questionable activities without accountability. In addition, a

warehouse was purchased for \$525,000 in the name of the PHA, committing PHA financial support through HUD's operating subsidy, without adequate accountability in the Federal books of account.

Responsibility for the breakdown in the PHA's financial management system is attributable to management's failure to correct past reported deficiencies and maintain sufficient controls to preserve the financial integrity of its operations. (Audit Report No. 86-BO-201-1005.)

Performance Funding System

Our last Semiannual Report discussed various problems experienced with HUD's Performance Funding System (PFS). At that time, we suggested that the entire PFS process be reevaluated because both HUD and public housing authorities (PHAs) were having trouble administering the system effectively.

During this reporting period, we issued an audit on computing target investment income and allowable utility expense under the PFS. The report summarizes reviews at 22 PHAs and nine HUD Field Offices. Errors made by PHAs went undetected by HUD and excess subsidies of \$5.3 million were paid. The report recommended that: (1) the vulnerability of PFS submissions to error and abuse be emphasized to the Field Offices, and that controls be implemented to reduce such vulnerability; (2) HUD limit its vulnerability by placing a cap on the amount of actual interest income in excess of target investment income that can be retained by PHAs without reducing the amount of actual operating subsidy; (3) action be taken to improve Independent Public Accountant audit coverage of the accuracy of PFS submissions by obtaining a revision to the Office of Management and Budget's Compliance Supplement for Single Audits; and (4) HUD modify or clarify its instructions on computing operating subsidies in

certain areas that are resulting in confusion and inconsistency.

In response to our draft report, the Office of Public and Indian Housing agreed to consider our recommendations when preparing revised handbooks and manuals governing the PFS. However, they do not believe our report findings warrant major changes to the PFS.

Public Housing Fraud

The following are significant investigations in the public housing program area:

■ Three officials of the St. Mary's, Georgia Housing Authority were sentenced for misapplying HUD funds by having monies paid into private and corporate accounts for the personal use of Housing Authority officials. The Executive Director of the Housing Authority was sentenced to 30 months in prison and ordered to make restitution of \$28,214. The Maintenance Supervisor (husband of the Executive Director and himself a former Executive Director) was also sentenced to 30 months in prison and ordered to make restitution of \$26,965. The Chairman of the Board of Commissioners was sentenced to 5 years in prison and ordered to make restitution of \$35,814. The Chairman was debarred from participating in HUD programs for 5 years. The Executive Director and Maintenance Supervisor have been suspended from participating in HUD programs. (United States vs. John Ingram, John Connor and Clarice (Nell) Connor, Southern District of Georgia.)

■ A Section 8 coordinator of the Florence, South Carolina Housing Authority was indicted on three counts of filing false statements with HUD. The coordinator was charged with inducing the Housing Authority to enter into Section 8 Housing Assistance Payments Contracts for four properties owned by him. Trial is pending. (United States vs. Willie Barr, Jr., District of South Carolina.)

■ An employee of the Housing Authority of the City and County of Nacogdoches (PHA), Texas, received a 3-year suspended prison sentence, was placed on 5 years probation and ordered to make restitution of \$4,774 to the PHA. The employee previously pled guilty to one count of theft of government property. She used the names of fictitious tenants and landlords to divert Section 8 payments to herself. (United States vs. Ella Lee Smith, Eastern District of Texas.)

■ An assistant bookkeeper at the Housing Authority of Michigan City, Indiana, was indicted on three counts of making false statements to HUD on reports for tenant accounts. The bookkeeper allegedly retained tenant rent payments totalling approximately \$4,100 for her own use and did not make proper entries on records showing payment of rent by these tenants. Trial is pending. (United States vs. Debra Lynn Odon, a/k/a Debra Lynn Turner, Northern District of Indiana.)

Tenant Fraud/Rental Assistance Administration

In our previous Semiannual Reports, we expressed concern over tenant fraud and the administration of rental assistance programs. We reported on four issues that affect tenant eligibility administration. These four areas are Ineligible Aliens; Automated Data Bases; Fraud Reform Legislation; and a Quality Control System for Tenant Eligibility. There was significant progress made in the first two areas, but only limited actions on the latter two, described as follows:

■ Ineligible Aliens. In 1981, Congress enacted a law that prohibited HUD from providing housing assistance to certain aliens. Our office has provided technical assistance to the Department in developing and publishing final regulations. On April 1, 1986, the Department published the final rule in the

Federal Register. We believe this is an important regulation and its effect will be to make certain that housing assistance is provided to eligible recipients only. We will continue to assist the Department in developing handbooks and training that will assure consistent and fair implementation of the rule by program administrators. For additional detail, see Chapter 3.

■ Automated Data Base. The Offices of Housing and Administration led a Departmental task force to develop and begin a phased-in approach for an automated tenant characteristic system. This system would automate certification and recertification forms used to determine tenant eligibility and level of benefits. During this reporting period, the Department approved a plan to develop the system and a request for funding in the Fiscal Year 1987 budget. We believe this will be a significant tool to improve the accuracy of eligibility determinations and provide machine readable data for computer matching projects.

■ Fraud Reform Legislation. HUD requested in its authorization bill the authority to require the necessary information to conduct computer matches of reported tenant income. We believe passage of these proposals is critical to any systematic approach to preventing tenant fraud. The proposals would give HUD the authority to require: (1) applicants and tenants to provide their Social Security numbers; and (2) State unemployment agencies to provide wage data to the Department in order to conduct computer matches with tenant records. Computer matches conducted in the past were limited to a few States that voluntarily provide the information. The Office of Management and Budget (OMB) is also considering similar proposals that would give HUD the needed authority. These proposals are contained in the Payment Integrity Act legislation OMB is developing. On February 4, 1986, the Inspector

General testified before the Subcommittee on Housing and Community Development. He urged that these provisions be included in any housing authorization bill. Currently, we are working with HUD staff and Subcommittee members to sponsor these provisions.

■ **Quality Control System For Tenant Eligibility.** In 1983, HUD's Committee on Fraud, Waste, and Mismanagement found that HUD's present monitoring of tenant eligibility is conducted in a non-scientific manner. Consequently, there is no reliable statistical data being collected in HUD reviews; no regional or national data on error rates; and no systematic way for determining what area of program participants' performance should be examined or focused on for improvements. The Committee recommended that the Department organize a Quality Control office. This office, when staffed, would use periodic quality control samples to measure error rates and determine needed program changes to reduce administrative error. It would also use income matching techniques to identify tenants who are either not eligible for benefits or are receiving an incorrect amount.

The Department has been unable to sustain momentum in forming such a group. In February 1984, the Secretary approved the Committee report, and formed a task force to do follow-up work on how to implement a Quality Control System. In November 1984, the then Under Secretary accepted the task force report but left the Department before acting on their recommendations. We briefed the new Under Secretary on the report, who also endorsed the concept. Through his efforts, the Quality Control concept was included in the 1987 budget proposals, and the idea was provided to the Office of Management and Budget as a management initiative. The Secretary

noted in his transmittal of our last Semiannual Report to Congress that Quality Control would accrue major benefits to the Department.

In addition to our work in these four areas, our office also conducts investigations of individuals who defraud the various rental assistance programs. The most prevalent type of violation involves falsification of documents relating to tenants' eligibility so that they receive assistance to which they would not otherwise be entitled. Most of the investigations concern tenants; however, many also involve landlords and individuals working for the agency administering the program. During this reporting period, we expended significant investigative resources in the rental assistance area. The following actions were recorded:

| | |
|--------------------------|-----------|
| o Individuals Indicted: | 122 |
| o Individuals Convicted: | 118 |
| o Monetary Recoveries: | \$738,194 |
| o Total Fines: | \$ 60,359 |

The following are examples of recent investigation activities in the rental assistance area:

■ Eighteen tenants of a Chicago, Illinois apartment complex (see picture) pled guilty and/or were convicted on 48 counts of submitting false statements to HUD. The tenants, 12 of whom were public employees, including a former Special Assistant to the Chicago Regional Administrator for HUD, falsified information relating to their incomes and employment between 1981 and 1985 in order to obtain \$172,000 in Section 8 rental assistance monies to which they were not entitled. In some instances, the convicted individuals had annual incomes totalling as much as \$43,000 while they still benefitted from Federal rent subsidies. To date, the sentencings, along with five civil complaints filed by the U.S. Attorney, have resulted in 19



Damen Courts Apartments, where 18 tenants received \$172,000 in rental assistance to which they were not entitled.

months of incarceration, 792 months of probation, \$139,000 in court-ordered restitution, \$10,200 in fines, and 1,500 hours of community service. In addition, HUD rental assistance to the convicted tenants has been terminated. (United States vs. Grace M. Foster, et al, Northern District of Illinois.)

- Nine individuals who were involved in both the Section 8 Rental Assistance Program as well as the Experimental Housing Allowance Voucher Program were indicted in South Bend, Indiana, on 41 counts of submitting false statements to HUD. To date, eight individuals have pled guilty while the remaining participant is considered a fugitive from justice. The participants falsified their income and employment from 1981 to 1985 in order to obtain approximately \$60,000 in housing subsidies to which they were not entitled. Three of the individuals indicted were also charged with lying to HUD-OIG investigators during the special probe. One individual was further cited for having submitted a false lease which caused the Department to make a subsidy payment for a unit

in which the participant never resided. The indicted individuals were removed from HUD program participation. (United States vs. Theresa Span, et al, Northern District of Indiana.)

- Ten current and former tenants of the Athens, Georgia Housing Authority were sentenced for submitting fraudulent information which resulted in their receiving ineligible rental assistance of \$73,773. The ten were each sentenced to 5 years probation and ordered to make restitution of the overpaid rental assistance to the Athens Housing Authority. Each tenant was also sentenced to serve between 2 and 20 days in the local jail. The investigation was conducted as a result of a computer match operation. (United States vs. Mary Carithers, et al, Middle District of Georgia.)

- Two rental assistance recipients were sentenced to 3 months in prison, placed on 5 years probation, and ordered to make restitution of \$47,371 to HUD. They pled guilty to one count of conspiracy and three counts of making false statements. They failed to report their entire income

from 1977 to 1985 and received rental assistance to which they were not entitled. (United States vs. Wayman and Deborah Young, Southern District of New York.)

■ A tenant and landlord were indicted for conspiracy and submitting false statements to HUD to obtain unauthorized housing assistance payments in excess of \$14,000. The landlord and the tenant allegedly both owned and lived in a property while collecting the Section 8 assistance. Trial is pending. (United States vs. Diann Jackson and William K. Mayo, Eastern District of Pennsylvania.)

■ A former Waukegan, Illinois Section 8 rental subsidy tenant pled guilty to two counts of mail fraud and submitting false statements to HUD from 1981 to 1985. A December 1985 indictment charged that the individual misrepresented her employment status and earnings in order to obtain excess rental benefits and used the mails in furtherance of the fraud scheme. An investigation found that the tenant received assistance of approximately \$13,000 to which she was not entitled. (United States vs. Edie Mae Moss, Northern District of Illinois.)

Multifamily Insured Programs

During the reporting period, we found problems in the areas of monitoring/managing multifamily property taxes and reserve for replacement funds, as well as compliance with HUD regulations regarding project management and the Section 223(f) Coinsurance Program.

Property Taxes/Reserve for Replacement Funds

HUD Field Offices and multifamily project owners/management agents can more effectively pursue ways to save money, thereby lowering rents and HUD subsidies. Project owners/agents did not appeal excessive property taxes and did not aggressively invest reserve for replacement funds. Field Offices did not adequately monitor owner/agent handling of property taxes/assessments or investment of reserve for replacement funds.

■ As discussed in our prior Semi-annual Report, reviews of 114 projects in the Boston, Atlanta, Chicago and Seattle Regions disclosed that 70 percent of the projects may have been over-assessed for property tax purposes. We estimated that the projects in our sample may have paid excessive taxes of approximately \$900,000. We now estimate

that if similar types of projects throughout the Nation were overassessed to the same extent, they would have paid excessive property taxes of about \$30 million. In addition, Field Offices did not assure that projects obtained exemptions from paying property taxes when they were entitled to an exemption. This has resulted in as much as \$9 million in unnecessary property tax payments annually.

Since the issuance of our audit report, the Department has taken action to improve HUD's monitoring of project owners/agents' efforts to assure that property taxes are reasonable. (Audit Report No. 86-TS-111-0009.)

■ Field Offices did not monitor the investment of reserve funds to assure that investment requirements were met, and did not strongly encourage investments. As a result, we estimate that \$16 million in investment income is lost annually, and interest earned on those investments that are made is not always handled properly. Reserve funds are established and maintained through periodic deposits. The deposits are accumulated for meeting anticipated replacement of structural elements and other designated project needs.

Field Offices did not assure that available reserve funds were adequate to meet project needs and that the funds were used only for their intended purpose. A lack of sufficient reserves can lead to physical deterioration of projects, a decline in the quality of housing, and in some cases, an increase in government assistance.

In our draft audit report, we recommended and the Office of Housing generally agreed to: (1) revise regulations to require the investment of reserve funds and the deposit of income earned from such investment; (2) provide written guidance to ensure that Field Offices review reserve fund investment activity; (3) require owners of multifamily projects to periodically analyze the adequacy of funds; and (4) instruct Field Offices to place greater priority on monitoring and enforcing deposit and investment of reserve funds.

Multifamily Project Management

As a condition of providing mortgage insurance on multifamily projects, owners sign a Regulatory Agreement with HUD which specifies that expenditures must be reasonable and necessary to the project, and limits the circumstances and manner in which cash may be taken out of a project by the owner. The owners or agents for five multifamily projects disregarded the provisions of the Regulatory Agreement regarding reasonable and necessary project expenses resulting in disbursements of over \$2.3 million that should be returned to project accounts. The projects involved in separate audits were: Western Group, Fresno, California; Pittsburg Plaza, Pittsburg, California; Schoolhouse Road Estates, Inc., Ramapo, New York; Hidden Valley Estates Apartments, Wentzville, Missouri; and Dorie Miller Manor, Los Angeles, California.

■ The identity-of-interest management agent for the Western Group repaid advances of \$445,000 to

owners of four HUD-insured projects and used operating revenues of \$285,787 to reimburse three project owners for construction period interest. These inappropriate disbursements caused negative cash balances. In addition, tenant security deposits were not fully funded and mortgage payments were not made.

■ The owner of Pittsburg Plaza jeopardized the project's financial condition by using over \$237,600 for excessive and unsupported expenditures, and improperly distributing \$321,580 by taking funds from the project's escrow account, reserve accounts, and tenant security deposit accounts, and by overpaying owner advances.

■ The owner of Schoolhouse Road Estates, Inc., advanced \$407,500 to the general contractor's construction manager without any written agreement to repay the funds and without any documentation to show that the advances were for necessary and reasonable project expenses. The project thus could not pay accrued interest on the mortgage.

■ The owner of Hidden Valley Estates Apartments borrowed construction funds at a certain percent per year but charged project costs at a higher percentage, resulting in excessive charges of \$243,905. The owner also charged \$175,780 in excessive financing fees to project costs.

■ The owners of Dorie Miller Manor improperly distributed \$237,537 of project funds to themselves when the project had negative cash balances. In addition, they did not complete needed maintenance and repair work, maintain adequate accounting records, and properly support the tenant security deposit liability.

We made recommendations in each audit report for HUD to require reimbursement of all funds spent improperly, instruct owners to complete any needed repairs,

and obtain adequate documentation for questionable expenditures. (Audit Report Nos. 86-SF-214-1005; 86-SF-212-1003; 86-NY-212-1005; 86-KC-211-1005; and 86-SF-212-1006.)

Coinsurance Program

Lender underwriting practices in the Section 223(f) Coinsurance Program did not fully comply with HUD regulations and HUD monitoring was not always adequate to protect HUD interests. Property values and project net income estimated by lenders consistently exceeded supportable market values. Lender estimates of value and net income for eight projects reviewed exceeded our estimates by \$42.4 million and \$5.2 million, respectively. We estimate that the coinsured loan amounts exceeded the maximum mortgage amounts by \$35.9 million. Although HUD monitoring effectively disclosed such unacceptable lender underwriting practices, it was not effective in assuring that lenders complied with HUD requirements.

Lenders requested endorsement for loans that included costs for repairs that were incomplete at loan closing. Seven of eight projects reviewed had \$9.6 million in required or proposed repairs that were incomplete at loan endorsement. Lenders did not have adequate procedures to ensure that repairs would be completed on time. Without this assurance, the potential for loss due to delays in achieving sustained occupancy increases HUD's risk.

We recommended that HUD amend appropriate regulations and issue handbook instructions to assure that HUD's interests are adequately protected. (Audit Report No. 86-TS-112-0004.)

Investigation Activities

The following are significant investigations in the multifamily program area:

- A management company presi-

dent was sentenced to 3 months in prison, placed on 5 years probation, and ordered to make restitution of \$63,395 for submitting false monthly accounting reports to HUD. The president diverted funds to his company by altering disbursement records and misrepresenting tenant security deposits. He has been suspended from participating in HUD programs. (United States vs. Fred N. Grimes, Eastern District of Virginia.)

- A resident manager of a cooperative housing project was sentenced for grand theft to 9 months in a county jail, 5 years probation, and was ordered to make restitution of \$28,000. She mailed checks to herself at a post office box in the name of fictitious companies for supplies and materials never received at the project. The resident manager has been denied participation in HUD programs. (State of California vs. Viola Ratliff.)

- The president and vice president of a development company were sentenced for conspiracy to defraud HUD and the Farmers Home Administration in connection with the construction of multifamily projects from which they illegally diverted money and materials. They were sentenced to a total of 6 years probation, 500 hours of community service, and fined \$15,000. The two individuals have been suspended from participating in HUD programs. (United States vs. Jay D. Morrow and Jerry L. Davis, Middle District of Florida.)

- An on-site manager of a HUD-owned multifamily project was indicted for theft of government property. The manager was charged with converting \$22,608 in rent money to his own use. The manager submitted monthly accounting reports showing a number of units as vacant when he allegedly collected rent from the tenants. Trial is pending. (United States vs. Britus Twitty, Eastern District of Michigan.)

Community Planning And Development

This section highlights significant audits and investigations in two major areas: the Urban Development Action Grant (UDAG) Program and the Community Development Block Grant (CDBG) Program.

Urban Development Action Grants

During Fiscal Year 1985 and the first half of Fiscal Year 1986, we completed audits of 16 grantees in the UDAG Program and found that three major problems were noted in many of these audits.

| | 1. Projects Not Administered in Accordance with Contractual Agreements | 2. Unauthorized Use of Grant Funds | 3. Job Accomplish- ments Not Accurately Reported |
|-------------------|--|---------------------------------------|--|
| Baltimore, MD | X | X | |
| Boston, MA | | | X |
| Chicago, IL* | X | | |
| Denver, CO* | X | | X |
| Kansas City, MO | | | |
| Macon, GA | X | | |
| Monroe, NC | | | |
| New Britain, CT* | X | | X |
| Oakland, CA | | | X |
| Salem, NJ* | X | X | X |
| San Francisco, CA | X | | |
| San Juan, PR* | X | | X |
| Seattle, WA | | | X |
| Stilwell, OK* | X | X | |
| St. Paul, MN | X | | |
| Syracuse, NY * | X | X | |
| Totals | 11 | 4 | 7 |

*Fiscal Year 1986 Audits

The following are examples of the three major problems we found:

1. Projects Not Administered in Accordance with Contractual Agreements.

■ In Chicago, Illinois, the grantee spent \$10.4 million (of a \$10.6 million grant) acquiring land for a project, but did not transfer the land to the developer or perform other development activities. There are now no firm plans for the project.

■ In Baltimore, Maryland, deviations from the grant agreement resulted in \$1.1 million of ineligible costs and \$1.7 million in cost overruns.

■ In Denver, Colorado, a sub-grantee improperly computed a relocation claim, could not support administrative and contract costs, and overpaid a contract. Questionable costs totalled over \$1.1 million.

Projects were not administered properly because of poor monitoring, usually by grantees, but in some cases by HUD's Field Offices. Monitors did not have the information necessary to properly evaluate performance and to take corrective action when projects either deviated from the requirements or were not being completed on time. For example, Chicago's performance reports did not include certain information on missed dates and the developer's commitment for financing. As a result, it appeared the project was proceeding to completion when in fact it was dormant.

2. Unauthorized Use of Grant Funds.

■ Stilwell, Oklahoma, spent \$1.6 million to construct a sewage treatment plant solely to serve a poultry processing plant, although the developer had earlier informed the grantee that the processing plant would not be built.

■ Baltimore, Maryland, used UDAG funds to pay construction

cost overruns and to make grants for closing costs.

3. Job Accomplishments Not Accurately Reported.

■ Oakland, California, reported that 1,020 new permanent jobs were created by two UDAG projects, when only about 125 were actually created.

■ Denver, Colorado, reported 196 new permanent jobs were created, but 136 of these were merely transfer positions and not new jobs.

The incorrect reporting of job accomplishments was due to the fact that grantees did not have adequate procedures to obtain accurate data. In September 1985, all UDAG grantees were reminded to re-verify progress report data. With respect to the improper administration of projects and the unauthorized use of funds, we recommended that the Assistant Secretary for Community Planning and Development notify UDAG grantees that grant agreements and amendment processes must be strictly followed. (Audit Report No. 86-TS-143-0810.)

The following are highlights of some of the individual UDAG audits done during the first 6 months of Fiscal Year 1986:

■ Stilwell, Oklahoma, received a UDAG grant of \$3.9 million for the construction of a sewage treatment plant, expansion of water treatment facilities, and various connecting lines. These were to support a developer's feed mill and a hatchery and poultry processing plant. Although the City learned in 1983 that the developer was not going to construct the processing plant, it proceeded in 1984 to construct the sewage treatment plant, apparently with the expectation that it would induce the developer to honor his commitment. The sewage treatment plant has not yet been used, and the City has no plans for its use. The City also spent \$329,000 for engineering and legal services

which were improperly contracted for without competition. We recommended that the Oklahoma City Office Manager require the City to repay \$1.6 million for the sewage plant and determine how much of the engineering and legal services should also be repaid. (Audit Report No. 86-FW-242-1003.)

■ Chicago, Illinois, did not perform its grant activities relating to site acquisition, clearance, and conveyance to the developer in a timely manner. Although 5 years have passed since HUD approved a \$10.6 million UDAG grant to expand a shopping mall and 98 percent of the money has been spent, the City has still not conveyed the project site to the developer. Construction has not started, the primary tenant is no longer interested, and the developer's loan commitment has expired. Unless the grantee sets aside additional funds to complete its activities, the plan to create 1,357 new jobs is in jeopardy and it is doubtful that the project will ever be completed. We recommended that HUD's Regional Administrator meet with the City and the developer to assess the feasibility of this project. If it will not be continued, the \$10.6 million in UDAG funds should be recovered. (Audit Report No. 86-CH-242-1002.)

■ San Juan, Puerto Rico, received a UDAG grant of \$3.1 million for 260 housing units, a retail center, and an industrial facility which were to be completed by September 1985. However, the housing component was behind schedule and the commercial and industrial centers had not been started. The City was not aware of this and could not explain the delays. The City's poor monitoring of its UDAG program resulted in other problems as well. The cost of land for the housing units was inflated by \$343,000 because the developer acquired extra acreage for 74 non-UDAG units. No formal criteria were established for selecting homeowners. The City also failed to use \$60,000 of program

income to reduce its UDAG drawdowns. We recommended: creating a new timetable for completion; closely monitoring the developer; determining how much of the inflated cost should be repaid; using present and future program income to reduce UDAG drawdowns; and establishing housing criteria. (Audit Report No. 86-NY-242-1006.)

Community Development Block Grant Program

The following were significant audits and investigations in the Community Development Block Grant (CDBG) Program:

■ Our audit of Kansas City, Missouri's CDBG activities disclosed three major violations: (1) The City did not properly report or deposit \$1.05 million in program income. (2) The City lacked documentation showing a direct relationship between the provision of low-interest second mortgages and the elimination of slums and blight. Moreover, their \$582,000 Second Mortgage Loan Program does not meet any of three national CDBG objectives and may be a prohibited activity. (3) The City did not use its funds in an efficient and economical manner. Multifamily projects were rehabilitated at a cost of \$1 million in excess of their appraised values after rehabilitation. We recommended requiring the City to: properly account for and report loan repayments; document the relationship between low-interest second mortgages and the elimination of slums or refund the money; and establish guidelines to ensure project costs do not exceed appraised values. (Audit Report No. 86-KC-249-1004.)

■ Syracuse, New York, did not administer its community development program in an efficient manner and charged a total of \$2.2 million in costs which are either questionable or ineligible. Of this amount, \$1.2 million was for salaries which did not have adequate supporting documentation.

Time and attendance procedures were so weak that employees were paid even though absent from duty. They signed in and out for each other and sometimes falsified attendance records. In 1984, employees charged an average of 50 percent of their time to the CDBG Program. After our audit, they charged only an average of 5 percent of their time to the Program. The City also mismanaged its Handicapped Ramp Installation Program and we questioned over \$242,000 in CDBG funds which were paid to contractors for work that was grossly overpriced, poorly performed, or not performed at all. In March 1986, the Director of the Handicapped Ramp Program was indicted, along with four contractors, on a total of 38 counts of making false claims, perjury, conspiracy, falsifying records, criminal possession of stolen property, and grand larceny. We recommended that the City institute effective procedures to prevent further abuse and to ensure full compliance with program requirements. We also recommended that HUD determine how much of the \$2.2 million should be repaid and/or reprogrammed into other CDBG activities. (Audit Report No. 86-NY-241-1004.) (State of New York vs. Craig Caldwell, et al.)

■ Pittsburgh, Pennsylvania's Urban Renewal Authority (URA) had significant weaknesses in its administrative controls which failed to prevent: conflict-of-interest transactions; excessive expenditures in identity-of-interest transactions; non-reporting of program income; imprudent loans by third party contractors; and inconsistent processing of rehabilitation projects. The conflicts of interest involved grant recipients who had family or business connections with URA program officials. The URA acted improperly in awarding 10 rehabilitation grants and a low-interest loan, all of which should be repaid. The identity-of-interest relationships involved owners and the contractors who were to renovate the properties. At the URA's direction, property owners established fictitious entities solely

to avoid cost certifications. Because the URA did not have these cost certifications, there was no assurance that property improvement grants were realistic. We recommended that the City repay \$1.1 million, obtain cost certifications for all grants and establish the validity of \$1.9 million of questionable costs, and implement internal controls to protect CDBG-funded activities. (Audit Report No. 86-PH-249-1003.)

■ A former employee of the Watertown, Massachusetts CDBG Small Cities Program pled guilty to three counts of false statements and five counts of extortion from housing rehabilitation contractors bidding on HUD rehabilitation contracts. He received a 90-day prison sentence, 2 years probation, and was ordered to perform 1,040 hours of community service. Working with the FBI, the U.S. Attorney's office, and the Watertown Police Department, we conducted an audit/investigation of Watertown's \$2.4 million Small Cities Grant Program. We reviewed 148 housing rehabilitation contracts awarded from June 1981 to July 1984 and found weaknesses in internal controls, inadequate documentation of compliance with quality standards, inspection deficiencies, possible ineligible work, and questionable change orders. All major functions relating to processing home repair contracts were performed by the same individual. The poor internal controls facilitated the employee's criminal activities and failed to ensure sufficient competition for CDBG contracts. We recommended instructing the City not to execute any more home improvement contracts until procedures and controls are improved. (Audit Report No. 86-BO-243-1003.) (United States vs. James J. Pepicelli, District of Massachusetts.)

■ The former controller of a company which received CDBG funds pled guilty to ten counts each of theft of government property and submitting false statements to the government. A joint investigation by our office, the Department of Commerce, and the local District

Attorney disclosed that the individual embezzled over \$82,000 between 1979 and 1984. (United States vs. Shabbir Syed, Western District of Pennsylvania.)

■ The president of a general contracting firm and an employee of a subcontractor which received CDBG funds were indicted by a Federal Grand Jury in Baltimore, Maryland, on charges of bribing a public official and aiding and abetting. The indictment involved charges of payoffs in connection with HUD-funded CDBG contractors. (United States vs. Mildred G. Russell and Ove B. Kongsted, District of Maryland.)

■ Two East St. Louis, Illinois aldermen and one former alderman were sentenced in U.S. District Court for their part in a scheme to solicit money from a contractor in return for favorable treatment in the award of CDBG-funded contracts. One alderman was sentenced to 5 months in jail and 5 years probation, fined \$2,000, and ordered to perform work at the East St. Louis Housing Authority (ESLHA). The other two were sentenced to 2 years probation, fined \$2,000, and ordered to perform work at the ESLHA. A fourth alderman was indicted in February 1986 for involvement in the awarding of contracts. (United States vs. Julius Walker, Alfred Byrd, Thomas Wooten, et al, Southern District of Illinois.)

■ A Federal Grand Jury in Albuquerque, New Mexico, charged the Executive Director of the Rio Arriba County Housing

Authority and three employees with a total of 18 counts of making false statements. An investigation by our office, the State of New Mexico Attorney General's Office and the Grand Jury disclosed the defendants submitted false travel vouchers and false claims for repairs on housing units, and purchased appliances and materials for personal use. (United States vs. Robert Savinsky, Lorraine DeVargas, Viola Olivas, and LeRoy E. Lopez, District of New Mexico.)

■ An official of the Paterson, New Jersey Housing Improvement Program, who had previously pled guilty to five counts of conspiracy and tax evasion, was sentenced in Newark, New Jersey, to 2 years in prison. Six contractors who had pled guilty were sentenced to probation of from 2 to 3 years. An investigation by our office, the FBI and the IRS developed evidence that the contractors routinely paid kickbacks to the official. (United States vs. James B. Wright, District of New Jersey.)

■ A Federal Grand Jury returned a three-count indictment against a civil engineer for the City of Quitman, Mississippi. The engineer included, as part of the invitation to bid packet for contractors on a CDBG project, a requirement that work be performed on certain property. A subsequent investigation disclosed that he was part owner of the property, and the work benefitted him financially. (United States vs. Victor G. McLendon, Jr., Southern District of Mississippi.)

General Administration

Implementation of the Federal Managers' Financial Integrity Act

The Congress enacted the Federal Managers' Financial Integrity Act of 1982 in response to continuous disclosures of waste, loss, unauthorized use and misappropriation of government assets. It is generally recognized that good internal controls and

accounting systems would help minimize fraud, waste, abuse and mismanagement. The Act and related implementing guidance, OMB Circulars A-123 (Internal Control Systems) and A-127 (Financial Management Systems), require that each agency evaluate its internal control systems and report, on an annual basis to the President and the Congress, any material weaknesses and plans to

correct the weaknesses. The report must also include a statement on whether the agency's accounting systems conform to the Comptroller General's accounting requirements. At HUD, the Assistant Secretary for Administration is responsible for coordinating the Act's implementation.

We reviewed the process used by HUD to implement the Act during Fiscal Year 1985 and found: limited progress in evaluating internal controls and accounting systems; unresolved deficiencies cited in our prior year's audit of the process; and deviations from plans for correcting certain previously identified material weaknesses. We attributed HUD's limited progress to minimal commitment by Departmental managers; insufficient staff assigned to conduct evaluations; and

the absence of a comprehensive plan to guide HUD in completing the process. Consequently, HUD had little or no assurance that it had sufficient internal controls and accounting systems to preclude fraud, waste, abuse and mismanagement.

We recommended that the Assistant Secretary for Administration expeditiously develop an implementation plan and assign adequate staff to the process. The Assistant Secretary for Administration advised us that her staff is developing an implementation plan which they expect will be completed in July 1986. In our opinion, while a good plan is needed, its untimely development will further delay implementation of the Act. (Audit Report No. 86-AO-169-0001.)

Chapter 2

Prevention Activities And Special Efforts

This chapter highlights activities to reduce and prevent fraud, waste, and abuse and to improve the

economy and efficiency of Departmental programs and operations.

Improving the Quality of Audits Done By Non- Federal Auditors

The Department annually receives about 25,000 audit reports from non-Federal auditors. HUD managers rely on these reports to provide financial and compliance information for proper administration and oversight of Federal programs. The Office of Inspector General (OIG) reviews about 4,000 of these reports. OIG monitoring activities include performing desk reviews and quality control reviews, obtaining necessary clarifications and revisions, and referring auditors who perform unacceptable work to the appropriate sanctioning offices. Sanctions against non-Federal auditors which are available to HUD include debarment, suspension, and temporary denial of participation in HUD programs. Referrals are also made to the American Institute of Certified Public Accountants (AICPA) and/or the appropriate State Licensing Board, which may initiate additional sanctions. The following is a statistical summary of OIG monitoring activities during the 6-month reporting period:

| | |
|---------------------------------------|-------|
| o Desk Reviews Performed: | 2,126 |
| o Quality Control Reviews Performed: | 126 |
| o Clarifications/Revisions Requested: | 547* |
| o Suspensions/Debarments Recommended: | 3 |
| o Referrals to State Boards/AICPA: | 3 |

* 158 of these required correction of significant deficiencies.

On November 13, 1985, the HUD Inspector General appeared before the Legislation and National Security Subcommittee, House Committee on Government Operations, to present his views on the quality of audit work performed by

non-Federal auditors and the role of Federal Inspectors General in monitoring this work. The IG stated that improvement is needed in the quality of non-Federal audit work and that it will take the full cooperation of all parties to the process to achieve this. The IG testified that he has taken a number of actions to improve our monitoring process and promote the quality of non-Federal audits. The IG stated that, during the past 6 years, we have referred seven auditors to the AICPA and/or appropriate State Board for deficiencies in performing audit work. Additionally, we have made ten referrals to State Boards because of auditors' licensing deficiencies. Based on our recommendation, the Department has also debarred five auditors. The IG stated that during Fiscal Year 1986, our office plans to spend about 6,700 staff days monitoring non-Federal audit work.

On December 5, 1985, the General Accounting Office (GAO) issued a report on the first phase of its review of the quality of audits performed by non-Federal auditors. The report, "CPA Audit Quality - Inspectors General Find Significant Problems," (GAO/AFMD-86-20), includes eight recommendations to statutory Inspectors General which are intended to improve the audit quality review process. Generally, we agreed with GAO's recommendations and have either implemented or are in the process of implementing the recommended actions. For example, our office is studying current audit quality reporting procedures to determine how they can be enhanced to ensure that nationwide trends and patterns relating to audit quality are identified and acted upon.

Computer Matching

Computer matching is the automated comparison of information from two or more data sources. Discrepancies which are found are then examined to determine the cause. In the past, it was seldom cost-effective to manually review thousands of data files, such as was necessary to verify the information supplied by applicants for HUD assistance.

Now, computer matching makes it feasible to compare this information with State wage data when we have voluntary agreements with State agencies and when there are sufficient Social Security numbers on file to make the match efficient. As noted in the Assisted Housing section of Chapter 1, the Department is faced with severe legal constraints in this area. During the reporting period, computer matching was used in the following ways:

- Washington, D.C. Computer matching was used to identify 12 active or retired Federal employees at Brookland Manor Apartments

who received \$74,000 of excessive rent subsidy. Under HUD's assistance programs, the tenants paid a percentage of their monthly income for rent. However, these 12 understated their income or did not report all sources of income and thus were overpaid subsidies from HUD. (Audit Report No. 86-PH-182-0002.)

- Section 312 Defaulted Loans. Our office is supervising a computer match of data on persons who have defaulted on Section 312 loans against the records of Federal employees and retirees. The records are supplied by HUD and the Office of Personnel Management. After a match is obtained, HUD will verify each debt. In those cases where the employee/retiree does not already have a repayment plan, the Department will try to arrange a repayment plan with the individual. If necessary, HUD will attach their salary or benefits payments to offset the debt.

President's Council on Integrity and Efficiency

As part of a governmentwide review initiated by the President's Council on Integrity and Efficiency (PCIE) to identify ways of reducing telephone costs, we performed an audit of telephone usage at HUD Headquarters. Our review of a statistical sample revealed that 29 percent of long distance calls were unofficial. We projected that these calls, if typical for a 1-year period, cost the Department an estimated \$290,000 and wasted 13,600 hours of staff time. HUD also paid \$76,000 for inactive, out-of-service, and unlocatable telephone lines that

were not disconnected for at least 1 year after they were no longer used. These problems occurred because of inadequate telecommunications management and ineffective monitoring of telephone usage. We made six recommendations to management to improve the efficiency and reduce the cost and abuse of Federal Telecommunications System (FTS) service. We are also completing work on a Fraud Information Bulletin to alert employees and supervisors to FTS abuses and ways to correct prior problems. (Audit Report No. 86-AO-165-0002.)

Fraud Awareness Program

The fraud awareness activities conducted by our office during the reporting period include:

- Pamphlets. A new series of pamphlets has been issued to familiarize HUD personnel with the

major processes within the Office of Inspector General. They are: (1) OIG Mission; (2) External Audit Process; (3) Internal Audit Process; (4) Investigation Process; and (5) How to Report Fraud.

■ **Workshops.** We conducted workshops in five locations for State Small Cities officials on techniques for monitoring and finding fraud and abuse in the Small Cities Program. We also participated in a workshop on tenant fraud for the National Leased Housing Association.

■ **Fraud Information Bulletins.** Fraud Information Bulletins are designed to highlight problems and abuses in HUD programs and activities such as the abuse of the FTS. A total of 20 Bulletins has been issued to date.

■ **Articles.** Articles on preventing and detecting tenant fraud were published in the *Journal of Property Management*, a publication of the Institute of Real Estate Management, and in the *Journal of Housing*, a publication of the National Association of Housing and Redevelopment Officials.

■ **Program Integrity Bulletins.** A new series of bulletins has been developed to increase program participants' awareness of fraud and enhance their ability to detect and prevent it. The first bulletin is entitled "Public Housing Agency Commissioners and the Low-Income Housing Program." Forthcoming bulletins will deal

with computer matching, HUD's Mortgagee Review Board, and Asset Management.

■ **Assistance to Program Staff.** We helped HUD's Office of Single Family Housing prepare a mortgagee letter on "Equity Skimming" which instructed mortgagees to alert homeowners in financial difficulty to the schemes being used by unscrupulous investors to victimize both the homeowner and the Department. We also assisted program staff in preparing specific "do's and don'ts" notices for program participants and grantees that may not understand or be aware of contractual requirements or standards that apply to their dealings with the Department. The three which have been issued to date are Community Development Block Grant Recipients, Urban Development Action Grant Recipients, and HUD Contractors.

■ **Fraud Alert Memorandums.** Fraud Alert Memorandums (FAMs) are issued to HUD staff to advise of specific fraud cases investigated by OIG and to suggest how they may prevent further abuse from occurring. We recently issued a FAM on fraudulent billing in the Housing Counseling Grants Program.

HUD Hotline

The HUD Hotline has been successful in uncovering numerous instances of fraud and mismanagement. During the 7 years the HUD Hotline has been in operation, we have received over 2,700 complaints. Of these, 23 percent have generated corrective action. A trend analysis of Fiscal Years 1983-1985 showed that the two main sources for complaints were the general public (37 percent) and HUD employees (29 percent). The primary subjects of hotline complaints were HUD employees (37 percent), with the typical allegations being misuse of government personnel/equipment for personal business, Standards of Conduct violations, and abuse of time and attendance. Program participants

(e.g., subsidized tenants and block grant recipients) were the second largest group of hotline subjects (29 percent); they were most often accused of falsifying eligibility documents and shoddy workmanship.

There were 266 actions taken against non-HUD employees. These actions consisted of \$5.2 million in unallowable costs, 72 legal or administrative actions (i.e., suspensions/debarments, prison terms, termination of subsidy, and dismissal), and 107 actions related to corrected work, procedural enhancements and tenant recertifications. There were also 146 actions taken against HUD employees as a result of hotline

complaints. These actions consisted of \$16,668 in monetary recoveries, 80 legal/administrative actions (i.e., suspensions, terminations and reprimands) and 54 actions related to internal control enhancements. The following are synopses of some hotline cases:

- A city was directed to reimburse over \$2 million to HUD's Community Development Block Grant Program for disregarding procurement and other HUD requirements associated with contracting activities.
- A HUD employee voluntarily quit during a review when confronted with evidence that she falsified overtime work hours and

leave records. She also agreed to reimburse HUD \$2,964.

- An executive director of a housing authority received a 5-year sentence for embezzlement and obtaining money under false pretenses.

A staff bulletin summarizing the above results was transmitted to HUD employees, because the success of the hotline was attributed in large part to their initiative and concern. They were also encouraged to call the hotline to report any new indications of fraud, abuse, or mismanagement. Hotline activity for the 6-month reporting period is shown in Chapter 5, Statistical Summary.

Chapter 3

Review of Legislation and Regulations

We reviewed legislative proposals and regulations relating to economy and efficiency of programs and operations and the prevention and detection of fraud

and abuse. Some of the more significant legislative proposals and regulations are described as follows:

Legislation

■ S. 1913 relates to various aspects of housing and community development. The bill omits one major point from the Administration's proposal which requires States to provide wage data information to HUD and public housing authorities upon request and on a reimbursable basis. The inclusion of such a provision would greatly facilitate the Department's efforts at computer matching to verify income eligibility. By not making this provision statutory, the way is left open for States to refuse access to wage data. We also objected to the omission of a provision, such as the one included in the proposed Housing Act of 1985, for double damages for unauthorized use of multifamily housing project assets and income. That provision would serve as an effective deterrent to the misuse of multifamily project funds and could significantly strengthen the present civil statute for recovery of misused funds.

■ We strongly opposed that part of the proposed S. 1215 (adopted as part of H.R. 3080 regarding verification of immigrant status) which extends the income and eligibility verification system under Section 1137 of the Social Security Act to provide for verification with the Immigration and Naturalization Service (INS) of immigrant status in the case of aliens applying for benefits under specified welfare and other programs. We initially opposed the bill based on its omission of a reimbursement program to any entity other than a State agency and because HUD's alternative verification system detailed in regulations published on April 1, 1986, provided equal or more cost effective procedures. Subsequently, discussions with

the Department of Justice and the Office of Management and Budget resulted in a revision that would give HUD discretionary authority to require the use of either the INS verification system or HUD's procedures. We agreed with this revision.

■ Regarding S. 2112, Single Family Mortgage Insurance Fraud Detection and Prevention Act of 1986, we had substantive comments on this bill. The bill requires extensive verification of loan application data and appraisals. Further, the bill requires a substantial increase in staff and administrative costs. In light of Gramm-Rudman-Hollings, HUD may not have sufficient resources to effectively carry out this proposed Act. Subsequent to our comments on this bill, HUD's Single Family Task Force, which was established by the Secretary of HUD to investigate problems of fraud and abuse in HUD's Single Family Mortgage Insurance Programs, issued its recommendations, and the Secretary announced actions based on these recommendations. (See Chapter 1 for additional details.) These recommendations and actions are aimed at combatting the types of fraud and abuse which are the subject of S. 2112. Although the Department has not yet taken a position on S. 2112, we believe these recommendations and actions should be considered in further development of this legislation.

■ We support a proposed change to the National Housing Act which would authorize the Secretary of HUD, through the Mortgagee Review Board, to impose civil monetary penalties on HUD-approved mortgagees and Title I

lenders. Penalties would be assessed for each violation in the case of a continuing violation not to exceed \$1 million per year. We believe this legislation would

strengthen the sanctioning process against those mortgagees and Title I lenders who violate HUD regulations.

Regulations

■ Proposed Rule 24 CFR Parts 200, 203, and 234, Insurance of Shared Appreciation Mortgages, would provide for the insurance of shared appreciation mortgages covering certain one- to four-family dwellings under Section 203 of the National Housing Act and one-family condominium units under Section 234(c) of the Act. We opposed this rule for several reasons, as follows: The calculation of the mortgagee's contingent interest is unfair to the mortgagor because it gives the mortgagee interest on monies which were never borrowed. No provision was made for: (1) pre-loan disclosure of discount points being charged (as compared to discount points required on a level payment fixed rate mortgage), which could result in mortgagees' charging excessive discount points; or (2) financing the required balloon payment for mortgagors who hold mortgages for the full term. If financing is not provided, the property could be lost even after the full term of payments has been made. Further, shared appreciation mortgages should not be eligible for direct endorsement. In addition, shared appreciation mortgages should not be assumable, since program controls require that mortgagors be owner-occupants. If the assump-

tion feature is permitted, loans could be assumed without HUD's knowledge, and there is no guarantee that the assumption will be by an owner-occupant.

■ Final Rule 24 CFR Parts 200, 215, 235, 236, 247, 812, 880, 881, 882, 883, 884, 886, and 912, Restriction on Use of Assisted Housing, prohibits the Secretary from making financial assistance available under certain HUD laws for the benefit of any alien who is not a lawful resident of the United States. A proposed rule to implement the statutory prohibition enacted by the Congress in 1981 was published in the Federal Register for public comment on May 3, 1982 (47 FR 18914). A final rule for this purpose was published on October 4, 1982 (47 FR 43674), but was not made effective.

In 1983, the Congress enacted a provision (Section 474(e) of the Housing and Urban-Rural Recovery Act of 1983, Public Law 98-181, November 30, 1983), which barred HUD from implementing the prohibition on housing assistance to ineligible aliens for a 1-year period. This bar to implementation expired at the end of November 1984.

Chapter 4

Administrative/Prosecutive Actions Against HUD Employees

The Senate Committee on Appropriations has indicated in the past that if fraud within government is to be contained and curtailed, then appropriate action must be taken in cases where employees have been found to have acted improperly.

Examples of administrative or prosecutive actions taken against HUD employees during the semi-annual reporting period, in connection with investigations, are shown below.

■ Three former HUD employees from the HUD Boston, Massachusetts Office, three contractors, and an attorney pled guilty to portions of a multi-count indictment charging them with conspiracy, mail fraud, making false statements, obstruction of justice, and perjury in connection with the administration of the Section 518 (b) Home Repair Program. The indictment had charged that the contractors submitted invoices for repair payments totalling over \$500,000 which were either grossly inflated or completely fraudulent. The HUD officials allegedly knew this and approved the invoices for payment. At the time of indictment, one of the individuals was a current HUD employee who later retired, and two of the individuals had already retired from HUD. Two of the HUD employees were sentenced to prison terms of 6 months and 18 months, respectively. The third HUD employee was sentenced to 1 year of probation. The three contractors have been denied participation in HUD programs and are awaiting sentencing. The attorney is also awaiting sentencing.

■ A HUD computer specialist was placed on 3 years probation and ordered to serve 300 hours of community service following criminal conviction on a bribery charge. The computer specialist offered a \$5,000 bribe to another HUD employee on behalf of an investor to purchase a HUD-acquired property and circumvent the Department's competitive bidding process. The computer specialist resigned from HUD employment after being arrested. Investigation of this matter was conducted by the FBI with

assistance from the Office of Inspector General.

■ A supervisory appraiser resigned from HUD after being notified that he was to be reduced two grades and reassigned to another office. The supervisory appraiser showed preferential treatment in the processing of conditional commitments for a mortgagee and builder.

■ An engineer was suspended for 30 days for providing preferential treatment to a contractor by helping the contractor obtain work with public housing authorities and circumventing HUD procurement standards. The Merit Systems Protection Board denied the employee's appeal.

■ A Field Office manager received a written warning for creating the appearance of using his position for private gain. The employee sought out and received legal advice and assistance from the Field Office legal staff on a personal matter during office hours.

■ A chief of an Assisted Housing Management Branch received a letter of caution after contacting a local housing authority to inquire about housing for a former in-law. Housing which would normally have required at least 1 year on a waiting list took only 5 days to obtain.

■ A construction analyst received a letter of caution for creating the appearance of a conflict of interest in violation of the Standards of Conduct. The employee engaged in outside self-employment which conflicted with his official duties and had relatives employed by firms doing business with HUD.

Chapter 5

Statistical Summary

Department of Housing and
Urban Development
Office of Inspector General

October 1, 1985
through
March 31, 1986

Audit Activities

| | | |
|---|--|--------------|
| ■ | Cash Recoveries/Savings (OIG and Non-Federal Audits) | \$28,588,393 |
| ■ | Questioned and Disallowed Costs Sustained (OIG and Non-Federal Audits) | \$33,525,703 |
| ■ | Cost Efficiencies | \$11,670,254 |
| ■ | Internal Audit Reports Issued (OIG) | 51 |
| ■ | External Audit Reports Issued (OIG) | 119 |
| ■ | Non-Federal and Other Agency Reports Accepted | 1,961 |
| ■ | Mortgagees/Lenders Sanctioned as a Result of Referrals to HUD Mortgagee Review Board | 8 |
| ■ | Subpoenas Served | 23 |

Investigation Activities

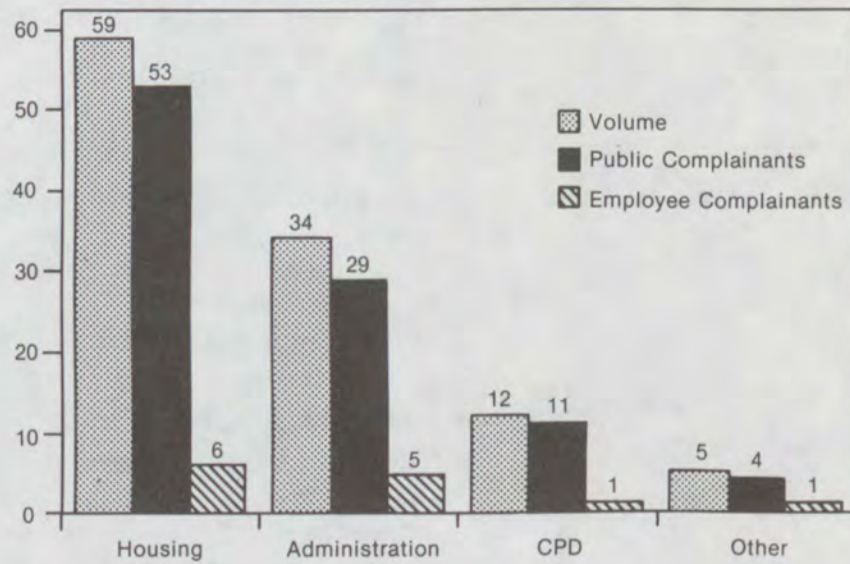
| | | |
|---|--|-------------|
| ■ | Cash Recoveries | \$1,997,461 |
| ■ | Total Fines Levied | \$89,869 |
| ■ | Commitments to Recover Funds | \$22,676 |
| ■ | Cost Efficiencies | \$1,514,570 |
| ■ | Persons/Firms Indicted (Convicted) | 155(175) |
| ■ | HUD Employees Indicted (Convicted) | 2(4) |
| ■ | Total Years of Prison Sentences | 118 |
| ■ | Total Years of Suspended/Probated Sentences | 86/571 |
| ■ | Debarments of Persons/Firms Doing Business with HUD (Years) | 78(253) |
| ■ | Suspensions of Persons/Firms Doing Business with HUD (Years) | 82(85) |
| ■ | Mortgagees/Lenders Sanctioned as a Result of Referrals to HUD Mortgagee Review Board | 1 |
| ■ | Personnel Actions Initiated Against HUD Employees | 12 |
| ■ | Subpoenas Served | 18 |

Fraud Control Activities

| | | |
|---|---|-----|
| ■ | Awareness Publications Issued | 12 |
| ■ | Hotline Complaints Received | 110 |
| ■ | Hotline Complaints Processed and Closed | 119 |
| ■ | Hotline Complaints Pending (3/31/86) | 143 |
| ■ | Proposed Legislation and Regulations Reviewed | 93 |
| ■ | Proposed HUD Handbooks/Issuances Reviewed | 72 |

Hotline Activities

Distribution of Hotline Complaints
October 1, 1985, through March 31, 1986



- Total Number of Complaints = 110
- Cash Recoveries = \$31,867
- Prison Sentences = 4 months, 15 days
- Community Service = 20 hours
- Employee reprimands, suspensions and terminations = 4

Hotline complaints also resulted in the termination of two project employees for improprieties in the administration of project funds and

issuance of a temporary denial of participation to a general contractor for failure to adhere to contract provisions.

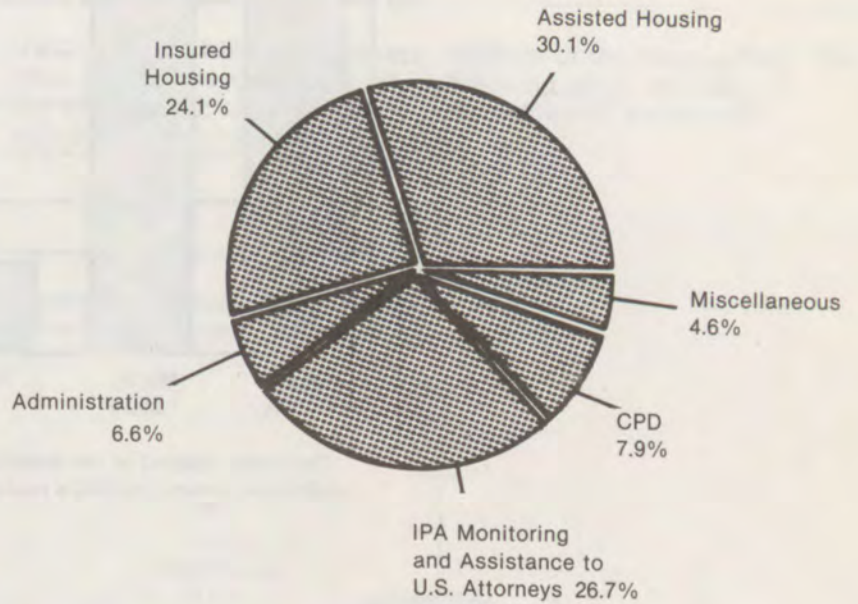
Audit Findings

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

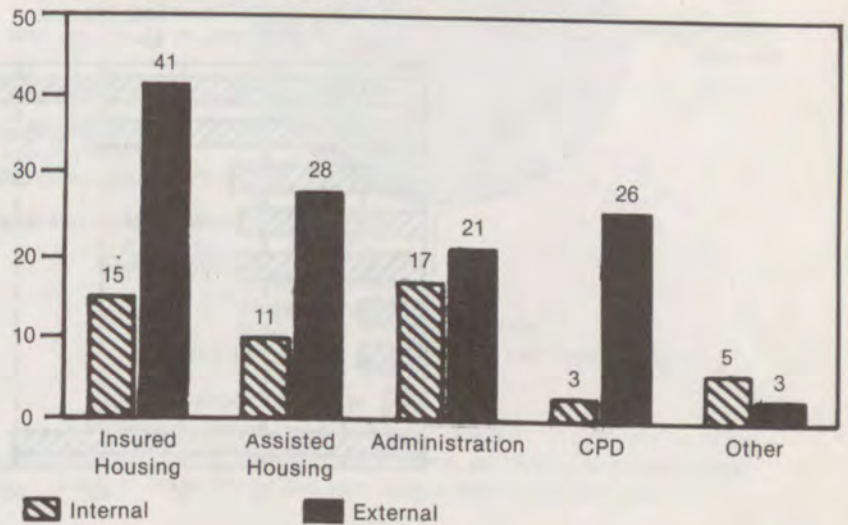
- Audit findings unresolved at 10/1/85 = 1,378
- Audit findings issued during the period = 2,490
- Audit findings resolved during the period = 2,500
- Audit findings unresolved at 3/31/86 = 1,368
- Audit findings unresolved over 6 months old = 136 (\$11.6 million)

Audit Resources and Results

**Distribution of Audit Staff Time
By Program Area and Type of Audit**
October 1, 1985 through March 31, 1986



Distribution of Audit Reports Issued by Program Area and Type of Audit
October 1, 1985 through March 31, 1986

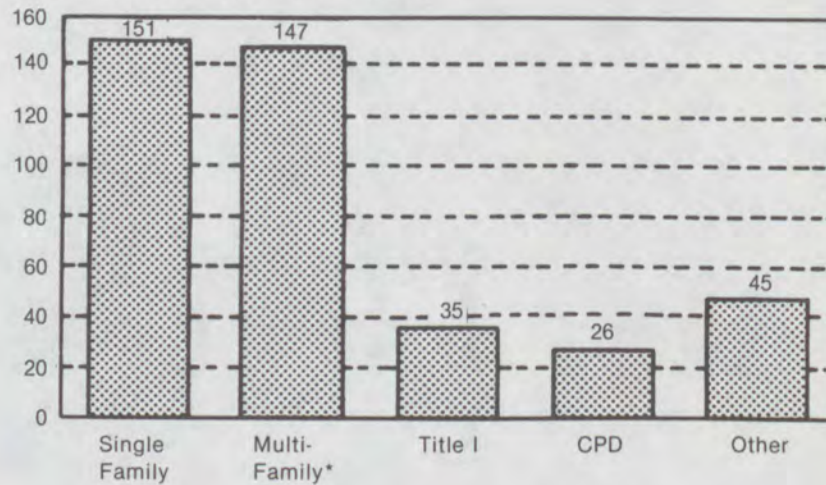


Investigation Cases Opened

The following tables show a breakdown of the 641 investigation cases opened during the last 6

months. Of these cases, 404 involved false statement violations as shown below.

False Statement Investigation Cases Opened
October 1, 1985 through March 31, 1986

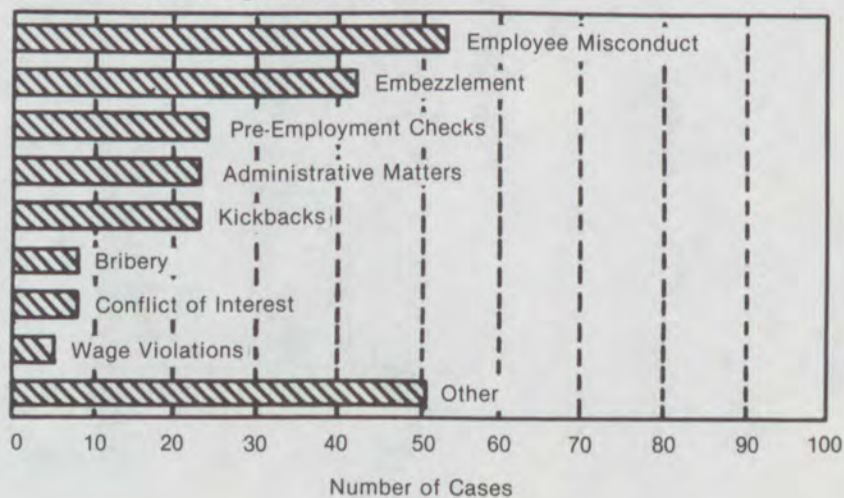


*The cases opened in the multifamily area include investigations of individual tenants in HUD's rental assistance programs.

The following table depicts the types of alleged violations involved

in the remaining 237 cases that were opened.

Other Categories of Investigations
October 1, 1985 through March 31, 1986



Pending Cases

At March 31, 1986, we had 1,660 investigation cases either in process or awaiting investigation. Of these cases, 603 were

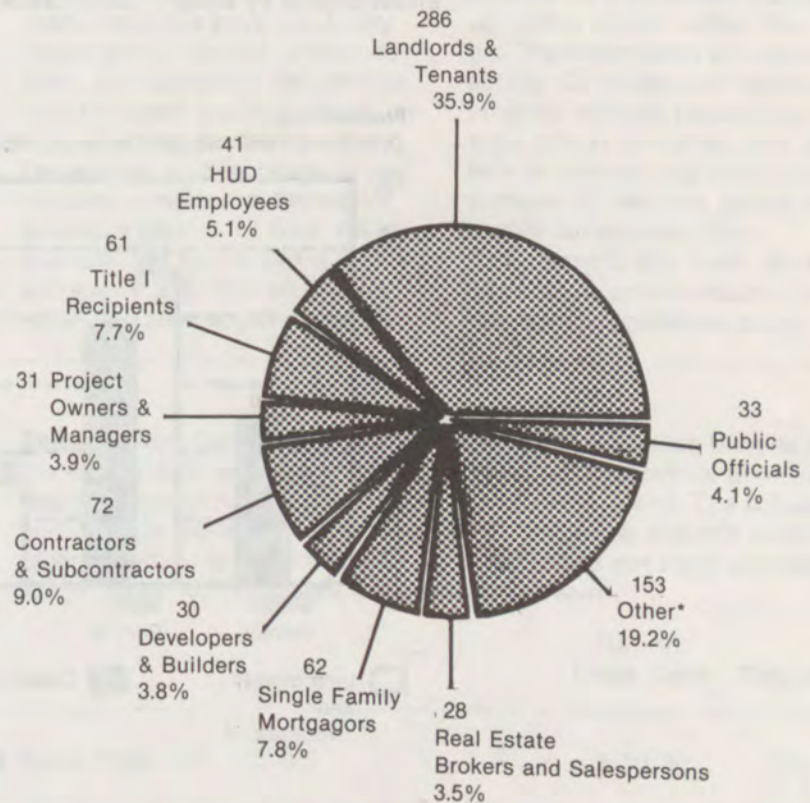
FBI/other cases, 737 were cases of the OIG, and 320 were completed cases pending with the U.S. Attorney.

Closed Cases

The OIG closed 693 investigation cases during the reporting period. The 693 cases closed involved 797 individuals and firms who were the

subjects of the investigations. The following graph represents a breakdown of the subjects.

Distribution of Subjects of Investigation by Category
October 1, 1985 through March 31, 1986



*The "Other" group includes a wide diversity of subjects such as architects, Area Management Brokers, and Title I dealers/lenders. Each of these comprises less than 2 percent of the total.

**Investigation Cases
Referred for
Prosecution**

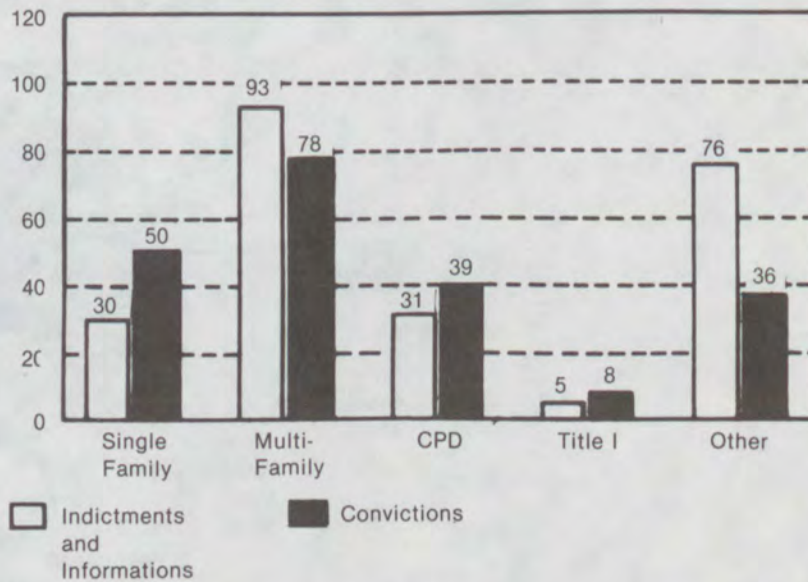
The OIG referred 204 investigation cases for prosecutive consideration as follows:

| Referred by OIG to: | No. of Cases |
|-------------------------------------|--------------|
| FBI (Prima Facie-OIG Investigation) | 8 |
| FBI (No OIG Investigation) | 63 |
| Department of Justice | 133 |
| Total | 204 |

Prosecutions

The following table illustrates the program areas in which indictments and convictions occurred during the past 6 months. There were 235 indictments and 211 convictions. Of these totals, 155 indictments and 175 convictions resulted from work done by the OIG alone or jointly with other investigative agencies; 80 indictments and 36 convictions resulted from investigations by other Federal, State, or local agencies.

Prosecutions
October 1, 1985 through March 31, 1986



Chapter 6

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.

Follow-up on Audit Findings

We performed a review of audit findings resolved on the basis of HUD program managers' promised corrective actions in all Regions and Headquarters. The purpose of the review was to determine whether existing policies, procedures and practices resulted in timely and adequate implementation of promised corrective actions. We found that some program managers have not timely implemented audit recommendations. Consequently, deficiencies noted in audit findings remain uncorrected and monies due the Department and/or program participants remain uncollected for excessive periods of time. As an example, we found that it took an average of 334 days after audit report issuance to complete

promised action. Additionally, disallowed costs of \$37.9 million remained unrecovered in excess of 6 months.

We attribute the lack of timely corrective action to: (1) program managers' emphasis on resolution of audit findings (agreement between program and audit officials on a proposed course of corrective action) rather than actual implementation of corrective action; (2) inadequate training of program officials responsible for audit liaison functions; and (3) lack of uniform and complete systems to track the status of corrective actions until fully implemented. Our draft report contains recommendations for appropriate corrective action.

Previously Reported Items—Corrective Action Not Completed

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. The following audit reports 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.

| Report Number | Title | Report | |
|----------------|--|------------|-------------|
| | | Issue Date | Target Date |
| 80-SF-244-1018 | City of Santa Paula, CA - CDBG | 7/10/80 | 5/31/86 |
| 82-TS-111-0001 | Section 236 Rental Income | 11/6/81 | 9/30/86 |
| 82-CH-212-1062 | Yellowbird Limited, Xenia, Ohio | 5/19/82 | 2/ |
| 82-PH-202-2270 | The Philadelphia Housing Authority Philadelphia, Pennsylvania | 5/28/82 | 1/ 2/ |
| 82-TS-111-0008 | Management Input Into Processing Multifamily Housing Projects | 7/12/82 | 12/31/86 5/ |
| 82-PH-161-0009 | Regional Accounting Division Operations | 8/11/82 | 8/ |

| Report Number | Title | Report Issue Date | Target Date |
|----------------|--|-------------------|-------------|
| 83-CH-241-1008 | Athens County, Ohio | 12/23/82 | 2/ |
| 83-CH-212-1028 | Mid-Towne Apts., Cincinnati, Ohio | 2/23/83 | 2/ |
| 83-AT-221-1017 | Henderson Heights, Ltd. | 4/7/83 | 5/30/86 13/ |
| 83-BO-202-1013 | Providence, RI Housing Authority | 5/6/83 | 6/ |
| 83-TS-145-0007 | Lump Sum Drawdowns for CDBG Rehabilitation Financing | 5/11/83 | 6/30/86 5/ |
| 83-KC-241-1014 | Review of CDBG Program Kansas City, Missouri | 5/13/83 | 3/ |
| 83-AT-201-1039 | Memphis Housing Authority Low-Income Housing Programs | 8/19/83 | 6/30/86 2/ |
| 83-CH-201-1051 | Low-Income Housing Program Detroit Housing Department | 8/26/83 | 7/ |
| 84-AT-203-1003 | Housing Authority of the Birmingham District, Birmingham, AL, Section 8 Moderate Rehabilitation Program | 10/21/83 | 2/ |
| 84-BO-212-1005 | Third Stone Ridge Cooperative Corp. | 12/21/83 | 2/ |
| 84-TS-101-0004 | Income Projections Used By Public Housing Authorities Under the Performance Funding System | 1/20/84 | 3/ |
| 84-NY-241-1013 | Community Development Block Grant Program, Municipality of Ponce, PR | 2/13/84 | 9/10/86 2/ |
| 84-AT-242-1012 | City of Charlotte, NC Urban Development Action Grant Program | 2/14/84 | 5/31/86 |
| 84-BO-212-1009 | Barbour-Waverly Cooperative Apts., Inc. | 2/28/84 | 10/1/86 |
| 84-AO-108-0003 | Review of HUD's Consolidated Supply Program | 3/14/84 | 10/31/86 |
| 84-CH-241-1011 | Community Development Block Grant and Urban Development Action Grant Programs, City of Detroit, Michigan | 3/30/84 | 8/30/86 |
| 84-SE-241-1004 | Community Development Block Grant Program, City of Portland, Oregon | 3/30/84 | 5/5/86 |
| 84-SE-203-1003 | Housing Authority of the City of Bellingham, Washington, Section 8 Moderate Rehabilitation Program | 3/30/84 | 5/31/86 |
| 84-AT-203-1021 | Winston-Salem, NC PHA | 4/18/84 | 6/30/86 |
| 84-TS-112-0006 | Promissory Notes and Working Capital Deposits | 5/8/84 | 5/1/86 |

| Report Number | Title | Report Issue Date | Target Date |
|--------------------|--|-------------------|---------------|
| 84-PH-202-1018 | Baltimore, MD - Section 8 | 6/7/84 | 2/ |
| 84-AO-171-0007 | Monitoring of Cost Controls - GNMA | 6/14/84 | 8/31/86 |
| 84-PH-202-1012 | Philadelphia, PA - Section 8 | 6/14/84 | 9/30/86 5/ |
| 84-NY-241-1038 | Toa Baja, PR - CDBG | 6/15/84 | 2/ |
| 84-SF-201-1019 | San Francisco PHA | 6/20/84 | 3/31/91 |
| 84-AT-203-1028 | Greenville, SC - Section 8 | 6/29/84 | 6/30/86 |
| 84-TS-113-0009 | Monitoring of Multifamily Management Agents | 7/3/84 | 7/1/86 |
| 84-AT-203-1033 | Dade County, FL - Section 8 | 8/1/84 | 9/30/86 |
| 84-PH-201-2303 | Philadelphia, PA - PHA | 8/10/84 | 4/ |
| 84-PH-201-1020 | Washington, DC - PHA | 8/17/84 | 11/ |
| 84-PH-242-1021 | Pittsburgh, PA - CPD | 8/30/84 | 7/31/86 2/ |
| 84-TS-112-0014 | Identifying Physically Troubled Projects | 9/5/84 | 6/6/86 |
| 84-TS-144-0015 | Use of Escrow Accounts - CDBG | 9/7/84 | 7/ |
| 84-BO-151-0004 | Monitoring of 213 Early Closeout | 9/21/84 | |
| 85-NY-214-1002 | Metro Interfaith Management Corp. | 10/23/84 | 2/ |
| 85-NY-241-1004 | Municipality of San Juan, PR - CDBG | 10/26/84 | 2/ |
| 85-SF-203-1003 | Contra Costa, CA Housing Authority | 11/8/84 | 9/ |
| 85-AT-241-1007 | Community Development Block Grant Program, Palm Beach Co., Division of Housing and Community Development, West Palm Beach, Florida | 11/29/84 | 6/16/86 |
| 85-TS-123-0002 | Single Family Bulk Sales | 11/30/84 | 4/ |
| 85-SE-111-0002 | Property Taxes on Multifamily Projects | 12/24/84 | 4/4/87 |
| 85-CH-212-1006 | Multifamily Mortgage Insurance Yellowbird Limited, Xenia, Ohio | 1/18/85 | 6/30/86 |
| 85-PH-214/249-1004 | City of Charleston, West Virginia CDBG | 1/25/85 | 6/30/86 2/ 5/ |
| 85-KC-142-0002 | State Administration of CDBG Small Cities Program | 2/1/85 | 2/ |
| 85-PH-203-1005 | Philadelphia Housing Authority, Section 8 Existing Housing Program | 2/8/85 | 5/30/86 2/ |

| Report Number | Title | Report Issue Date | Target Date |
|----------------|--|-------------------|----------------------|
| 85-BO-201-1004 | Boston Housing Authority, Section 8 Moderate Rehabilitation Program | 2/15/85 | 8/30/86 |
| 85-CH-212-1008 | Multifamily Mortgage Insurance Program, Sections 220 and 236, Cedar Square West Apts., Minneapolis, MN | 2/28/85 | 7/1/87 ^{2/} |
| 85-SF-203-1008 | Community Development Commission, County of Los Angeles, CA, Section 8 Moderate Rehabilitation Program | 3/11/85 | 4/30/86 |
| 85-TS-121-0009 | Shared Equity | 3/29/85 | ^{4/} |
| 85-DE-202-1003 | Crow Creek Housing Authority | 4/26/85 | ^{12/} |
| 85-SF-212-1010 | Central Towers | 4/30/85 | 6/30/86 |
| 85-BO-244-1011 | City of Marlborough, Massachusetts | 5/16/85 | 5/15/86 |
| 85-AT-203-1016 | State of Florida Section 8 Moderate Rehabilitation Program | 5/20/85 | 6/30/86 |
| 85-NY-212-1052 | The Angelique Inc., Madison Terrace, Inc., and Turian House, Inc. | 5/31/85 | ^{2/} |
| 85-AT-203-1018 | Elizabethton, Tennessee Housing Development Agency Section 8 Existing Program | 6/5/85 | 5/5/86 ^{4/} |
| 85-AT-242-1019 | Macon, GA UDAG | 6/26/85 | 4/30/86 |
| 85-NY-241-1054 | Niagara Falls, NY CDBG | 7/3/85 | ^{1/} |
| 85-SE-101-0003 | Development of Indian Housing - Region X | 7/12/85 | 12/31/86 |
| 85-BO-111-0007 | Property Taxes on Multifamily Projects - Region I | 7/26/85 | 5/27/86 |
| 85-SE-203-1003 | Section 8 Housing Assistance Payments - Oregon State Housing Division | 7/31/85 | ^{12/} |
| 85-PH-242-1013 | Baltimore, MD UDAG | 8/9/85 | ^{2/} |
| 85-SE-241-1005 | CDBG Activities - Snohomish County | 8/16/85 | 7/21/86 |
| 85-BO-203-1012 | Section 8 Existing Housing Program - State of Connecticut | 9/6/85 | 7/15/86 |
| 85-AT-101-0006 | Computation of Target Investment Income and Allowable Utility Expense Under the PFS | 9/11/85 | 7/31/86 |
| 85-CH-214-1017 | Multifamily Mortgage Insurance - Promex Midwest Management Corp. | 9/19/85 | ^{7/} |

| Report Number | Title | Report Issue Date | Target Date |
|--------------------|---|-------------------|-------------|
| 85-AO-161-0203 | Audit of Section 312 Rehab Loan Program | 9/23/85 | 4/15/87 |
| 85-BO-203-1014 | Section 8 Existing Housing Program Fall River, Mass., Housing Authority | 9/24/85 | 9/30/86 |
| 85-AO-161-0204 | Audit of Nonprofit Sponsor Assistance Fund | 9/25/85 | 4/22/86 |
| 85-AO-161/111-0205 | Rental Housing Assistance Fund | 9/30/85 | 9/30/86 |
| 85-PH-101-0003 | Calculation of Target Investment Income and Allowable Utility Expense Under PFS | 9/30/85 | 10/ |

Footnotes:

- 1/ Numerous findings were repeated in an audit report issued during a subsequent 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 by HUD Audits Management System.
- 5/ Target date extended from previously reported date due to changes in scope or dates for implementing automated system or delays in obtaining clearance of revised regulations/guidance.
- 6/ PHA went bankrupt.
- 7/ Promised implementation dates not met.
- 8/ Implementation has not been verified.
- 9/ Findings to be reopened based on post audit verification.
- 10/ Findings have been partially resolved. Management continues to work on remaining issues.
- 11/ Special task force evaluating PMA's outstanding problems identified in audit report. Task force report due 4/30/86.
- 12/ Departmental officials have agreed with findings and recommendations; however, auditee has not implemented them.
- 13/ Findings reopened due to impasse with Field Office.

Appendix 1

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

Internal Audit and Survey Reports

| Report Number | Report Title | Issue Date |
|----------------|--|------------|
| <i>Housing</i> | | |
| 86-AO-121-0802 | Single Family Direct Endorsement Program | 11/20/1985 |
| 86-AT-123-0801 | Inadequate Accountability Monitoring of Area Management Brokers | 11/08/1985 |
| 86-BO-101-0002 | Management of the Assisted Housing Monitoring Function | 03/17/1986 |
| 86-BO-113-0003 | Property Disposition Branch Contracting Activities | 03/31/1986 |
| 86-BO-113-0802 | Multifamily Property Disposition Activities | 03/28/1986 |
| 86-CH-101-0801 | Accountability Monitoring: Pontiac, Michigan | 02/05/1986 |
| 86-CH-121-0802 | Section 235 Program | 02/10/1986 |
| 86-CH-101-0803 | Accountability Monitoring Review of Public Housing Authorities Requisition and Use of Comprehensive Improvement Assistance Funds | 03/10/1986 |
| 86-FW-111-0001 | Deposit and Use of Reserve for Replacement Funds - Region VI | 10/04/1985 |
| 86-KC-121-0001 | Single Family Direct Endorsement | 03/21/1986 |
| 86-KC-101-0802 | PHA Activities - Untimely Billing of Residuals | 03/27/1986 |
| 86-NY-111-0001 | Deposit and Use of Reserve for Replacement Funds - Region II | 12/10/1985 |
| 86-PH-111-0001 | Deposit and Use of Reserve for Replacement Funds - Region III | 10/31/1985 |
| 86-PH-182-0002 | Limited Review of Tenant Eligibility | 02/14/1986 |
| 86-SF-112-0001 | Title X Land Development | 10/31/1985 |
| 86-SF-101-0002 | Development of Indian Housing | 11/22/1985 |
| 86-SF-101-0003 | Computation of Target Investment Income & Allowable Utility Expense under Performance Funding System | 12/17/1985 |
| 86-TS-101-0001 | Turnkey III Homeownership Opportunities Program | 10/01/1985 |
| 86-TS-101-0002 | Distribution of Subsidies for Costs Beyond Control | 10/15/1985 |
| 86-TS-112-0004 | Section 223(f) Coinsurance Program | 11/05/1985 |
| 86-TS-121-0007 | Single Family Direct Endorsement Program | 11/29/1985 |
| 86-TS-111-0009 | Property Taxes on Multifamily Projects | 01/07/1986 |
| 86-TS-122-0010 | Title I Property Improvement Loan Insurance Program (Dealer Loans) | 02/28/1986 |

| Report Number | Report Title | Issue Date |
|---|---|------------|
| 86-TS-101-0011 | Development Project - Chicago Housing Authority | 03/27/1986 |
| 86-TS-112-0012 | Title X Mortgage Insurance for Land Development Program | 03/31/1986 |
| 86-TS-101-0013 | National Report on Computation of Target Investment Income and Allowable Utility Expense Under the Performance Funding System | 03/31/1986 |
| <i>Community Planning and Development</i> | | |
| 86-BO-143-0801 | Controls over Use of Loan Repayments in the Urban Development Action Grant Program | 03/21/1986 |
| 86-TS-145-0008 | National Report: Effectiveness of CPD Program Performance/Accountability Monitoring of Grantees | 12/02/1985 |
| 86-TS-143-0810 | Common Problems Found in Urban Development Action Grant Program Audits | 02/07/1986 |
| <i>Administration</i> | | |
| 86-AA-166-0001 | Budgeting and Charging for ADP Services | 01/07/1986 |
| 86-AO-169-0001 | HUD's Implementation of OMB Circulars A-123 & A-127 & the Federal Managers' Financial Integrity Act | 11/19/1985 |
| 86-AO-165-0002 | Review of Federal Telecommunications System | 03/26/1986 |
| 86-AO-169-0003 | Effectiveness of Resolving Audit Findings on Promised Actions | 03/28/1986 |
| 86-AO-161-0201 | Interstate Land Sales Fund | 11/06/1985 |
| 86-AO-165-0801 | The HUD IDEAS Program | 10/21/1985 |
| 86-AT-169-0002 | Effectiveness of Resolving Audit Findings on Promised Actions | 12/27/1985 |
| 86-BO-169-0001 | Effectiveness of Resolving Findings on Promised Actions - Boston | 01/08/1986 |
| 86-CH-169-0001 | Effectiveness of Resolving Findings on Promised Actions - Chicago | 01/15/1986 |
| 86-DE-169-0803 | Effectiveness of Resolving Findings on Promised Actions - Detroit | 12/20/1985 |
| 86-KC-169-0801 | Effectiveness of Resolving Findings on Promised Actions - Kansas City | 12/13/1985 |
| 86-NY-169-0002 | Effectiveness of Resolving Findings on Promised Actions - New York | 01/08/1986 |
| 86-SE-169-0801 | Effectiveness of Resolving Findings on Promised Actions - Seattle | 12/30/1985 |
| 86-SE-169-0802 | Section 8 Accounting System | 03/21/1986 |
| 86-SF-169-0004 | Effectiveness of Resolving Findings on Promised Actions - San Francisco | 03/17/1986 |
| 86-TS-161-0003 | Regional Accounting Division Operations and Related Programmatic Practices | 10/31/1985 |
| 86-TS-161-0006 | Control Over and Accountability for Securities | 11/18/1985 |

| Report Number | Report Title | Issue Date |
|----------------|--|------------|
| <i>Other</i> | | |
| 86-AO-179-0803 | Solar Energy and Energy Conservation Bank | 01/31/1986 |
| 86-AT-179-0001 | Monitoring and Enforcement of Labor Standards - Region IV | 11/08/1985 |
| 86-DE-179-0801 | Survey of HUD's Fargo, N.D. Field Office | 10/23/1985 |
| 86-DE-179-0802 | Survey of HUD's Sioux Falls, S.D. Field Office | 10/25/1985 |
| 86-TS-179-0005 | National Report: Monitoring and Enforcement of Labor Standards | 11/06/1985 |

External Audit and Accounting System Evaluation Reports

| Report Number | Report Title | Location | Issue Date |
|----------------|---|-------------------|------------|
| <i>Housing</i> | | | |
| 86-AT-202-1002 | Low-Income Housing Activities | Darlington SC | 10/11/1985 |
| 86-AT-202-1003 | Low-Income Housing Activities and Mutual Help Homeownership Opportunity Program | Eutaw AL | 10/23/1985 |
| 86-AT-222-1004 | Area Management Broker - Hartman Realty Company | Forest Park GA | 11/08/1985 |
| 86-AT-203-1006 | Sec. 8 Moderate Rehabilitation Chattanooga Housing Authority | Chattanooga TN | 12/18/1985 |
| 86-AT-202-1801 | Low-Income Housing Activities Housing Authority of Greene Co. | Eutaw AL | 10/23/1985 |
| 86-AT-229-1802 | Single Family Property Disposition Margaret M. Mills, Atty. | Greenville SC | 03/18/1986 |
| 86-BO-203-1004 | Sec. 8 Existing Housing Program Commonwealth of Massachusetts | Boston MA | 02/07/1986 |
| 86-BO-201-1005 | Housing Authority of New Haven Low-Income Housing Program | New Haven CT | 03/27/1986 |
| 86-CH-203-1001 | Cincinnati Metro Hsg Authority | Cincinnati OH | 11/08/1985 |
| 86-CH-202-1003 | Pontiac Housing Commission | Pontiac MI | 01/10/1986 |
| 86-CH-212-1004 | Multifamily Mortgage Insurance Canterbury Homes | Beloit WI | 02/04/1986 |
| 86-CH-201-1005 | Cuyahoga Metro. Housing Authority | Cleveland OH | 03/14/1986 |
| 86-DE-203-1001 | Sec. 8 Existing Housing Program Salt Lake City Housing Authority | Salt Lake City UT | 01/29/1986 |
| 86-DE-212-1002 | Independence Village | Fruita CO | 03/28/1986 |
| 86-FW-202-1001 | Low-Income & Mutual Help Housing Ponca Tribal Housing Authority | Ponca Tribe OK | 01/09/1986 |

| Report Number | Report Title | Location | Issue Date |
|----------------|--|------------------------------------|------------|
| 86-FW-202-1801 | Cash Receipts from Tenants Housing Authority of Pittsburg | Pittsburg TX | 03/20/1986 |
| 86-KC-202-1003 | Brunswick Housing Authority | Brunswick MO | 01/08/1986 |
| 86-KC-211-1005 | Hidden Valley Estates | Wentzville MO | 02/19/1986 |
| 86-KC-202-1006 | Osborne Housing Authority | Osborne KS | 02/25/1986 |
| 86-KC-202-1007 | Housing Authority of Kansas City | Kansas City MO | 03/28/1986 |
| 86-KC-202-1801 | Housing Authority of Junction City | Junction City KS | 10/18/1985 |
| 86-KC-212-1802 | Park Tower Gardens | Kansas City MO | 12/18/1985 |
| 86-KC-202-1803 | Housing Authority of Grundy County | Grundy County MO | 02/06/1986 |
| 86-KC-213-1804 | Brush Creek and Regency Village | Kansas City MO | 02/19/1986 |
| 86-KC-212-1805 | Linwood Hills | Kansas City MO | 02/26/1986 |
| 86-NY-212-1005 | Schoolhouse Road Estates | Ramapo NY | 10/31/1985 |
| 86-NY-229-1008 | Modell's Shopper's World Home | East Meadow NY | 11/20/1985 |
| 86-NY-203-1801 | Housing Authority of Bergen County | Hackensack NJ | 03/17/1986 |
| 86-PH-203-1001 | Richmond Redevelopment & Housing Authority | Richmond VA | 12/06/1985 |
| 86-PH-203-1002 | Delaware County Housing Authority | Delaware Co. PA | 01/24/1986 |
| 86-SE-212-1001 | A. M. E. Church Housing Corp. | Seattle WA | 10/04/1985 |
| 86-SE-202-1002 | Indian Housing Authority Fort Hall Housing Authority | Fort Hall Indian Reservation ID | 01/31/1986 |
| 86-SE-201-1003 | Seattle Housing Authority | Seattle WA | 02/21/1986 |
| 86-SF-202-1001 | Butte County Housing Authority | Chico CA | 10/29/1985 |
| 86-SF-203-1002 | Oakland Housing Authority | Oakland CA | 11/15/1985 |
| 86-SF-212-1003 | Pittsburg Plaza Multifamily Proj. | Pittsburg CA | 11/29/1985 |
| 86-SF-221-1004 | Mortgage America | Clark County NV | 12/16/1985 |
| 86-SF-214-1005 | The Western Group | Fresno CA | 12/17/1985 |
| 86-SF-212-1006 | Dorie Miller Manor | Los Angeles CA | 12/17/1985 |
| 86-SF-212-1009 | Woodside Apartments | Davis CA | 01/21/1986 |
| 86-SF-204-1010 | Navajo Housing Authority | Window Rock AZ | 02/12/1986 |
| 86-SF-214-1011 | Pico Union Management Corporation | Los Angeles CA | 02/27/1986 |
| 86-SF-202-1013 | Zuni Housing Authority | Zuni Pueblo Indian Res. NM | 03/11/1986 |

| Report Number | Report Title | Location | Issue Date |
|---|--|------------------|------------|
| 86-SF-203-1014 | Berkeley Housing Authority | Berkeley CA | 03/27/1986 |
| 86-TS-229-1002 | Vermont Federal S & L Association | Lutherville MD | 10/09/1985 |
| 86-TS-209-1003 | Contract for Turnkey Project 4-37 | New Haven CT | 10/15/1985 |
| 86-TS-229-1005 | Marquette National Bank | Chicago IL | 11/29/1985 |
| 86-TS-229-1006 | Indiana State Bank | Terre Haute IN | 12/03/1985 |
| 86-TS-229-1007 | Pioneer Bank & Trust Company | Chicago IL | 12/05/1985 |
| 86-TS-221-1008 | FirsTier Mortgage Company | Omaha NE | 12/20/1985 |
| 86-TS-229-1009 | Statewide Savings and Loan | Jersey City NJ | 12/26/1985 |
| 86-TS-221-1010 | Investor's Mortgage Service Co. | Burbank CA | 12/27/1985 |
| 86-TS-229-1011 | Commercial National Bank | Berwyn IL | 01/03/1986 |
| 86-TS-229-1012 | Boatmen's Bank & Trust | Kansas City MO | 01/07/1986 |
| 86-TS-229-1013 | People's Mercantile Bank | Kansas City MO | 01/08/1986 |
| 86-TS-221-1014 | Kissell Company | Springfield OH | 01/24/1986 |
| 86-TS-229-1015 | Bank of Indiana | Merrillville IN | 01/24/1986 |
| 86-TS-229-1016 | First Federal Savings & Loan | Minneapolis MN | 01/24/1986 |
| 86-TS-229-1017 | Citicorp Savings | Chicago IL | 01/30/1986 |
| 86-TS-221-1018 | Mortgages, Inc. | Las Vegas NV | 02/03/1986 |
| 86-TS-229-1019 | Home Federal Savings & Loan | Sioux Falls SD | 02/07/1986 |
| 86-TS-229-1020 | First Federal Savings Bank & Trust | Pontiac MI | 02/11/1986 |
| 86-TS-229-1021 | Citizens Fidelity Bank & Trust | Louisville KY | 02/11/1986 |
| 86-TS-229-1022 | First Financial Corporation | Waco TX | 02/14/1986 |
| 86-TS-229-1023 | Bank of Commerce | New York NY | 02/25/1986 |
| 86-TS-229-1025 | Security Federal Savings | Garden Grove CA | 02/26/1986 |
| 86-TS-221-1026 | Bell Funding Ltd. | Hempstead NY | 03/05/1986 |
| 86-TS-229-1027 | Northeast Savings | Boston MA | 03/06/1986 |
| 86-TS-229-1028 | Broadway Bank & Trust Company | Paterson NJ | 03/17/1986 |
| <i>Community Planning and Development</i> | | | |
| 86-AT-248-1007 | City of Riviera Beach Urban Development Action Grant | Riviera Beach FL | 03/12/1986 |
| 86-BO-242-1002 | City of New Britain Urban Development Action Grant | New Britain CT | 10/17/1985 |

| Report Number | Report Title | Location | Issue Date |
|-----------------------|---|------------------------|------------|
| 86-BO-243-1003 | Massachusetts Office of Communities & Development | Watertown MA | 11/19/1986 |
| 86-CH-242-1002 | Urban Development Action Grant | Chicago IL | 11/20/1985 |
| 86-FW-242-1003 | Urban Development Action Grant | Stilwell OK | 02/27/1986 |
| 86-FW-241-1004 | Community Development Block Grant | N. Little Rock AR | 03/10/1986 |
| 86-KC-244-1002 | Sec. 107 Technical Asst. Grant KS Dept of Economic Development | Topeka KS | 11/15/1985 |
| 86-KC-249-1004 | CDBG Activities - HDCIC, Inc. | Kansas City MO | 01/10/1986 |
| 86-NY-248-1001 | Small Cities - Rensselaer County | Troy NY | 10/03/1985 |
| 86-NY-248-1002 | Small Cities - Village of Castleton-on-Hudson | Castleton-on-Hudson NY | 10/03/1985 |
| 86-NY-241-1004 | Community Development Block Grant | Syracuse NY | 10/28/1985 |
| 86-NY-242-1006 | Urban Development Action Grant | San Juan PR | 11/12/1985 |
| 86-NY-248-1009 | Financial Mgmt System Evaluation | Catskill NY | 11/27/1985 |
| 86-NY-248-1010 | Financial Mgmt System Evaluation | New Scotland NY | 12/02/1985 |
| 86-NY-248-1011 | Financial Mgmt System Evaluation | Frankfort NY | 12/02/1985 |
| 86-NY-248-1012 | Financial Mgmt System Evaluation | Ticonderoga NY | 12/02/1985 |
| 86-NY-248-1013 | Fin Mgmt Sys Eval - Fulton County | Gloversville NY | 12/02/1985 |
| 86-NY-248-1014 | Financial Mgmt System Evaluation | Warrensburg NY | 12/02/1985 |
| 86-NY-248-1015 | Financial Mgmt System Evaluation | Greenwich NY | 12/02/1985 |
| 86-NY-248-1016 | Financial Mgmt System Evaluation | Valatie NY | 12/19/1985 |
| 86-NY-248-1017 | Financial Mgmt System Evaluation Town of Middletown | Margaretville NY | 12/19/1985 |
| 86-NY-242-1019 | Urban Development Action Grant & Low-Income Housing | Salem NJ | 01/21/1986 |
| 86-NY-248-1020 | Small Cities | Newport Town NY | 02/06/1986 |
| 86-NY-248-1021 | Small Cities | Crown Point NY | 02/07/1986 |
| 86-NY-243-1024 | Community Development Block Grant | Naranjito PR | 03/27/1986 |
| 86-PH-249-1003 | Urban Redevelopment Authority | Pittsburgh PA | 02/26/1986 |
| <i>Administration</i> | | | |
| 86-AO-261-1001 | Center for Resource Development | Washington DC | 10/18/1985 |
| 86-AO-261-1002 | National Alliance of Business | Washington DC | 10/23/1985 |

| Report Number | Report Title | Location | Issue Date |
|----------------|--|----------------|------------|
| 86-AO-261-1003 | Natl Assn of Development Agencies | Washington DC | 10/31/1985 |
| 86-AO-261-1004 | Quadel Consulting Corporation | Bethesda MD | 12/05/1985 |
| 86-AO-261-1005 | Quadel Consulting Corporation | Bethesda MD | 12/05/1985 |
| 86-AO-261-1006 | National Urban Coalition | Washington DC | 01/23/1986 |
| 86-AO-261-1007 | Natl Assn of Towns & Townships | Washington DC | 02/28/1986 |
| 86-AO-262-1008 | Comprehensive Marketing System | Washington DC | 03/07/1986 |
| 86-AO-261-1009 | National Council for Urban Economic Development | Washington DC | 03/21/1986 |
| 86-AT-261-1005 | United Schools of America, Inc. | Miami FL | 11/13/1985 |
| 86-BO-261-1001 | Council for Economic Action | Boston MA | 10/08/1985 |
| 86-FW-262-1002 | Mexican American Research Center | Austin TX | 01/10/1986 |
| 86-KC-262-1001 | St. Louis Cooperative Agreement | St Louis MO | 11/08/1985 |
| 86-NY-262-1003 | National Development Council | New York NY | 10/07/1985 |
| 86-NY-262-1007 | National Development Council | New York NY | 11/08/1985 |
| 86-NY-262-1018 | National Urban League | New York NY | 12/24/1985 |
| 86-NY-262-1022 | New York City Partnership | New York NY | 02/28/1986 |
| 86-NY-261-1023 | Pratt Institute Center | Brooklyn NY | 03/05/1986 |
| 86-SF-262-1007 | Cooperative Agreement | Phoenix AZ | 01/08/1986 |
| 86-SF-262-1008 | Cooperative Agreement | Los Angeles CA | 01/17/1986 |
| 86-SF-262-1012 | California Department of Housing and Community Services | Sacramento CA | 03/04/1986 |
| <i>Other</i> | | | |
| 86-TS-271-1001 | GNMA Mortgage-Backed Securities Fleet Mortgage Corp | Milwaukee WI | 10/03/1985 |
| 86-TS-271-1004 | GNMA Issuer: Homestead Savings | Burlingame CA | 10/18/1985 |
| 86-TS-271-1024 | GNMA Issuer: Security Pacific Mtg. | Denver CO | 02/25/1986 |

Fraud Awareness Publications

Fraud Information Bulletins (FIBs)

- 80-1 Section 8 - Administration
- 80-2 Standards of Conduct
- 81-1 Procurement - Contract Award Process
- 81-2 Multifamily Mortgage Operations
- 81-3 Procurement - Contract Administration
- 81-4 Rehabilitation Activities
- 81-5 Single Family - Underwriting for Mortgage Insurance
- 82-1 Departmental Efforts to Combat Fraud and Abuse
- 82-2 Single Family Property Disposition Program - Repair and Maintenance Activities
- 83-1 Accountability Monitoring
- 83-2 Travel
- 83-3 Administrative Sanctions
- 83-4 Subgrantees - Problems and Abuses
- 84-1 Time and Attendance and Leave Abuse
- 84-2 The HUD Hotline
- 84-3 Improving Internal Controls
- 84-4 Conventional Low-Rent Housing Program
- 84-5 Tenant Eligibility
- 84-6 Diversion of Funds from Multifamily Projects
- 85-1 Employee Conduct
- 85-2 Computer Matching

Program Integrity Bulletins (PIBs)

- P-86-1 Public Housing Agency Commissioners and the Low-Income Housing Program
- P-86-2 Asset Management
- P-86-3 Title I
- P-86-4 Mortgagee Review Board

If you would like a copy of any of these Bulletins, please write to the:

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Office of Inspector General, HUD
451 Seventh Street, S.W., Room 8254
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