



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

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# Office of Inspector General Report to the Congress

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Number 18

for the 6-month period  
April 1, 1987 through September 30, 1987  
Pursuant to Section 5(b)  
of Public Law 95-452



## PROFILE OF PERFORMANCE

Department of Housing and Urban Development

### Office of Inspector General Activities

	April 1, 1987 through September 30, 1987	Fiscal Year 1987
• Cash Recoveries/Savings	\$33,575,948	\$55,422,428
• Commitments to Recover Funds	\$32,770,106	\$57,326,643
• Cost Efficiencies	\$18,009,993	\$36,978,486
• Total Fines Levied	\$703,450	\$949,546
• Persons/Firms Indicted (Convicted)	229(174)	362(326)
• HUD Employees Indicted (Convicted)	1(1)	2(3)
• Debarments of Persons/Firms Doing Business with HUD	100	189
• Suspensions of Persons/Firms Doing Business with HUD	197	252
• Mortgagees/Lenders Sanctioned as Result of Referrals to HUD Mortgagee Review Board	20	33
• Subpoenas Served	44	80
• Awareness Publications Issued	9	12
• Proposed Legislation and Regulations Reviewed	75	135

For additional details on OIG Audit, Investigation, and Fraud Control Activities, see Chapter 7, Statistical Summary.

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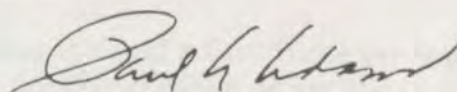
  
 Inspector General

## THE INSPECTOR GENERAL'S MESSAGE TO CONGRESS

This is our eighteenth Semiannual Report to Congress. During the 6-month reporting period, management's actions on audits and investigations resulted in cash recoveries and savings to the Department of \$33.6 million and cost efficiencies of \$18 million. Management also agreed to recover an additional \$32.8 million that we questioned and disallowed. In addition, there were 230 indictments and 175 convictions of persons or firms doing business with the Department.

This report highlights problems which continue to plague the Department's Single Family Mortgage Insurance Programs. As the reporting period closed, we intensified efforts in Denver, Colorado, to address abuses previously found in audits, investigations, and other Departmental reviews. Chapter 1 discusses these efforts and describes the serious weaknesses found during this period, as well as the administrative actions taken by HUD and prosecutive efforts by Federal, State, and local authorities. In brief, unscrupulous investors, real estate brokers, and mortgage bankers participated in Single Family fraud schemes nationwide. Our office, with Departmental assistance, launched an intense effort to address these problems. We concentrated our resources in Denver, Chicago, Los Angeles, Seattle, St. Louis, Oklahoma City, and Columbia, South Carolina. Since our last Semiannual Report, we referred 13 mortgage companies to the Department's Mortgagee Review Board for administrative sanctions and recommended 138 individuals and/or firms for debarment. We believe management's timely actions are a deterrent to fraud against the Department. We will continue to work with the Department and law enforcement agencies to seek action against those who abuse Single Family Programs.

The second major area highlighted in the report is Rental Assistance Housing Programs. We are still without legislation that would allow us to address the fraud in these programs systematically and consistently. Legislation proposed in S. 825 and H.R. 4 is needed to provide the Department with the means to detect and more importantly prevent tenant fraud. As noted in Chapter 1 under Rental Assistance, we were unable to conduct a tenant income match to Washington, D.C., wage data because we lack the necessary authorities sought in the pending legislation. The Department's inability to obtain income data contributes greatly to the estimated \$200 million lost each year to tenant fraud. On a positive note, the Department has taken a significant step by awarding a contract for a quality control system for tenant eligibility to reduce administrative error. We will continue to work with Departmental management to maintain integrity in HUD tenant eligibility and Rental Assistance Programs.



Paul A. Adams  
Inspector General

## Chapter 1

### SIGNIFICANT ACTIVITIES

This Chapter summarizes the most significant issues we dealt with during the reporting period. The Chapter contains sections on Single Family Mortgage Insurance and Rental Assistance.

#### Single Family Mortgage Insurance

Fraud and abuse in HUD's Single Family Insurance Programs continues to be a significant problem. During this reporting period, 13 mortgagee audit reports were issued to HUD's Mortgagee Review Board; several significant criminal prosecutions occurred; and the Department took administrative sanctions against persons and firms abusing its programs.

Based on prior reviews indicating widespread problems in Denver, Colorado, we took aggressive steps to curtail the problems and abuses. Since March 1986, audits and investigations in the Denver area have disclosed pervasive schemes used to obtain HUD-insured loans. The majority of these loans went to investors and were processed under HUD's Direct Endorsement Program. We estimate, based on our reviews to date, that thousands of loans are involved in these schemes.

In mid-August, we briefed the Assistant Secretary for Housing- Federal Housing Commissioner and the Deputy Under Secretary for Field Coordination. Several steps were taken or planned in an attempt to determine the extent of the problems and curb the abuses. More specifically:

- The Office of Housing instructed the Denver Regional Office to terminate direct endorsement investor loans. Effective September 10, 1987, all investor loans must be submitted to HUD for approval.
- The Offices of Housing, General Counsel and Inspector General reviewed cases for possible administrative sanctions and proposed debarments of over 60 persons/firms.
- On September 14, 1987, the Offices of Housing and Inspector General initiated reviews of approximately 20 additional lenders with high default and foreclosure rates.
- The U.S. Attorney in Denver initiated a Task Force on August 31, 1987, to review the situation for possible criminal prosecutions. FBI agents and our office will work together in this effort.

- The Office of Housing issued a press release and prepared appropriate "alert" type memoranda for mortgagee and HUD personnel that describe the prevalent schemes and the steps that can be taken to detect and prevent the schemes.

Denver was one of seven cities where our work identified patterns of problems and irregularities in the origination of FHA-insured owner/occupant and investor loans. Although the problems noted in Denver were more widespread, similar types of schemes were disclosed during investigations and audits in other cities. We plan to summarize and report the patterns and irregularities to the Assistant Secretary for Housing-Federal Housing Commissioner together with recommendations to curb the abuses.

\* \* \* \* \*

### **Audit Activities**

During this reporting period, a 15-month audit effort continued in seven cities. Our audits reported serious irregularities in the origination of HUD-insured owner/occupant and investor loans. The deficiencies were caused by mortgagees submitting inaccurate, incomplete, or false loan applications; weaknesses in HUD insurance requirements and their enforcement; and deliberate fraud and misrepresentation on the part of mortgagees, mortgagors, real estate agents, and other parties involved in the loan transactions. Thus far, 21 mortgagees have been referred to the Mortgagee Review Board for administrative sanctions and 121 individuals or companies have been recommended for debarment.

- Denver, Colorado. As mentioned above, our reviews in the Denver area have disclosed serious problems. For example, three mortgagees violated HUD requirements and prudent lending practices in originating investor loans. HUD's minimum cash investment requirement was circumvented and numerous other origination deficiencies occurred. At one mortgagee, because the branch manager was personally involved in these deceptions, we questioned the propriety of 1,891 investor loans insured by HUD for over \$116 million.

At a second mortgagee, our audit disclosed a scheme whereby a seller would purchase a small multifamily project and convert it into single family units. The mortgagee's appraisers assigned values to the individual units in the project which were double the seller's cost. The properties were then sold to companies associated with the seller, a lessor or mortgagor. The "equity" or "profit" from the purported sale was used to purchase other properties instead of paying off the HUD-insured mortgage. We believe this mortgagee originated as many as 744 questionable loans valued at \$46.2 million.

The third mortgagee improperly originated 31 HUD-insured loans valued at more than \$2 million. The mortgagee violated kickback regulations by paying finder fees and other questionable items totaling \$519,000. We estimate that HUD is at risk for over \$100 million in questionable loans originated by this mortgagee.

- Chicago, Illinois. Six mortgagees did not follow prudent lending practices and improperly originated 81 loans. Four real estate brokers falsified important information relating to employment, income, down payment, and assets during the origination of 53 of these loans.
- Los Angeles, California. Six mortgagees in Los Angeles, California, allowed other parties, such as real estate brokers, to carry out their loan processing responsibilities. We reviewed 172 loans and found: an absence of face-to-face interviews; mishandled verification forms; overstated income; false occupancy statements; non-disclosure of liabilities; and misstated assets or down payments.
- Columbia, South Carolina. A mortgagee improperly originated 921 loans. The mortgagee, in processing the loans, violated HUD single family requirements concerning refinancing, minimum investment requirements and the number of properties an individual mortgagor can hold in a subdivision. Foreclosure on these loans may cost the Department more than \$50 million in payments from the insurance fund.

Two other mortgagees improperly originated 22 loans valued at over \$821,000. These loans included false or incomplete information which caused HUD to approve them for insurance.

- Oklahoma City, Oklahoma. Two investor groups used strawbuyers to obtain 106 loans valued at \$4.5 million. The strawbuyers did not make cash investments and many were paid 1 percent of the loan amount as compensation. Many of the properties were subsequently sold by simple assumption.

At another mortgagee, a builder, acting as a seller, used strawbuyers to obtain 24 HUD-insured loans valued at \$1.3 million. The builder needed to sell the properties to pay off his construction loans on the properties.

- Seattle, Washington. Two mortgagees improperly originated 21 loans. They did not follow HUD requirements and prudent lending practices. In the loans reviewed, we found an absence of face-to-face interviews; understated liabilities; and inaccurate credit and employment information.
- St. Louis, Missouri. At one mortgagee, we identified a mortgagor who purchased several properties through various mortgage companies. Prior to purchasing each property as an owner-occupant, the mortgagor found a potential tenant and collected a security deposit. The mortgagor qualified for each property by obtaining false verifications of employment through family members. After closing, the mortgagor leased the property, collected rents and failed to make the mortgage payments.

At a second mortgagee, we identified 18 mortgages with serious underwriting deficiencies. Additionally, the mortgagee's president owned the settlement company that closed the loans. Information on some of the closing statements was falsified.



### Investigation Activities

During the reporting period, 65 individuals/firms were charged and 54 were convicted for fraudulent activities in connection with Single Family Mortgage Insurance Programs. As a result, fines totaling \$553,025 were levied and an additional \$2,851,226 was recovered.

The fraud schemes generally fell into two distinct categories: loan origination and equity skimming. Investors and speculators are often involved in both types. Some of our more significant investigative cases follow:

- The ongoing joint HUD-OIG, Veterans Administration (VA) OIG and Federal Bureau of Investigation (FBI) task force investigation in the Washington, D.C., area has resulted in 12 convictions. During this reporting period, 11 individuals were sentenced. A Washington, D.C., real estate speculator, a VA fee appraiser, and a settlement attorney were convicted of charges under the Racketeer Influenced and Corrupt Organizations (RICO) statute. These individuals are the first to be convicted under the RICO statute for fraud in HUD's Single Family Programs. The speculator purchased properties, and using inflated appraisals provided by his father/appraiser, resold the properties at much higher prices to strawbuyers who were recruited with the promise of kickbacks. He was able to hide the kickbacks through the use of his brother-in-law/settlement attorney, who falsified loan settlement documents.

In total, there were 12 individuals sentenced in this case. They were sentenced to 42 years in jail, 22 years probation, and 350 hours of community service; fined \$194,000; and required to make restitution of \$652,987 and forfeitures of \$323,902 under the RICO statute. Three of the individuals were suspended and three were debarred from doing business with HUD. (United States vs. Jakey Madeoy, et al., District of Columbia.)

- Over the past 3 years, we reported on the work by a joint task force consisting of representatives from the FBI, the VA-OIG, the U.S. Attorney for the District of New Jersey, and our office in Camden, New Jersey. During this reporting period, a number of new actions occurred. A Federal District Judge entered a Final Judgment on June 8, 1987, in the amount of \$632,705 against a real estate speculator who was convicted of fraud in originating single family mortgage loans. Following the conviction, the government sought recovery of losses, damages, and forfeitures under the False Claims Act. In addition, two individuals, a real estate speculator and a real estate salesperson, pled guilty to making and/or causing false statements on documents submitted for mortgage loans. Two title company officials were also sentenced to a total of 2 years in prison, fined \$10,000 and were ordered to make restitution totaling \$114,502 for their roles in the origination of false mortgage loan documents. (United States vs. Frances Heck et al., District of New Jersey.)
- Four individuals in Los Angeles, California, were sentenced following their conviction on equity skimming and mail fraud charges. Two of the individuals were each sentenced to a minimum of 6 years of a 12-year prison

sentence, and placed on 5 years probation subsequent to release. They were fined \$27,000 and ordered to make restitution of \$154,000 to eight victims who testified against them at trial. The remaining two defendants were each sentenced to 6 months in Federal prison, placed on 5 years probation, and ordered to perform community services. The four individuals collected \$1.2 million in rents on more than 300 properties, 41 of which were secured by HUD-insured loans, and made few, if any, payments on the loans. All four individuals were suspended from doing business with the Department. (United States vs. Mark Christopher Meng, et al., Central District of California.)

- A real estate broker in San Diego, California, was sentenced to 10 years in prison, 5 years probation, and ordered to make restitution of \$46,504 to HUD. The broker furnished false statements to HUD after using strawbuyers to obtain HUD-insured loans on 14 condominiums. Few mortgage payments were made on the properties and all 14 loans were foreclosed, with a loss to HUD of \$388,279. The broker was previously convicted of furnishing false statements to HUD in connection with real estate transactions in the 1970's. (United States vs. Leroy Patton, Southern District of California.)
- As a result of investigations by a task force in Houston, Texas, comprised of staff from the FBI, the VA-OIG, and our office, judicial actions were taken against three investors on equity skimming and other charges during this reporting period.

One investor was sentenced to 8 years in prison after pleading guilty to one count of equity skimming and two counts of mail fraud. The investor defrauded nine homeowners by having them deed their properties to teenage boys who acted as "fronts" to assume the mortgages for the investor. The investor collected rents but did not make the monthly mortgage payments. (United States vs. Jeffrey S. Clair, Southern District of Texas.)

Two investors were indicted by a Federal Grand Jury and charged with nine counts of mail fraud and one count of equity skimming. The investors defrauded the government and approximately 120 homeowners by assuming their loans, renting the properties to others and failing to make the mortgage payments. (United States vs. David F. Aubrey and Charles E. Duran, Southern District of Texas.)

- A Seattle, Washington real estate broker pled guilty to one count of equity skimming and one count of mail fraud while his wife pled guilty to equity skimming. The broker was sentenced to 2 years incarceration and ordered to make \$115,000 restitution to the Department. The spouse was placed on 3 years probation and was fined \$2,000. The couple assumed 36 FHA/VA mortgages, collected \$115,000 in rents, and paid no money on the mortgages. Subsequent foreclosure resulted in a loss of over \$731,000 to HUD and the VA. The investigation was conducted jointly by HUD-OIG and VA-OIG. (United States vs. Timothy and Nannette Lien, Western District of Washington.)

- In Philadelphia, Pennsylvania, a mortgage solicitor was convicted on two counts of conspiracy and one count of making a false statement to a HUD investigator, and a settlement agent was convicted of making false statements. The mortgage solicitor and settlement agent assisted a real estate broker, who previously pled guilty to one count of conspiracy and one count of false statements to the government, in obtaining HUD-insured mortgages for unqualified buyers. The scheme, which occurred between 1981 and 1983, resulted in losses of approximately \$200,000 to HUD. The investigation was conducted jointly by the FBI and OIG. (United States vs. Charles Milder, Guy Bryan, and Thomas Callahan, Eastern District of Pennsylvania.)
- A real estate broker entered a plea of guilty in Baltimore, Maryland, to one count of mail fraud in connection with a loan origination fraud scheme. A joint FBI/OIG investigation found that the broker created false documents in the origination of 30 single family mortgages insured by HUD in the Capitol Heights, Maryland area between 1983 and 1985. Potential loss to HUD is in excess of \$1.2 million. (United States vs. Donald Harmon, District of Maryland.)
- A Flint, Michigan real estate investor was sentenced to 2 years probation and ordered to make restitution of \$50,000 to HUD. The investor pled guilty to submitting false statements to HUD in the origination of loans from 1983 to 1984. The conviction was a result of an FBI inquiry with OIG assistance into the HUD Flint Office's bulk sales program. The investor purchased homes from the Department, rehabilitated the homes, and sold them to unqualified buyers by falsifying mortgage application documents. (United States vs. Alan Sewell, Eastern District of Michigan.)
- A Minneapolis, Minnesota real estate investor entered a guilty plea to equity skimming and mail fraud charges and was then sentenced to 20 months imprisonment and fined \$250,000. A joint FBI and OIG investigation showed the investor operated an investment firm which purchased properties in the names of non-existent individuals, and collected rent while failing to make payments on these HUD-insured loans. The approximate net loss to the government has been estimated at between \$250,000 and \$500,000. The investor was subsequently debarred from doing business with the Department. (United States vs. Thomas Matthew Trenno, District of Minnesota.)
- A Federal Grand Jury indictment charged two Milwaukee, Wisconsin mortgage loan officers with 11 felony counts of conspiracy and the submission of false statements to HUD. These individuals allegedly misrepresented earnest money deposits, buyers' income and the owner-occupancy intentions of the borrowers. This investigation was conducted by OIG with FBI assistance. The loan officers were the 16th and 17th persons to be charged in this Milwaukee loan fraud probe. (United States vs. David Grady and Lee Ford, Eastern District of Wisconsin.)

HUD's Mortgagee Review Board (MRB) is empowered to take sanctions ranging from reprimand to withdrawal of approval against mortgagees that violate HUD regulations or requirements. During this period, we issued 13 audit reports to the MRB. These reports disclosed mortgagee deficiencies in underwriting loans and in maintaining quality control systems.

The MRB sanctioned the following mortgagees based on audit reports issued in this or prior periods.

## Mortgagee Review Board Actions

Company	Action Taken
Reliance Equities, Denver, CO*	Approval Withdrawn
Mortgage Trust Company, Nashville, TN	Suspension
U.S. Mortgage Company, Denver, CO	Suspension
Action Mortgage Corporation Johnson City, TN	Settlement Agreement/ Probation/Indemnification
First City Mortgage, Inc. Jackson, MS*	Settlement Agreement/ Probation/Indemnification
Georgetown Mortgage Corporation St. Louis, MO	Settlement Agreement/ Probation/Indemnification
Chase Home Mortgage Corporation Jacksonville, FL	Settlement Agreement/Indemnification
Crown Mortgage Corporation Longview, WA	Settlement Agreement/Indemnification
Equibank, Pittsburgh, PA	Settlement Agreement/Indemnification
Fed One, Wheeling, WV	Settlement Agreement/Indemnification
First California Funding, Inc. Los Angeles, CA	Settlement Agreement/Indemnification
Homelenders, Inc., Lavondale, CA	Settlement Agreement/Indemnification
Homestead Savings, Burlingame, CA	Settlement Agreement/Indemnification
Lomas and Nettleton Company Oak Lawn, IL	Settlement Agreement/Indemnification
Merrill Lynch Mortgage Corporation Itasca, IL	Settlement Agreement/Indemnification
Metro Mortgage Corporation Columbia, SC	Settlement Agreement/Indemnification
Mid-Co Funding, Ventura, CA	Settlement Agreement/Indemnification
Mortgage Center Corporation, Carson, CA	Settlement Agreement/Indemnification
Commonwealth Mortgage Corporation of America, Rolling Meadows, IL*	Settlement Agreement/Indemnification
Waterfield Financial Corporation San Antonio, TX*	Settlement Agreement/Indemnification

\* Current period reports

These actions resulted in repayments to HUD for insurance claims paid of over \$1.6 million and indemnification from future potential losses of over \$2.5 million (based on average past losses per loan), and assurances that the lenders' quality control programs will be improved to prevent future recurrences of problems.

**Fraud Awareness  
Activities**

The results of audit and investigation activities in the Single Family Insured Programs signaled a need for additional fraud awareness efforts. Our office responded by issuing several publications for program participants highlighting fraud detection and prevention measures in Single Family Programs. The publications are discussed in depth in Chapter 4.

**Rental Assistance**

Over the past 4 years, we have reported the problem of fraud in HUD's Rental Assistance Programs. While we are working with the Department within the legislative constraints placed on us, the problem continues to grow.

Each year HUD provides over \$9 billion of rental assistance to about 4 million households. Tenant eligibility in Rental Assistance Programs is based on voluntary disclosure by individuals certifying that they have accurately listed all sources and amounts of household income. Currently, there are no systematic means for independently verifying tenant-supplied data, and we have found that eligible individuals are precluded from obtaining housing assistance, since ineligible persons are receiving assistance. To remedy this situation, more systematic methods of verifying tenant income and eligibility are needed.

**Rental Assistance  
Investigations**

Our office conducted investigations of individuals who defrauded the various Rental Assistance Programs. The most prevalent type of violation involved falsification of documents relating to tenants' eligibility so that they received assistance to which they would not otherwise be entitled. Most of the investigations concerned tenants. Investigations involving landlords and other individuals administering Rental Assistance Programs are discussed under Public Housing and Multifamily. The following actions were recorded:

- Individuals Indicted: 77
- Individuals Convicted: 63
- Restitution/Repayments: \$156,026
- Total Fines: \$ 16,020

The following are examples of recent investigation activities in the rental assistance area involving tenants.

- A default judgment in the amount of \$60,150 was entered against a tenant who lived in a Section 8 unit and failed to disclose her ownership of the property, thereby resulting in overpayment of assistance from 1976 to 1982.

The judgment was secured by an attachment of the tenant's real estate and followed a civil action filed under the False Claims Act. This civil action was initiated after the tenant had been found guilty of theft of government property (Section 8 assistance). (United States vs. Bridget M. Mandelbaum, District of Massachusetts.)

- Five rental assistance tenants in Chicago, Illinois, were charged with submitting false statements to HUD in order to obtain excessive assistance. The tenants were cited on 15 counts of misrepresenting their income and family composition between 1982 and 1986. They received assistance overpayments totaling approximately \$41,300. (United States vs. Larry Avila and Barbara Avila, Northern District of Illinois.)
- A Section 8 tenant in Buffalo, New York, who owned property valued at \$51,000, pled guilty to embezzlement in connection with the fraudulent receipt of rental assistance at three different locations from September 1982 through January 1985. The tenant was sentenced in U.S. District Court to 1 year probation, fined \$1,000 and ordered to make restitution of \$35,172. (United States vs. Verzel Johnson, Western District of New York.)
- A tenant in San Francisco, California, was indicted by a Federal Grand Jury on three counts of submitting false statements to HUD. The tenant, who was employed by the City Municipal Railway System, benefited from \$35,327 in overpaid rental assistance between 1984 and 1986. (United States vs. Patricia Steuben, Northern District of California.)
- A Section 8 tenant pled guilty to one count of making a false statement. The tenant failed to report his wife's income from employment with the U.S. Department of Commerce from 1978 to 1985, resulting in overpaid rental assistance of \$23,280. The investigation was conducted following an OIG computer matching project. (United States vs. Walter White, District of Columbia.)
- A licensed practical nurse living in Richmond, Virginia, was sentenced in U.S. District Court, Brooklyn, New York, to 5 years probation and ordered to make restitution of \$23,199 after pleading guilty to embezzlement. The nurse, a former Section 8 tenant, submitted false statements to the New York City Housing Authority certifying that she resided in a subsidized unit when in fact she lived in Virginia and the unit was occupied by her former husband, a New York City Police Officer. (United States vs. Priscilla Townsell, Eastern District of New York.)
- Two Section 8 recipients in the Bronx, New York, one of whom was a resident manager of the project they lived in, pled guilty to one count of making a false statement to fraudulently obtain \$20,822 in rental assistance between July 1982 and January 1987. At the time of their plea, they entered a confession of judgment in favor of HUD for \$20,822 which is to be filed in the New York State Supreme Court. (United States vs. Bartolo and Mayda Colon, Southern District of New York.)

- A Section 8 tenant whose wife was employed by the Massachusetts Department of Public Welfare, pled guilty in Boston, Massachusetts, to false statement charges. The tenant received rental assistance of \$20,000 to which he was not entitled by understating the total household income on five applications for assistance over a 3-year period. (United States vs. Wilfredo Torres, District of Massachusetts.)
- A criminal complaint was filed in Hudson County, New Jersey, charging a Section 8 tenant with theft by deception. The tenant, a full-time payroll clerk, failed to report her income of \$17,000 per year, allowing her to receive \$19,419 in rental assistance to which she was not entitled from September 1982 to September 1986. (State of New Jersey vs. Kathleen Blount.)

\* \* \* \* \*

The Office of Inspector General is working with the Department in responding to the problem of tenant fraud. Initiatives are underway that would give HUD additional tools to address tenant fraud in a more efficient manner. The two major initiatives are Income Verification Legislation and the Departmental Quality Control Program for Tenant Eligibility.

#### **Income Verification Legislation**

Proposed legislation is again before Congress which would make possible wide-scale matching of the income reported by tenants with employer-reported wage data collected by States. This would greatly strengthen the current voluntary disclosure system.

Specifically, three legislative authorities are needed requiring: (1) applicants and tenants to provide Social Security numbers as a condition of eligibility; (2) State employment security agencies to disclose wage information to HUD; and (3) applicants and tenants, as a condition of occupancy, to complete verification consent forms authorizing HUD or its designees to verify any previously undisclosed income.

For the past 6 years, we have supported efforts to pass legislation which would help to detect fraud in HUD's Rental Assistance Programs. Income verification provisions are contained in the Housing and Community Development authorization bills, H.R. 4 and S. 825, as passed by the House and Senate, respectively. On June 11, the House passed a housing reauthorization bill, H.R. 4, which contains a provision that would give HUD the authority to require the collection of Social Security numbers. On March 31, the Senate approved a bill, S. 825, which contained all three legislative authorities described above. The bills are being considered in conference to resolve differences between the House- and Senate-passed versions. Passage of this legislation is critical to implementation of the computer matching component of the Quality Control Program.

**Departmental  
Quality Control  
Program for  
Tenant Eligibility**

The Quality Control Program consists of two major components. One component is periodic quality control sampling to measure error rates and determine needed program changes to reduce administrative error and improve program integrity. On September 30, the Assistant Secretary for Housing-Federal Housing Commissioner awarded a contract to design and implement a Quality Control sampling system. Over the next 1 1/2 years, the contractor will be developing, testing, and implementing a set of procedures and policies that will provide HUD with nationally representative information about the extent, severity, cost and causes of errors associated with the certification/recertification and rent calculation process applicable to HUD-assisted renter households. HUD program managers will use this information to identify needed changes in policies and procedures, and to determine the level of resources that should be allocated to reduce such problems.

The other component of the Quality Control Program is computer matching. Our office is responsible for implementing this aspect of the program. While our past efforts have been limited and on occasion have been staff-intensive, the results of computer matching have proven cost-beneficial. A recent match involving tenants in 10 multifamily housing projects in the metropolitan Washington, D.C., area identified 62 families that received about \$232,000 in excessive Section 8 housing assistance. The excess amount was attributable to Federal civilian employees or members of the employees' families not reporting all Federal employment income when applying for housing assistance.

The results were obtained by: (1) matching tenant data from 10 multifamily projects in the Washington, D.C., area to Office of Personnel Management and Department of Defense automated files; (2) analyzing tenant files available at the housing projects; and (3) confirming tenants' earnings directly with Federal employers. The results are subject to additional verification by program administrators or investigators. The information will be further confirmed with the affected families before denying, suspending, or reducing housing assistance.

OIG staff are currently verifying tenant data in the 10 projects to income data for Federal retirees, military personnel, and U.S. Postal Service employees. Matching of tenant data to Maryland and Virginia wage data is planned for the next semiannual period. A match to Washington, D.C., wage data cannot be accomplished because a D.C. law prohibits disclosure of wage data for this purpose.

Additional matches are in progress in St. Louis, Missouri, and Dallas/Ft. Worth, Texas.



## Chapter 2

### SIGNIFICANT AUDITS

This Chapter summarizes audit activities in five program areas: Multifamily Insured Programs; Assisted Housing Programs; Community Planning and Development; Single Family Insured Programs; and General Administration.

#### Multifamily Insured Programs

Our audits focused on problems in the following areas: misuse and diversion of funds; the Section 202 Housing Program; Section 8 Special Claims; and mismanagement of projects in HUD's possession.

#### Misuse and Diversion of Assets and Income at HUD-Insured Multifamily Housing Projects

In return for HUD's mortgage insurance, owners execute Regulatory Agreements with the Department. These Agreements stipulate that expenditures incurred on behalf of such projects must be reasonable and necessary for their operation. The Regulatory Agreement also limits the conditions and manner governing an owner's withdrawal of funds from the project. In addition, owners and management agents agree to abide by the Department's policies and procedures governing the use of such assistance for multifamily housing operations.

Over the years, our audits of housing project owners and management agents disclosed numerous violations involving the misuse or diversion of project assets and income, contrary to the Regulatory Agreement, applicable laws, and HUD requirements. In 81 audits performed between Fiscal Year 1984 and the first half of Fiscal Year 1987, we identified about \$19.1 million of misused or diverted assets/income by project owners and management agents.

These violations involved primarily unallowable distributions to principals before and after default by project owners, unauthorized loans to owners or related parties, ineligible expenditures, misappropriations of operating receipts and assets, and various unsupported costs. For the majority of cases, we attributed these abuses to owners' and agents' apparent disregard of the provisions of the Regulatory Agreement.

Following are some examples of audits completed during the reporting period.

- G & K Management Company, Inc., Culver City, California, did not comply with HUD requirements in establishing and operating a general fund account. The agent commingled project funds with identity-of-interest company funds, did not limit deposits to excess funds at the end of the month, and incorrectly calculated interest due to projects. The owners

- of three projects received over \$300,000 in windfall profits because they received \$1.3 million in interest-free loans from the fund instead of having to borrow money from lending institutions. As a result, about \$10.2 million of the projects' funds were not properly protected and funds were misused. In four of the 20 HUD-insured projects reviewed, the owners received \$337,952 in ineligible cash distributions. Discrepancies also existed in the management agents' financial records and contracting procedures. (Audit Report No. 87-SF-214-1009.)
- The owners of Willow Tree Apartments in Grand Prairie, Texas, diverted project funds totaling \$447,607 and could not provide adequate support for another \$431,257. The owners failed to maintain formal accounting records or retain basic supporting documents in many cases. As a result, the project did not have sufficient funds for proper maintenance and its first mortgage payment. HUD foreclosed on the project on July 7, 1987, because the mortgage had been in default for 5 years. At that time, the project owed HUD approximately \$900,000 for accrued interest, reserve funds due, and HUD advances. (Audit Report No. 87-FW-212-1004.)
  - In managing the La Villa Puente project, Young Kim Management Company in Los Angeles, California, misused funds and mismanaged the project. The agent, who is also the project owner, improperly deposited \$1.3 million in project cash receipts in his personal account. He spent at least \$176,237 for ineligible and \$306,447 for questionable expenses. (Audit Report No. 87-SF-214-1011.)
  - The owner of Cedarwood Apartments in Columbia, South Carolina, used \$457,954 in project funds to pay for improper and unsupported expenditures. These include distributions to the owners, payments on second and third mortgages, and excessive management fees and bond costs. The project not only deteriorated physically but also experienced serious financial difficulties which ultimately led to the owner's filing a voluntary bankruptcy petition on August 20, 1986. (Audit Report No. 87-SF-212-1012.)

The misuse or diversion of project assets and income contributes to mortgage defaults, the physical deterioration of projects, the need for additional financial assistance from HUD, and potential losses to HUD in the event of foreclosure and sale of the properties involved.

Recently, we issued a draft report summarizing the results of the 81 audits completed since 1984. The extent of the past diversion of project assets and income coupled with the negative impact of the Tax Reform Act of 1986, could result in losses to the HUD insurance fund in the billions of

dollars over the next 5 years. It demonstrates a need to improve HUD's ability to first identify diversions and then take strong enforcement actions. The draft report discusses the potential impact of proposed statutory remedies to deal with unauthorized use of project funds/assets and potential improvements in HUD's procedures for monitoring/servicing multi-family insured projects.

**Section 202  
Elderly or  
Handicapped  
Housing Program**

We evaluated the adequacy of HUD's Fiscal Year 1986 fund reservation application processing for the Section 202 Elderly or Handicapped Housing Program. We concluded that HUD did not use its authorized Fiscal Year 1986 Section 202 and supporting Section 8 authority in an effective manner and that the abbreviated fund reservation process that was in effect during Fiscal Year 1986 will result in future processing problems. Further, we found weaknesses in the rating, ranking, and selection of fund reservation applications.

During 1986, the Department reserved Section 8 budget authority for Section 202 loans at 110 percent of the elderly Fair Market Rents (FMRs). By making reservations at 110 percent of the FMRs, HUD exhausted its authorized Section 8 authority for new Section 202 loans. As a result, the Department did not use \$48.2 million of its Fiscal Year 1986 Section 202 loan authority (about 8 percent of the maximum loan authority approved by Congress) even though sufficient fundable loan applications were available to use such authority. The \$48.2 million of unused authority, therefore, lapsed at the end of the fiscal year. If HUD had used all of its authorized Section 202 authority for Fiscal Year 1986, we estimate that loan reservations could have been approved for an additional 32 average-sized projects encompassing nearly 1,075 units.

During Fiscal Years 1985 through 1987, HUD reserved Section 8 authority for Section 202 loans at 100 percent, 110 percent, and 105 percent of the elderly FMRs, respectively. As evidenced by these varying reservation rates, we recommended that HUD perform a nationwide analysis of Section 8/202 rents as a basis for establishing a supportable Section 8/202 reservation policy.

During Fiscal Year 1986, HUD's Section 202 application processing time was reduced significantly, and sponsors were not required to submit critical project information with their applications. This abbreviated process could have an impact on the quality of projects which ultimately receive commitments and contribute to delays by borrowers in reaching the closing stage of their projects. We recommended that HUD develop a work plan or strategy to address these problems.

Lastly, HUD did not have any written documentation on file to support or justify the applications it selected for funding from the Headquarters Reserve. Headquarters did not select applications based on assigned ratings and rankings, but instead, often selected lower-rated applications over high-rated applications. Absent documentation, we could not determine the basis for such selections. In addition, Field Office application ratings and rankings were too subjective and were not always fully supported, and the Regional Administrator designees, particularly in the Atlanta Region, did not always award special needs points to applications consistently and equitably. As a result of these deficiencies, HUD cannot assure that its Fiscal Year 1986 Section 202 project selections are fully justified. The Office of Housing is evaluating the draft report in which we recommended measures to improve future ratings and rankings of Section 202 fund reservation applications. Our draft report on this audit was in process at the close of this semiannual reporting period.

We reviewed the processing of Section 8 special claims by the Newark, Philadelphia, Washington, D.C., Chicago, and San Francisco Offices and found that Field Office reviews were either not performed or were not sufficiently comprehensive to determine the propriety and eligibility of the claims. This occurred because existing procedures were not adequate to ensure the proper review of special claims.

Based on our testing of about \$1.7 million of selected special claims processed and paid by HUD, we identified about \$762,000 in erroneous, improper, and questionable claims. These claims included: (1) vacancy claims during rent-up (use of incorrect housing assistance payment contract dates and move-in dates, units not available for occupancy, and duplicate claims); (2) vacancy claims after rent-up (use of incorrect dates when vacant units became available for occupancy, and all feasible actions to fill vacancies not taken); (3) unpaid rent and tenant damage claims (no attempt by project owners/management agents to collect amounts due from tenants, and claims made for units vacated by non-Section 8 tenants); and (4) debt service vacancy claims (no support available to indicate required Field Office pre-approval). Based on the amount of special claims included in our review, the Newark and San Francisco Offices had the highest percentage of disallowed or questioned claims, 75 and 61 percent, respectively. HUD's Office of Housing advised us that it will issue instructions to HUD Regional/Field Offices which will address these problems.

We recommended that the Assistant Secretary for Housing-Federal Housing Commissioner: (1) issue procedures for Field Offices to use in reviewing special claims designed to eliminate the deficiencies found during our audit; (2) require Field Offices to perform a 100 percent review of all special claims for vacancy losses during rent-up and establish a plan to review vouchers for other special claims; (3) instruct each Field Office to review the validity and propriety of special claim calculations submitted within the last 3 fiscal years when errors are disclosed in special claim calculations for Fiscal Year 1988; and (4) notify all Section 8 project owners of the need to take due care in the submission of special claims. (Audit Report No. 87-TS-103-0006.)

**Improvement  
Needed in  
Processing  
Section 8  
Special Claims**

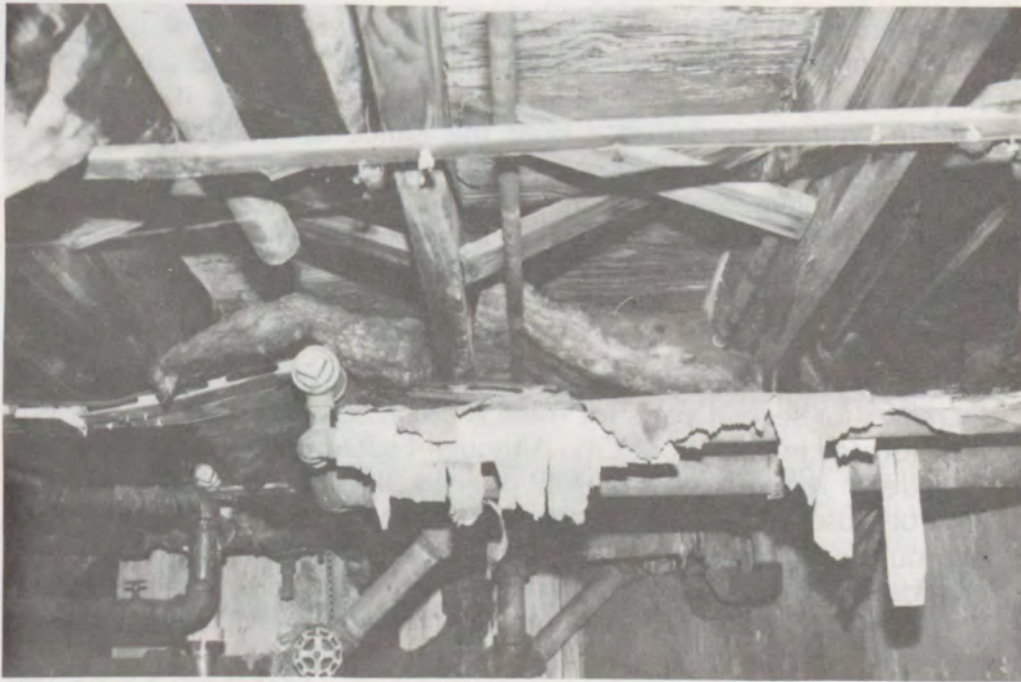
**Mismanagement  
of Multifamily  
Projects in  
HUD's  
Possession**

Reviews within the Chicago and New York Regions concerning compliance with HUD policies and procedures relating to repairs and rent increases on multifamily projects in HUD's possession showed that: (1) the Chicago Office did not take adequate action to eliminate health and safety problems affecting tenants; and (2) the New York Regional Office has not increased rents for several years at certain projects and has not ensured that proper rents were charged and collected at other projects.

- The Chicago Office did not adhere to HUD policy which states the health and safety of tenants must be protected and the physical condition of property stabilized and, where appropriate, improved as promptly as possible. As a result, tenants at Concordia Park in Detroit, Michigan, (which is part of the Chicago Office's area of jurisdiction) were exposed to conditions which could result in serious injury or illness. Also, by not taking prompt action to preserve the projects, HUD is exposed to increased losses caused by the deteriorating value of the projects and increased costs for repairs.



*Deteriorated and unsafe walkway and driveway (note the open manhole) near an occupied building at Concordia Park in Detroit.*



*Missing fire protection above the boiler in an unoccupied building at Corcordia Park.*



*Corroded and deteriorated heating unit in an occupied building.*

We recommended that the Regional Administrator-Regional Housing Commissioner implement procedures to identify and address repair requirements at projects in HUD's possession; repair the projects identified in our audit or obtain written concurrence from the Office of Multifamily Housing Management for any condition cited which is considered inappropriate for repair; and implement procedures to review and increase rent levels for projects in HUD's possession, and to document justifications when rents are not increased to the maximum allowable levels. (Audit Report No. 87-CH-111-0003.)

- The New York Regional Office (NYRO) has not processed any rent increases for several years for three Mortgagee-in-Possession (MIP) projects located in New York City. Although HUD handbook requirements provide for rent increases on MIP projects, the NYRO has not increased rents because, in the opinion of both the Regional Counsel and the Director of Housing Management, New York State law effectively prohibits the enforcement of lease provisions in MIP situations. As a result of the inability to raise rents for the three MIP projects, we estimate that HUD was deprived of annual gross potential income of \$593,000.

Although our review disclosed that the NYRO has adequately addressed repairs and conditions that represent a danger to the health and safety of tenants, repair surveys and repair plans were not prepared in accordance with HUD guidelines. Consequently, there is no documented record as to which conditions are considered most serious, who will perform the repairs (HUD or the new owner), when the repairs will be performed, and the reasons for deferring repairs until the project is sold to a new owner. Additionally, although all inspections were made, there is no documentation to support the cost effectiveness of the NYRO's decisions to repair or not to repair various conditions.

We recommended that the NYRO request guidance from HUD's Office of General Counsel as to appropriate legal and/or regulatory remedies available to resolve the NYRO's inability to raise rents on MIP projects; increase authorized rents where appropriate and require tenants to pay appropriate percentages of their incomes; and make all reasonable efforts to comply with HUD's repair guidelines. (Audit Report No. 87-NY-111-0002.)

### **Assisted Housing Programs**

During this reporting period, our audits uncovered problems in the following areas: the Boston Field Office's monitoring of the Comprehensive Improvement Assistance Program; mismanagement by the Cook Inlet Housing Authority; and public housing authorities (PHAs) not adhering to HUD regulations.

An audit of the Boston Field Office (BFO) found that the BFO did not establish effective control over PHAs' implementation of the Comprehensive Improvement Assistance Program (CIAP). The Boston Office did not:

- Effectively perform on-site monitoring reviews;
- Establish Department-mandated controls for monitoring CIAP implementation;
- Properly establish and report on Under Secretarial goals and accomplishments relating to CIAP on-site monitoring;
- Promptly execute Annual Contributions Contract amendments for CIAP.

The BFO lacks effective administrative control systems, and does not effectively manage staff time for monitoring CIAP. We recommended that HUD's Office of Public Housing take the appropriate steps to correct these deficiencies. The Regional Director of the Office of Public Housing responded positively to the recommendations in our draft report and is taking immediate corrective action to improve the BFO's monitoring of the CIAP. (Audit Report No. 87-BO-101-0003.)

Our audit of the Authority's Low-Rent Housing and Mutual Help Homeownership Programs in Anchorage, Alaska, disclosed several major deficiencies. The most significant deficiency involves the construction and proposed operation of the \$13 million Mary Conrad Center as primarily a nursing home/intermediate care facility. The Authority originally proposed this project to HUD in 1984 as a congregate housing facility. HUD agreed to provide \$4.1 million to help finance the building of 45 units of congregate housing. Other sources were to provide additional construction funds. In addition, the project could be eligible for operating subsidies over a 35-year period, provided such funds were appropriated and approved annually by HUD.

While Section 7 of the United States Housing Act of 1937, as amended, authorizes development of congregate housing, it does not provide for development of medical-related facilities like the Mary Conrad Center. The Office of General Counsel is currently reviewing the legality of this project to determine if it is ineligible for funding under the United States Housing Act of 1937.

The Housing Authority also had deficiencies in its Mutual Help Homeownership Program. The Authority paid an excessive \$230,000 for Payments in Lieu of Taxes (PILOT). As a result, Mutual Help Program participants paid excessive administration charges, and could continue to pay excess costs totalling \$728,000 over the remaining term of the program. In addition, the Authority did not develop and implement a financing program to assist participants. Consequently, program participants have not achieved homeownership and HUD will incur unnecessary costs of about \$427,000.

### **Comprehensive Improvement Assistance Program**

### **Cook Inlet Housing Authority**



We recommended that the PHA limit the PILOT to the amount allowed by law and obtain a refund of the excessive and unnecessary amounts paid to date. In addition, the Authority should establish procedures and evaluate homebuyers' incomes to determine if they are financially capable of purchasing their homes.

Finally, the Authority used over \$638,000 of HUD funds for ineligible activities, and disregarded HUD requirements when conducting business with the Cook Inlet Housing Development Corporation. We recommended that: the Authority repay HUD programs for lost interest income from the use of funds for non-HUD programs; and discontinue contracting with the Cook Inlet Housing Development Corporation. (Audit Report No. 87-SE-209-1007).

**PHAs Not Adhering to Requirements of Section 8 Existing Housing Programs**

- The Flint, Michigan Housing Commission (FHC) did not comply with HUD regulations, the Annual Contributions Contract and its own established policies in administering the Low-Income Housing Program. FHC did not: (1) adequately maintain its housing stock; (2) perform preventive and non-emergency maintenance on occupied units; (3) rehabilitate vacant units timely; and (4) establish controls over inventories and motor vehicle usage. The loss of revenues resulting from these conditions restricted FHC's ability to operate its projects effectively. As a result, many low-income families were deprived of decent, safe, and sanitary housing.

Despite a very high demand for FHC's housing units, over 15 percent (166 units) of its total Low-Income Housing Program was vacant at November 30, 1986. Many of these units remained vacant for extended periods even though they required only minimal repairs. The current vacancies represent about a \$253,000 annual loss in rental income. FHC's excessive vacancy rate was partially due to weaknesses in its maintenance function such as: (1) routine unit inspections and preventive and non-emergency work were not performed; (2) maintenance staff time was not fully accounted for and evaluated; and (3) full accountability for work orders written, completed, and outstanding was not established.

FHC did not always perform tenant eligibility reexaminations timely, and thereby failed to assure that rents were promptly adjusted based on actual income, family composition, and changes in the rent ceiling factor. FHC also failed to pursue aggressive rent collection efforts.

FHC agreed to take various corrective actions in response to our audit. We therefore recommended that the Regional Administrator-Regional Housing Commissioner instruct the Detroit Office Manager to follow up to ensure that FHC promptly implements these actions. (Audit Report No. 87-CH-201-1008.)

- The Housing Authority of Carteret, New Jersey (PHA), did not comply with requirements pertaining to procuring maintenance and repair services, incurring travel and administrative expenses, and obtaining HUD approval to incur modernization planning costs. The PHA did not follow any com-

petitive bidding process or execute contracts when obtaining \$353,700 in maintenance and repair services for the Low-Income Housing (LIH) Program. Consequently, the PHA had no assurance that the lowest reasonable price was paid for the services obtained. The PHA charged travel costs to its LIH and Section 8 Existing Housing Programs which were neither approved by its Board of Commissioners nor supported with receipts as required by the PHA's travel policy.

Additionally, the PHA charged costs to its administrative expense account which are clearly ineligible. These costs were for entertainment, gifts, individual membership fees, and ineligible salaries. The PHA hired an architect to prepare plans for the expansion of its maintenance facilities although no funds were available to pay the construction costs. The PHA did not obtain HUD approval to have the plans prepared despite requirements which caution PHAs that such costs may be ineligible if the project is not funded.

We recommended that: (1) the PHA be instructed to implement procurement and contracting procedures that will ensure compliance with local law; (2) the Newark Office conduct an evaluation of maintenance and repair services obtained during the audit period to determine whether their associated costs were reasonable and eligible; and (3) all disallowed costs be repaid to the applicable program with non-Federal funds. (Audit Report No. 87-NY-209-1022.)

### Community Planning and Development

Our audits disclosed problems in three areas of Community Planning and Development (CPD): Rental Rehabilitation Programs; Entitlement Cities Economic Development Projects; and the Community Development Block Grant (CDBG) Program.

Our office continued to audit this program which started in Fiscal Year 1984. During this period, we issued 12 reports on the following grantees:

City of Boston	Massachusetts
Municipality of Ponce	Puerto Rico
County of Union	New Jersey
County of Chester	Pennsylvania
County of Lexington-Fayette	Kentucky
City of Florence	Alabama
County of Greenville	South Carolina
City of Chicago	Illinois
City of New Orleans	Louisiana
City of South Sioux City	Nebraska
City of Des Moines	Iowa
City of San Diego	California

To date, we have issued 19 reports. Based on our audit results, we concluded that the Rental Rehabilitation Program is meeting its primary objective to

### Rental Rehabilitation

increase the supply of safe, decent, and affordable housing for low-income households through the renovation of existing housing stock. However, our audits identified certain problems which need to be addressed to strengthen the administration of the Rental Rehabilitation Program as summarized below:

- Benefit to lower-income households not adequately supported (7 grantees).
- Project selection deficiencies (8 grantees).
- Improvements needed for accountability of Section 8 vouchers/certificates (7 grantees).
- Improvements needed for reporting statistical data to HUD (9 grantees).
- Funds not disbursed timely (4 grantees).
- Program income not adequately controlled (4 grantees).
- Non-compliance with program requirements (13 grantees).
- Improvements needed for performing inspection of rehabilitation units (6 grantees).

Currently 11 audits are in process or planned for Fiscal Year 1988. After completing these reviews, we will summarize all the external audits and make appropriate recommendations to the Assistant Secretary for CPD for improving program operations.

**Job Creation and Retention in the CDBG Entitlement Cities Economic Development Projects**

We completed an audit of Job Creation and Retention in the CDBG Entitlement Cities Economic Development Projects to determine whether the: (1) jobs projected were actually created; (2) prime beneficiaries of projects were low- to moderate-income persons; (3) applications were prepared, processed and approved in accordance with eligibility requirements; (4) applications were selected without favoritism; and (5) projects were feasible. We found that the number of jobs created did not meet application projections. Of the 14 economic development loan recipients examined, four created more jobs than projected, three had additional time to achieve job projections, and seven achieved between zero and 85 percent of job projection levels. Additionally, jobs created through economic development project loans did not support the intended benefit to low- to moderate-income persons.

These deficiencies were due to insufficient guidance provided by HUD and misinterpretation of existing regulations by grantees. Subsequent to our audit, CPD issued a memorandum dated June 2, 1987, that clarified the criteria for determining whether an activity has met the low- to moderate-income job benefit standard and the information businesses/employers must obtain to verify low- and moderate-income status.

To strengthen the existing Economic Development Program, we recommended in our draft report that HUD require grantees to include specific job creation projections in loan agreements executed with economic development recipients and require them to comply with the June 2, 1987 memorandum.

The following were significant audits of the Community Development Block Grant (CDBG) Program.

**Community  
Development  
Block Grant  
Program**

- Schenectady, New York. We examined the operations of the City of Schenectady pertaining to the CDBG, Urban Development Action Grant (UDAG), and Section 312 Rehabilitation Loan Programs. We found that Schenectady was unable to adequately demonstrate that a street repaving activity met at least one of the CDBG Program's broad national objectives and that the documentation supporting the activity's cost was improper. Thus, we questioned costs of \$471,516 for this activity.

We also found that Schenectady charged other unallowable costs of \$27,935 and unsupported costs of \$598,967 to the programs. These costs pertain to: economic development loans; activities administered by sub-grantees; building renovations; and rehabilitation loans. We also found that Schenectady was deficient in: administering the expenditures of UDAG funds; collecting UDAG loans; completing CDBG Program activities efficiently and timely; and implementing a Financial Management System.

We recommended that: Schenectady be directed to reimburse ineligible costs of \$27,935 to the applicable HUD programs from non-Federal funds; and the Buffalo Office determine the eligibility of questioned costs totaling over \$1 million. We also recommended that Schenectady be instructed to take the appropriate action to correct program deficiencies.

- Carolina, Puerto Rico. The Municipality of Carolina, Puerto Rico, charged excessive or ineligible costs of \$236,738 and questionable costs of \$240,962 to the CDBG Program. The costs related to various construction activities, program administration expenses, and in one instance, poor procurement practices. We also found that Carolina did not reprogram income of \$4,304 before making drawdowns from its letter of credit.

We recommended that \$236,738 of costs be disallowed, Carolina be directed to reimburse this amount to the CDBG Program from non-Federal funds, and the HUD Caribbean Field Office determine the eligibility of the \$240,962 in questioned costs. We also recommended that Carolina be directed to use \$4,304 of program income prior to requesting additional funds from its letter of credit and to return interest income earned on HUD funds to HUD. (Audit Report No. 87-NY-241-1026.)

- New Haven, Connecticut. Our audit of the CDBG Program administered by the City of New Haven, Connecticut, disclosed weaknesses in the City's financial management procedures. We found that New Haven: did not charge equitable rents on leased vacant lots; used CDBG funds to pay for questionable professional fees totaling \$285,018; did not have adequate

internal controls over operations; used CDBG funds to finance long-term float loans totaling \$1.4 million to a company with financial problems; transferred unexpended urban renewal funds to the general fund; and made a \$60,000 advance payment to a developer without documenting the eligibility of the activity.

We recommended that the HUD Hartford Office determine the eligibility of \$1.7 million of questionable costs. We also recommended that the City take corrective action to strengthen its financial management procedures. (Audit Report No. 87-BO-241-1015.)

### Single Family Insured Programs

In addition to the Single Family activities discussed in Chapter 1, we also performed the following.

#### HUD Office - Flint, Michigan

Flint

HUD has not adequately managed its Single Family Insurance Program in Flint, Michigan. Our review showed that the Flint Office hired unqualified fee appraisers, review appraisers and credit examiners and did not adequately review or monitor their activities; approved Direct Endorsement lenders without proper documentation; and arbitrarily reduced minimum property sales prices, thereby potentially reducing HUD recoveries on foreclosed properties. The problems stemmed from the lack of adequate staffing which at the time of our review consisted of 15 people, seven of whom were clerical. Flint's only branch chief resigned in July 1986 and his position remained unfilled at the time of our review. The Office Manager was required to perform several different jobs which further contributed to the Office's poor operation.

The Chicago Regional Office was generally aware of Flint's problems through its monitoring reviews and day-to-day contact with the Office. In addition, the arbitrary reductions in the selling prices of HUD properties were brought out in our February 1985 report on Flint's Bulk Sales Program, yet the practice continued until April 1987. The Regional Office failed to effectively deal with the problems of program abuse and mismanagement. The small size of the Flint Office and its minor impact on Regional goals were cited as reasons for minimal attention being given to it. The Regional Office performed an in-depth monitoring review in early 1987 which resulted in the reassignment of the Office Manager to another office; the temporary appointment of an Acting Manager to run the Office; and the temporary detailing of HUD staff from other offices to provide training and technical assistance to the Flint staff.

We recommended that the Regional Administrator perform a comprehensive analysis of the staffing needs of the Flint Office and either fully staff the Office or pursue alternative solutions, including closing the Flint Office or transferring its operations to another office.

#### Acquired Single Family Properties

During Fiscal Year 1987, HUD anticipated receiving over \$2 billion from closing agents who handle settlements on the sale of HUD-owned properties. HUD's control over the receipt and deposit of money is very weak.

Sales of single family acquired properties are handled by the respective HUD Field Offices who contract with brokers to manage the properties while they are in inventory and with closing agents to handle property settlements. The monies due HUD are to be wire-transferred to the Treasury by closing agents after settlement. HUD uses three automated systems to trace acquired single family properties and the funds received from their sale, i.e., Single Family Insurance System (A-43), Acquired Home Properties System (F-63), and Critical Path Processing System (CPPS).

Ongoing audit work indicates that: (1) significant delays exist in the transfer of property disposition proceeds to HUD; (2) the systems used to account for funds received and to monitor property disposition do not provide adequate control over the processes; and (3) HUD exercises little control over the activities of closing agents.

- (1) Significant delays exist in transferring funds to HUD. The closing agent in Atlanta was very lax in remitting property disposition proceeds to HUD. The closing agent was not transferring sales proceeds to HUD timely and had month-end cash balances which increased steadily from \$3.6 million in May 1986 to about \$12.6 million in March 1987. Funds were held between eight and 148 days with an average of 67 days. Similar delays were noted in Los Angeles, Denver, San Antonio and Washington, D.C.
- (2) The systems used to control the disposition process are inadequate. HUD uses three different automated systems and a manual system to control the assignment of properties to closing agents and the transfer of funds to HUD. All four systems are needed to properly account for property disposition activities but the systems do not interface and reconciliation of information among the systems is extremely difficult because of inaccurate data and the timing of data input.
- (3) HUD exercises little control over the activities of closing agents. The number of closing agents varies from Field Office to Field Office and no one knows or keeps track of the number of closing agents it has nationwide on a continuing basis. Some closing agents have executed contracts while others operate under memorandums of understanding. Contract terms are not standardized.

In our interim report, we recommended that HUD develop an automated system which provides complete, accurate and prompt accountability for all properties and funds handled in the property disposition process. HUD has recently implemented measures to assure the timely wire transfer of sales proceeds, the standardization of closing agent contracts, the monitoring of closing agent performance, and the review and submission of closing packages.

**Excessive  
Section 235  
Subsidies**

Through the use of computer matching, HUD-OIG staff identified 134 mortgagors who received an estimated \$255,000 in excessive interest subsidies on their mortgage payments. The excessive assistance was paid by HUD because the mortgagors intentionally or inadvertently misrepresented their income when recertifying for continued Section 235 assistance. This was HUD's first use of computer matching to detect excessive assistance paid to Section 235 mortgagors.

Computer matching was instrumental in identifying mortgagors who reported less income than reported by independent income sources. The matching involved Section 235 mortgagor data supplied to HUD-OIG staff by two mortgagees located in Jacksonville, Florida. The State of Florida's Department of Labor and Employment Security assisted us by matching mortgagor data to quarterly wage data submitted by private employers. HUD-OIG conducted the matching to Office of Personnel Management data for Federal employees and retirees.

### **General Administration**

This section summarizes our major activities in the area of administration.

**Contractor Billing  
Errors for  
Teleprocessing  
Services**

As a result of errors in a vendor's billing of HUD for teleprocessing services, HUD-OIG staff requested that the Defense Contract Audit Agency (DCAA) conduct an audit to identify causes for the billing problems and actions needed to prevent future problems. The DCAA audit recommended that the vendor improve: (1) specific internal control weaknesses for HUD's billings; (2) separation of duties for certain computer personnel; (3) audit trails for its billings; and (4) computer security over passwords and computer terminals. The audit report resulted in the vendor's implementation of internal controls which should aid in precluding future billing problems. The report was also useful to a HUD contracting officer in resolving billing issues with the vendor. HUD agreed to pay the vendor \$1.3 million for prior vendor underbillings and the vendor agreed to provide HUD with total discounts valued by HUD at \$2.1 to \$2.8 million. The discounts should more than offset the amount HUD pays for the vendor's prior underbillings and future computer processing inefficiencies. The latter resulted from systems designed based on the erroneous billings. (OIG Audit Memorandum 87-AA-269-6001; DCAA Report 1461-7-179.901-202.)

**Audit Support  
For HUD's  
Procurement  
Process**

Analyses of costs for proposed contracts resulted in several contract cancellations and major price reductions. The Office of Audit performs pre-award evaluations of contractors' proposed pricing upon request from HUD's contracting officers. The evaluations include reviews of the accuracy, currency and reasonableness of pricing proposals and advice to the contracting officer on other factors that may affect contract performance.

During Fiscal Year 1987, we issued 30 pricing proposal evaluation reports and two advisory memorandums for proposed contracts and cooperative agreements valued at \$15.7 million. Our advice resulted in contract cancellations and price reductions of about \$2 million.

In two cases, contract proposals were returned by the contracting officers to the program offices. In one case, the contractor had experienced performance problems on a prior contract and had other problems that could have affected the ability of the firm to perform under the contract. In the other case, the contractor had not cooperated in resolving audit issues arising from an interim audit of a prior contract. Two other pricing proposal evaluations resulted in contract price reductions totaling \$579,557. (OIG Audit Memoranda 87-AO-261-1004, 87-AO-261-1006, 87-BO-261-1012.)



## Chapter 3

### SIGNIFICANT INVESTIGATIONS

This Chapter describes some of the more significant prosecutive actions which occurred during the reporting period. The Chapter is divided into Public Housing and Multifamily; Interstate Land Sales; Community Development Block Grants; and Title I Property Improvement Loans. Chapter 1 of this report summarizes our efforts and details significant investigative results in the Single Family Program area, e.g., loan origination and equity skimming, and Rental Assistance Programs.

#### Public Housing and Multifamily

- An investigation of illegal activities at the Damen Court Apartments, Chicago, Illinois, resulted in the indictment of an Illinois State Representative and his Legislative Aide for conspiracy, the filing of false income tax returns, and extortion in connection with profits derived from the project. In addition, a site manager was convicted of submission of false statements and mail fraud and the project sponsor, who had been a candidate for alderman/mayor, was convicted of income tax evasion.

This effort began with disclosures that tenants affiliated with a particular political organization received rental subsidies to which they were not entitled. The project managers and sponsors routinely falsified documents and submitted them to HUD in order to obtain rental assistance funds on behalf of these political allies.

To date, 20 tenants, all of whom were employees of either city, state, county or the Federal Government, have been sentenced for submitting false statements about their family composition or income to obtain housing assistance from 1979 to 1985. The court has thus far ordered restitution of \$268,462 to HUD, and those convicted have collectively received 31 months of confinement; 20 years of suspended sentences; 89 years of probation; \$10,000 in fines; and 2,000 hours of community service. Two trials are still pending. (United States vs. Edward Allen, Douglas Huff, Jeanette Nickles, et al., Northern District of Illinois).

- Two contractors in Baltimore, Maryland, were indicted on one count each of conspiracy and making false statements. The charges involved their role in fixing a \$2.1 million contract awarded by the Annapolis, Maryland Housing Authority to furnish exterior site work at the Robinwood Housing Development. Both contractors conspired to submit higher bids so that one of the contractors could win the contract. (United States vs. Robert Kniffen and James Cox, District of Maryland.)

- A former bookkeeper for the Monroe, Georgia Housing Authority was sentenced to 5 years in prison, 10 years probation, fined \$5,000 and ordered to make restitution of \$312,852. An investigation by the OIG and the Georgia Bureau of Investigation found that the bookkeeper was responsible for accounting for funds at five public housing authorities and misappropriating housing authority money between January 1985 and September 1986. (State of Georgia vs. Walter Herren.)
- The Executive Director of the Housing Authority (PHA) of the City of Idabel, Oklahoma, was sentenced to 5 years probation and ordered to make restitution of \$129,192 to the PHA. The Director waived indictment and pled guilty to two counts of embezzlement. She embezzled \$111,192 from the PHA general account and \$18,000 from the petty cash fund by falsifying documents regarding maintenance work performed by the PHA and then converting the money into cash for her own personal use. (United States vs. Carolyn Marie Zimmerman, Eastern District of Oklahoma.)
- The cashier of the Rock Island, Illinois Housing Authority was sentenced to 3 years in jail with all but 50 weekends suspended. The cashier was also placed on 5 years probation, fined \$50 and ordered to make restitution of \$41,895. In July 1987, the cashier pled guilty to theft after being charged by the U.S. Attorney with willfully embezzling funds from the Authority for personal use. An OIG investigation found that the cashier, who also served as an occupancy specialist at the Authority, was responsible for the misapplication of rental receipts between 1985 and 1986. (United States vs. Patricia A. McCormick, Central District of Illinois.)
- The Executive Director of the Greenville, Michigan Housing Commission pled guilty to the theft of government funds. The one-count plea was the result of an 18-count indictment returned in April 1987 by a Federal Grand Jury which charged the Executive Director with both theft and the submission of false statements to HUD. The Executive Director converted rental receipts and contract payments totaling \$30,000 to her personal use in 1982 and 1983. (United States vs. Patricia Heynen, Western District of Michigan.)
- The Executive Director of the Coshocton, Ohio Housing Authority was indicted by a Federal Grand Jury on fraud charges. The indictment charged the Executive Director with submitting false statements to HUD by altering authority invoices, and submitting a false claim for \$19,150 to HUD in connection with a requisition for Community Development Block Grant funds. In 1983, the Director changed invoices to conceal the purchase of a firearm and charged block grant funds for work already completed under the public housing program. (United States vs. John O'Reilly, Southern District of Ohio.)
- The Executive Director of the Indian Housing Authority (IHA) of the Iowa Tribe of Kansas and Nebraska was sentenced in Kansas City, Kansas, to 1 year in prison (suspended), 3 years probation, 4 months in an alcohol abuse treatment institution, and ordered to make restitution of \$3,700 to

the IHA. The Director pled guilty to embezzlement and theft from an Indian Tribal Organization after being charged with misusing and misappropriating IHA funds between January 1983 and April 1984. (United States vs. James A. Rhodd, District of Kansas.)

- A Federal Grand Jury in Kansas City, Missouri, indicted the former manager of Park Tower Gardens apartments. He was charged with one count of diverting project funds and five counts of making false statements to HUD. A joint OIG-FBI audit and investigation found that the manager misused or caused the misuse of \$8,574 between July 1984 and June 1985, and concealed his actions by causing the submission of false monthly accounting reports to HUD. The manager was suspended from doing business with HUD. (United States vs. Walter Johnson, Western District of Missouri.)
- A contractor in Grand Rapids, Minnesota, was convicted of submitting false statements to HUD in a scheme to underpay workers at a Federally funded housing project. An investigation conducted jointly by the OIG and the FBI found that the contractor falsified payroll forms for wages paid and received kickbacks of wages from employees in 1983. He was sentenced to serve 18 months on probation, ordered to make full restitution to underpaid employees and has been debarred from participating in HUD programs for 3 years. (United States vs. Richard S. Meyers, District of Minnesota.)

#### **Interstate Land Sales**

- A Federal Grand Jury in Oxford, Mississippi, returned a 154-count indictment against 16 individuals, identified as officers and/or employees of the Kilgore Mining Company, Southaven, Mississippi, charging them with conspiracy, mail fraud, wire fraud, Interstate Land Sales fraud, and interstate transportation of money taken by fraud. Seven additional employees of Kilgore Mining Company pled guilty to criminal informations charging them with the same violations. The OIG assisted the FBI in an investigation which disclosed that the individuals induced numerous people in 1985 and 1986 to invest large sums of money in what was purported to be the sale of 1-acre lots in Sebastian County, Arkansas. The lots were supposed to contain a guaranteed amount of 2,500 to 6,000 tons of coal deposit per acre. Fraudulent geology reports were used to support the scheme. Deeds were never delivered to a substantial number of the investors. (United States vs. David W. Judd, doing business as Kilgore Mining Company, et al., Northern District of Mississippi.)

### **Community Development Block Grants (CDBG)**

- The Executive Director of the Economic Development Cabinet, a governmental unit within the City of Louisville, Kentucky, pled guilty to one count of embezzlement. The Director was also a member of the Board of Directors of the Minority Venture Capital Corporation (MVCC), a nonprofit corporation established by the City of Louisville and funded through the CDBG program. An FBI investigation resulted in charges that the former Director caused a false application to be submitted by another person for a \$50,000 loan from MVCC. He then converted the \$50,000 to his own use and that of another person. (United States vs. Charles Roberts, Western District of Kentucky.)
- A director of a rental housing improvement program which received CDBG funds in Pittsburgh, Pennsylvania, was sentenced to 179 days in prison, 30 years suspended, 5 years probation, fined \$5,000, and ordered to make restitution of \$70,510. An FBI investigation disclosed that the director was funneling money into his own business by making CDBG loans to the business to remodel houses. (United States vs. David Joseph Panza, Western District of Pennsylvania.)
- An owner of a construction company in Finleyville, Pennsylvania, was sentenced to 2 years probation, ordered to pay fines totaling \$4,850 and make restitution to his employees in the amount of \$52,164. The sentencing followed a guilty plea to a one-count information charging the company owner with making false statements to the government. An FBI investigation determined that the owner failed to pay Federal prevailing wage rates on a Federally funded contract administered by the local redevelopment authority. The owner caused false entries to be made on weekly certified payroll sheets submitted to show compliance with the wage rates. (United States vs. John Arthur Smith, Western District of Pennsylvania.)

### **Title I Property Improvement Loans**

- A Federal Grand Jury in Houston, Texas, indicted a borrower on one count of making a false statement to HUD and one count of making a false statement to a savings association. The borrower applied for and received a \$15,000 Title I loan in September 1982, and failed to report a prior defaulted Title I loan. The Title I loan obtained in September 1982 went into default and resulted in a claim to HUD of \$15,623. (United States vs. Nash H. Saul, Southern District of Texas.)

- A borrower was sentenced in Cedar Rapids, Iowa, to 6 months probation and fined \$500 after pleading guilty to one count of making a false statement to HUD. The borrower obtained two Title I loans. She failed to make home improvements with the funds from one loan and failed to pay a contractor in full with the proceeds from the second loan. (United States vs. Roma Jean Brown, Northern District of Iowa.)
- Six individuals were charged in Philadelphia, Pennsylvania. One recipient was sentenced to a total of 15 years probation and ordered to perform 200 hours of community service and make restitution to HUD in the amount of \$25,281. Four other recipients were sentenced to a total of 31 years probation and ordered to make restitution to HUD in excess of \$62,442. The remaining borrower is awaiting sentencing after pleading guilty to one count of mail fraud and one count of making false statements to HUD. A joint investigation by the Postal Service and the OIG determined that the subjects obtained Title I home improvement loans by using fictitious names and fraudulent employment and credit information. The overall scheme involved 19 loans that have resulted in losses to HUD of \$246,300. (United States vs. Richard Teat, Tommy Wong, Kevin James, Sylvester Bryant, William Congan and Robert Stinson, Eastern District of Pennsylvania.)
- A mobile home corporation in Greenburg, Louisiana, entered a guilty plea to a 13-count criminal information and was subsequently sentenced to 5 years probation and fined a total of \$125,000. An OIG investigation showed that the corporation submitted false placement certificates and used inflated manufacturers' invoices in obtaining Title I loans for borrowers in 1983. (United States vs. Carter Mobile Homes, Inc., Southern District of Mississippi.)

## Chapter 4

### PREVENTION ACTIVITIES AND SPECIAL EFFORTS

This Chapter highlights efforts to prevent fraud, waste, and abuse and to improve the economy and efficiency of Departmental programs and operations. The chapter consists of five parts: Fraud Awareness; Monitoring Audit Quality; the President's Council on Integrity and Efficiency; the Committee on Fraud, Waste, and Mismanagement; and the HUD Hotline.

#### Fraud Awareness

Our awareness efforts were aimed at educating program participants, administrators, and HUD employees in the prevention and detection of fraud and abuse. To accomplish this, we developed awareness publications and made presentations at conferences hosted by various program participants.

During the reporting period, we concentrated our efforts on the Single Family Mortgage Insurance Programs. The problems in this area are described in Chapter 1. Our single family awareness publications are described below:

- Preventing Fraud in HUD's Single Family Insurance Programs. This bulletin was designed to alert builders, real estate agents, salespersons, appraisers, lenders, and attorneys of the possible consequences of abusing HUD's insurance programs.
- Fraud in Single Family Loan Originations. This bulletin provides guidance to mortgagees on how to identify common fraud schemes.
- Auditing HUD-Approved Mortgagees. This pamphlet discusses what an OIG audit means to a mortgagee and addresses some frequently asked questions. It explains the audit selection, review, report and resolution processes to mortgagees.
- Fee Appraisers. This bulletin is designed to make HUD staff aware of fee appraiser involvement in fraudulent schemes and the consequences or penalties associated with these schemes.
- Fraud Alert: Fictitious Notices of Mortgage Transfer or Sale. We assisted the Office of Housing in preparing a letter advising mortgagees of a new fraud scheme being perpetrated in the industry. In this scheme, borrowers were being instructed to send their mortgage payments to a phony company.

We also distributed the following publications:

#### Awareness Publications

- Indian Housing Authority Commissioners and the Low-Income Housing Programs. This bulletin emphasizes the leadership, policy development and monitoring functions of Indian Housing Authority Commissioners. The bulletin identifies operational areas subject to fraud, waste, and abuse.
- Monitoring Subrecipients in the CDBG Program. This bulletin emphasizes the responsibilities of grant recipients in monitoring subrecipients' activities and taking appropriate action to correct any identified problems.
- Microcomputer Security. This bulletin alerts HUD employees to the importance of safeguarding microcomputer equipment, software and related supplies. It describes the need for control over use of the equipment as well as the Standards of Conduct implications of misuse.
- Soliciting of Federal Employees Prohibited. We issued a HUD staff bulletin reminding employees that solicitation of government employees during working hours and on government premises is prohibited.

A list of all issued awareness publications is in the back of this report.

### **Training Workshops**

OIG Headquarters and Field staff made presentations at conferences and workshops sponsored by various organizations. The presentations included preventing and detecting fraud in Assisted Housing Programs and fraudulent activities in the Single Family Insurance Programs. These groups included the Mortgage Bankers Association; the Washington State Licensing Department, Real Estate Division; the Texas National Association of Housing and Redevelopment Officials (NAHRO); the New Hampshire Housing Authorities; the Massachusetts Executive Office of Communities and Development; the Mississippi Association of Redevelopment Officials; the Pennsylvania Association of Housing and Redevelopment Officials; the New England NAHRO; the Apartment Association of Indiana; the Illinois Housing Authorities Association; the Illinois NAHRO; the New York State Association of Redevelopment and Housing Officials; and the FBI.

### **Monitoring Audit Quality**

This section summarizes activities we have undertaken to monitor and improve the quality of audit work performed by non-Federal auditors. Such monitoring is required by the Inspector General Act of 1978 which provides that the Inspector General shall take appropriate steps to ensure that audit work performed by non-Federal auditors complies with the audit standards established by the Comptroller General.

The Department annually receives, pursuant to program requirements, more than 35,000 non-Federal audit reports. These include audits of State and local governments under the Single Audit Act, as well as entities participating in Federally insured housing programs and the Mortgage-Backed Securities Program under the National Housing Act. Only about 3,900 reports are reviewed by HUD-OIG. The majority of non-Federal audit reports are submitted directly to HUD program managers. HUD offices rely on these audits to provide financial and compliance information necessary for proper administration and oversight of Federal programs.

OIG monitoring activities include performing desk reviews of issued reports and more extensive on-site quality control reviews of audit work supporting non-Federal audit reports. Where necessary, clarifications and revisions of audit reports are obtained. In some instances, where the non-Federal audit work is found to be substandard or the non-Federal auditor has previously been advised of similar major inadequacies, the OIG will initiate referrals to regulatory and professional bodies. Referrals have been made to the American Institute of Certified Public Accountants (AICPA) and appropriate State Licensing Boards. In each case, we requested that the AICPA or State Board review the case and take appropriate sanctions. HUD may also take sanctions, including debarment, suspension, and temporary denial of participation in HUD programs.

The following table summarizes the monitoring results for the reporting period.

### Summary Results of IG Reviews of Audits by Non-Federal Auditors for the 6-Month Reporting Period

	Single Audits			Other Audits			Grand Total
	(Cognizant Assignments and General Oversight Entities)			(Performed Pursuant to OMB Circulars A-88, A-110, etc.)			
	Independent Public Accountant	State & Local Auditor	Total	Independent Public Accountant	State & Local Auditor	Total	
Total Reports Issued <sup>1</sup>	2,003	52	2,055	150	5	155	2,210 <sup>2</sup>
Total Reports on which Quality Control Reviews (QCRs) were Performed	175	6	181	209	1	210	391 <sup>3</sup>
Number of Reports Issued Without Modifications	1,697	42	1,739	118	4	122	1,861
Number of Reports Issued that Required Auditor Modifications:							
a. Based on Desk Reviews	275	8	283	27	1	28	311
b. Based on QCRs	31	2	33	5	0	5	38
c. Totals	306	10	316	32	1	33	349
Number of Reports Determined Not to Satisfy Federal Audit Requirements	0	0	0	5	0	5	5
Number of Non-Federal Auditors Referred to State Boards/AICPA for Substandard Work	0	0	0	4	0	4	4
Number of Non-Federal Auditors against which Other Sanctions Were Taken	3	0	3	4	0	4	7

<sup>1</sup>All reports are subject to desk reviews.

<sup>2</sup>This does not include Defense Contract Audit Agency and Single Audits for which we are not the cognizant agency.

<sup>3</sup>This includes QCRs done on reports not included in line 1.



The following is a brief description of the results of our monitoring efforts during the reporting period.

**Frequently  
Identified  
Audit Deficiencies**

- Little or no documentation existed for reviews of internal controls.
- Working papers lacked supporting documentation of required compliance tests.
- Audit programs setting forth the objectives of the reviews were not prepared.
- Working papers were unclear and required explanation.

**Examples of  
Extremely  
Deficient Audits**

- An Independent Public Accountant (IPA) did not follow generally accepted auditing standards and HUD requirements in developing sufficient competent evidential matter to support the audit opinion. The working papers did not: show that amounts reported were reconciled; contain evidence of an internal control review; and document source, purpose, description of work performed, and conclusion. The IPA also failed to disclose a limitation of audit scope in his report.
- Another IPA violated the rules of professional conduct and did not exercise due professional care in performing its audit. The IPA did not conduct adequate internal control reviews or obtain sufficient evidential matter to support the opinion rendered.

**Results of Referrals  
to State  
Boards/AICPA**

During the reporting period, four IPAs were referred to State Boards and/or the AICPA. As of September 30, 1987, 14 referrals were still under review by State Boards. Sanctions were administered against one IPA by a State Board which included the suspension of the IPA's license and certificate for 2 years. Also, there were seven debarments and/or temporary denials of participation issued by HUD against IPAs.

\* \* \* \* \*

The HUD Inspector General is a member of the Standards Committee of the President's Council on Integrity and Efficiency (PCIE). In this capacity, he has actively participated in the development of standardized guidelines for reviewing non-Federal auditors' reports (Desk Reviews) and their working papers (Quality Control Reviews). The guides were published in September 1987. This project will contribute to improved quality of audits performed by non-Federal auditors.

Our office is also heading a Standards Committee review of the disciplinary processes of all State Boards of Accountancy. The primary objectives are to determine: (1) how the various State Boards handle referrals of substandard work; (2) what obstacles exist to preclude effective disciplinary actions; (3) how State Boards define substandard or poor quality work; and (4) what action the IG community can take to improve the referral process. The PCIE

is conducting this review in coordination with the National Association of State Boards of Accountancy. The report is expected by the end of November 1987.

### **President's Council on Integrity and Efficiency**

In addition to the PCIE Standards Committee work just described, we were also involved in the following:

- Chaired the Training Committee, which provides a focal point for training and career development activities within the Inspector General community. During this period, we: initiated a series of Regional workshops for Field staff of PCIE member agencies; coordinated an Inspector General retreat at the Federal Executive Institute in Charlottesville, Virginia; and surveyed the Inspector General community regarding participation in and support to the Federal Law Enforcement Training Center.
- Initiated an audit of HUD's implementation of the Prompt Payment Act, as part of an Inspections and Special Reviews Committee project.
- Chaired the special pay rate subcommittee of the Inspections and Special Reviews Committee entry-level hiring project. During this period, a preliminary survey of entry-level salaries for auditors and accountants at 33 Federal governmental units was conducted.
- Participated in a Standards Committee project to develop a model audit guide for Inspector General review of implementation of the Federal Managers' Financial Integrity Act.
- Provided input to other projects of the Computer and Audits Committees (e.g., the Payment Integrity Project and the User Fees/Collections Project).

### **Committee on Fraud, Waste, and Mismanagement**

The Committee on Fraud, Waste, and Mismanagement (CFWM) completed research and drafted reports for two major projects: a review of HUD's Evaluation and Resolution Process and a review of HUD's Issuances and Regulations Systems.

The Committee reviewed the coordination and resolution processes for five Departmental evaluation systems: A-123; Field Performance Reviews; Internal Audits; Productivity Studies; and CFWM Studies. The objectives of this project were to determine the effectiveness of these systems in identifying and resolving problems, and to make recommendations for correcting weaknesses. The Committee found that resolution systems do not consistently ensure that recommendations are promptly or adequately implemented or actually solve the problems and that systems other than internal audits lack systematic and formal planning and coordination. The final report will contain specific recommendations for improving planning, coordination, and accountability.

### **Review of HUD's Evaluation and Resolution Process**

**Review of HUD's  
Issuances and  
Regulations  
Systems**

The Committee evaluated the Department's Issuances and Regulations Systems to determine how effectively policies and procedures are being developed and disseminated. When HUD operates outside these systems it leaves the Department vulnerable to lawsuits, reduces its credibility, and allows inconsistent or incorrect policy application. The Committee reviewed existing procedures; examined prior studies; surveyed Headquarters and Field staff; interviewed program officials; and researched systems used by other Federal agencies. Based on its work, the Committee found a need for top management oversight to expedite and resolve problems that occur during development, clearance, and distribution of both Issuances and Regulations. The final report will include specific recommendations such as formalizing earlier Field Office involvement and streamlining cumbersome aspects of the process through automation.

**HUD Hotline**

The HUD Hotline reviews allegations of fraud or mismanagement in HUD programs and operations. Over 3,100 complaints have been received since 1979 when the Hotline began. Most complaints were made by persons not providing their identity or wishing to remain confidential. Over half the complaints were against program participants and administrators. Approximately one-third of the complaints were against HUD offices or employees.

During the reporting period, 126 new complaints were received from the HUD Hotline or the General Accounting Office Hotline. Closing actions were taken on 126 new or already opened complaints, with 32 percent of these generating corrective action; this is up from 22.9 percent during the previous 6 months. Results of actions taken include: reducing subsidies to ineligible tenants; reprimanding HUD employees; canceling FHA insurance on ineligible Title I loans; and identifying approximately \$274,000 for recovery or reprogramming to reduce future HUD funding. Of this amount, \$27,000 was recovered by our office and is reported in our statistics. The remaining \$247,000 was identified by HUD program managers who were assigned the Hotline complaints. The following examples highlight the Hotline complaints closed during the reporting period:

- A city was required to reimburse its Community Development Block Grant (CDBG) Program \$170,000 for an ineligible expenditure of HUD funds. The City used CDBG funds to purchase land from itself so that the City could transfer funds from the CDBG program to its general revenue account. The City tried to gain flexibility in the use of funds by removing them from CDBG program requirements.

- A single family homebuyer was required to make an additional down payment of \$3,740 to obtain a HUD-insured investor mortgage. The homeowner falsely stated his intent to occupy the property so that he could qualify for a smaller down payment.
- The Executive Director of a public housing authority was sentenced to 3 years probation, denied participation in HUD programs for 1 year, and ordered to make \$8,000 restitution to HUD. The Executive Director was found guilty of embezzlement and misapplication of Authority funds.
- FHA insurance on Title I home improvement loans valued at \$21,656 was canceled after a Hotline evaluation disclosed that a Title I lender failed to comply with HUD requirements. The lender did not inspect certain properties located in a flood plain area before making insured loans on them. The lender subsequently revised its processing procedures.
- A city's letter of credit was reduced by \$73,034 for ineligible and unsupported expenditures of Urban Development Action Grant (UDAG) funds. The Hotline evaluation found that the city could not support payments made to contractors and had spent money for theater renovation which was an ineligible use of UDAG funds.
- A public housing authority returned \$13,617 to the Federal Treasury for disbursements not related to project development and excess development advances. The Hotline review found this money was due the government to close out a proposed project later found not economically feasible to construct.
- A tenant receiving a subsidy under HUD's Section 8 Program was required to reimburse HUD \$2,246. The ineligible tenant received the subsidy after underreporting income on the housing application.
- Officials of a HUD Field Office were required to adhere to established guidelines for HUD's single family property disposition activities. The officials were unduly flexible in giving refunds, not adequately monitoring overtime of their staff, and allowing a non-HUD employee to hand-deliver sealed bids to property auctions.

## Chapter 5

### REVIEW OF LEGISLATION, REGULATIONS, AND ISSUANCES

We reviewed legislative proposals, regulations, and issuances 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, regulations, and issuances on which we commented are described as follows:

#### **S. 908, Inspector General Act Amendments of 1987**

We reviewed proposed bill S. 908, "Inspector General Act Amendments of 1987," and generally supported the bill. We expressed our concern, however, with the increased costs which would be imposed on the Department to enhance our reporting system to comply with the bill. In addition to technical comments concerning audit resolution, we restated our support for the position set forth in testimony given by the HUD Inspector General on September 26, 1984, before the House Committee on Government Operations. The Inspector General stated that agencies similar to HUD should retain the advantages of a combined appropriation with agency management, and that separate appropriation accounts should be discretionary. The proposed bill is currently on the Senate calendar.

#### **HUD Handbook 7485.1, Public Housing Comprehensive Improvement Assistance Program**

We reviewed a revision of HUD Handbook 7485.1, Public Housing Comprehensive Improvement Assistance Program (CIAP), and nonconcurred in its issuance. The Office of Management and Budget, in OMB Circular A-102 (Revised), Uniform Requirements for Assistance to State and Local Governments, has set forth requirements for establishing consistency and uniformity in administering grant programs such as CIAP. These requirements were not included in the Handbook, and we suggested that they be incorporated into the text. We have been advised that the Handbook is being revised to include our suggestions, and we lifted our nonconcurrence. The Handbook has not yet been issued.

#### **Part 885, Loans for Housing for the Elderly or Handicapped**

We reviewed a proposed regulation on Part 885, Loans for Housing for the Elderly or Handicapped—Allocation of Loan Authority, Processing of Applications for Fund Reservations Direct Loan Processing Procedures. The rule proposed eliminating the existing requirement that each application include a conflict-of-interest certification from each officer and director of the borrower and sponsor, and would allow such certificates to be submitted

at the time of the request for direct loan financing. We were concerned about the apparent absence of measures to prevent conflicts-of-interest between the time of application and the request for direct loan financing. Also, certifications were not required for management contracts between borrower and sponsor or its nonprofit affiliate. We suggested that the regulation should define permissible types of management contracts and acceptable financial arrangements, and that the Department be required to review all such contracts. This pending regulation has been put on hold until after the implementation of several regulations collectively referred to as the "Homeless" regulations.

### **Lower Income Homeownership Refinancing Act**

We commented favorably on a draft bill on Section 235 refinancing, because it provides for reduced Federal expenditures at no cost to the Section 235 mortgagor. Such legislation would enable the Department to take advantage of reduced interest rates at times when current market rates are significantly below Section 235 insured rates applicable to many of the mortgages insured under the program. Also, it would rescind any recaptured budget authority, so that there would be no source of funding with which to reopen the program, thereby reducing significantly the grounds for objections that have been raised within the Administration against previous refinancing proposals. We recommended expanding the section on "Use of Available Administrative and Technical Expertise" to include the use of contractors to contact high interest mortgagors, making them aware of this new legislation and the savings that will result.

## Chapter 6

### 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, 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 semiannual reporting period, in connection with investigations, are shown below.

- A Regional Administrator was suspended without pay for 60 days after a finding by the Merit Systems Protection Board that he retaliated against an employee who provided information to the OIG. The employee was denied promotion by the Regional Administrator after the employee cooperated in an earlier OIG investigation. The employee subsequently received the promotion.
- A HUD employee pled guilty to one count of theft of government property following an OIG investigation which disclosed that she falsified her income in order to receive excess Section 8 rental assistance. The U.S. District Court ordered the employee to make full restitution of \$1,567 and placed her on 3 years probation. The employee was orally admonished by her supervisor.
- A former HUD attorney advisor was sentenced to 1 year probation and fined \$1,000 following a guilty plea to one count of making false statements to the government about a travel voucher.
- A clerk-typist was removed from Federal service for abandoning his position. The employee ceased reporting for work after an investigation disclosed the employee had received over \$1,000 as the result of false and/or forged travel vouchers and requisitions. Collection action was initiated to recoup the government's losses from the employee's retirement contributions.
- A computer specialist resigned from HUD employment after an investigation substantiated allegations that the employee falsified an employment application concerning previous experience and education. During the course of the investigation, the employee admitted purchasing a college degree for \$50.

- A loan assistant was suspended for 10 workdays. The employee worked over a 4-month period during non-duty hours for a multifamily project doing business with HUD. The employee's supervisor was issued a letter of reprimand for having knowledge of and allowing the outside employment activity to take place.
- A loan assistant was suspended for 5 days. The employee worked several weekends for and drew a salary from a property management firm doing business with HUD.
- A property disposition branch chief received a 5-day suspension for failing to take appropriate action upon receipt of information pertaining to job-related wrongdoing on the part of a subordinate employee. The branch chief also lost, or gave the appearance of losing, complete independence and impartiality by providing advance property listing information to an Area Management Broker.



## Chapter 7

## STATISTICAL SUMMARY

Department of Housing and Urban Development  
Office of Inspector General

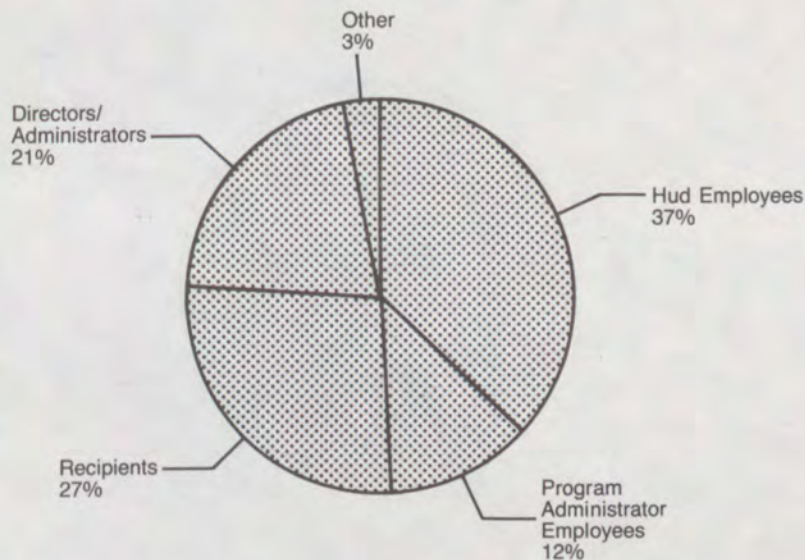
April 1, 1987 through  
September 30, 1987

• <b>Cash Recoveries/Savings</b>		\$33,575,948
Audit:	\$28,223,021	
Investigation:	\$5,352,927	
• <b>Commitments to Recover Funds</b>		\$32,770,106
Audit:	\$32,171,082	
Investigation:	\$599,024	
• <b>Cost Efficiencies</b>		\$18,009,993
Audit:	\$17,605,658	
Investigation:	\$404,335	
• <b>Total Fines Levied</b>		\$703,450
• <b>Indictments (Convictions)</b>		230(175)
Persons and Firms:	229(174)	
HUD Employees	1(1)	
• <b>Total Years of Prison Sentences</b>		157
• <b>Mortgagees/Lenders Sanctioned as a Result of Referrals to HUD Mortgagee Review Board</b>		20
• <b>Suspensions of Persons/Firms Doing Business with HUD</b>		197
Audit:	54	
Investigation:	143	
• <b>Debarments of Persons/Firms Doing Business with HUD</b>		100
Audit:	9	
Investigation:	91	
• <b>Personnel Actions Initiated Against HUD Employees</b>		28
• <b>Subpoenas Served</b>		44
Audit:	28	
Investigation:	16	
• <b>Reports Issued</b>		2,661
Internal Audit Reports:	21	
External Audit Reports:	77	
Audit-Related Memoranda Issued:	32	
Non-Federal & Other Agency Reports Accepted:	2,531	
• <b>Fraud Awareness Publications Issued</b>		9
• <b>Hotline Complaints Opened</b>		126
• <b>Proposed Legislation and Regulations Reviewed</b>		75

The following chart depicts the category of subjects for the 126 hotline complaints received during the past 6 months. Ninety-one of the complaints were received over HUD's Hotline and 35 over the GAO Hotline.

## Hotline Activities

**Distribution of Hotline Complaints by Subject**  
April 1, 1987 Through September 30, 1987



The following is a summary of significant results for the 126 complaints closed during the reporting period:

- Cash Recoveries or Claim Collections = \$273,949
- Court-Ordered Probation = 3 years
- Reprimands or Terminations = 12 cases
- HUD Insurance Risk or Subsidy Reduced = 13 cases
- Procedural Improvements = 10 cases
- Rules Enforced to Benefit of Participants = 7 instances

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

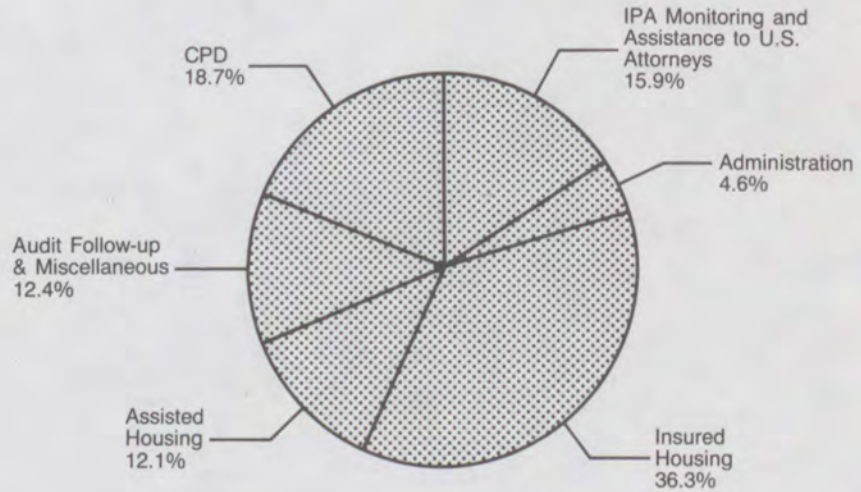
## Audit Findings

- Audit findings unresolved at 4/1/87 = 1,434
- Audit findings issued during the period = 2,787
- Audit findings resolved during the period = 2,734
- Audit findings unresolved at 9/30/87 = 1,487
- Audit findings unresolved over 6 months old = 139 (\$9,462,825)

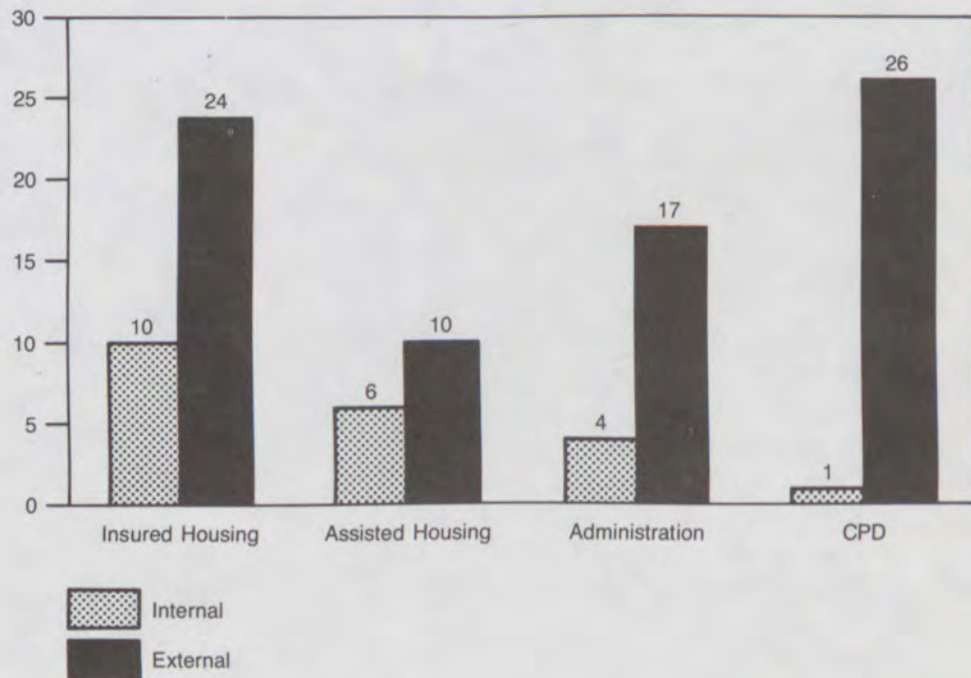
**Audit Resources and Results**

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

**Distribution of Audit Staff Time by Program Area and Type of Audit**  
 April 1, 1987 Through September 30, 1987



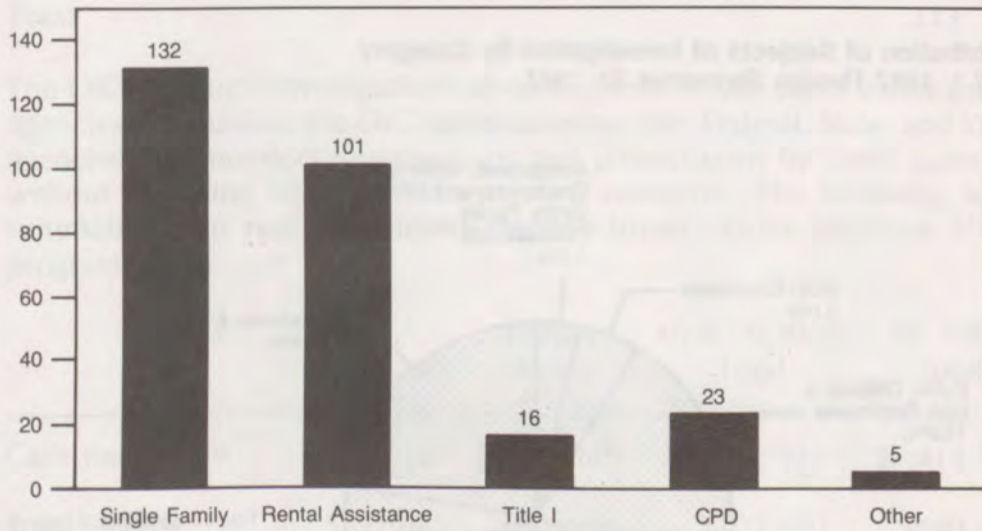
**Distribution of Audit Reports Issued by Program Area and Type of Audit**  
 April 1, 1987 Through September 30, 1987



The following tables break down the 460 investigation cases opened during the last 6 months. Of these cases, 277 involved false statement violations as shown below.

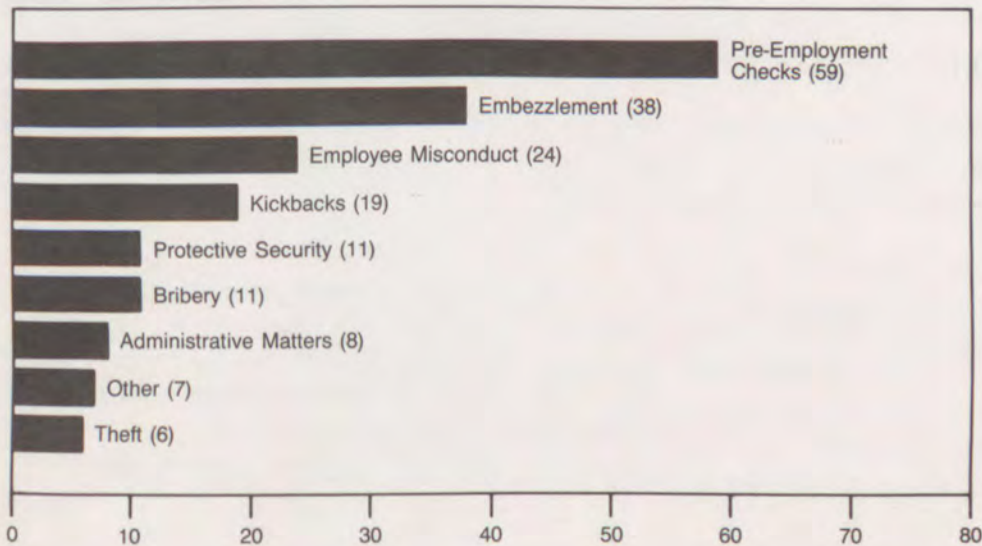
**Investigation Cases Opened**

**False Statement Investigation Cases Opened**  
*April 1, 1987 Through September 30, 1987*



The following table depicts the types of alleged violations involved in the remaining 183 cases that were opened.

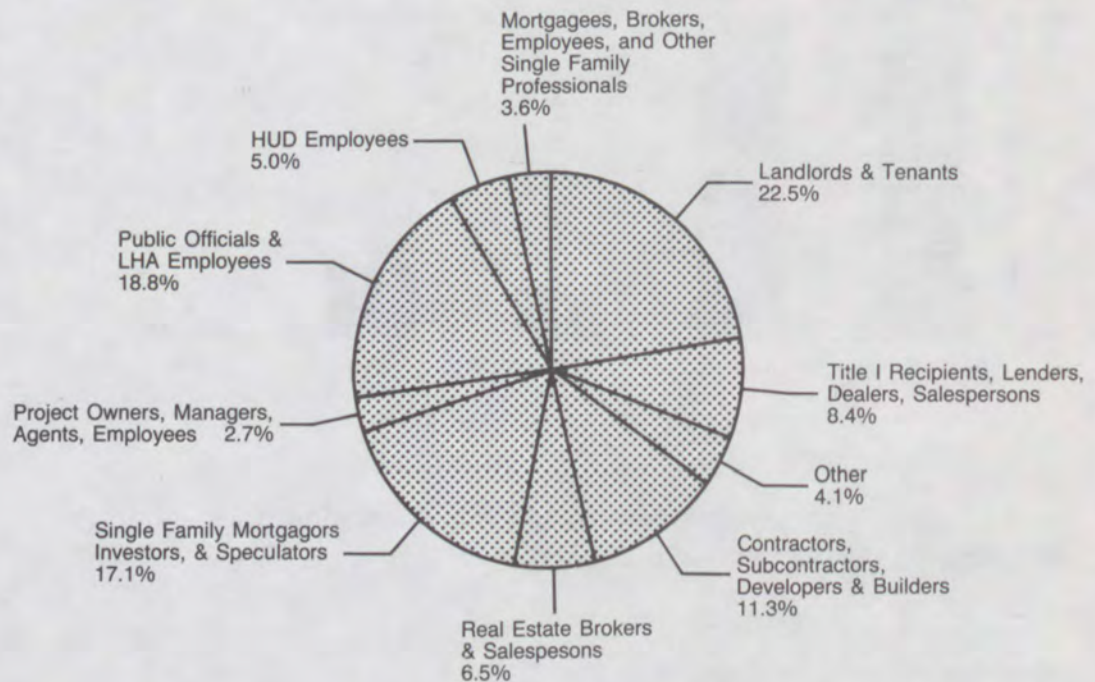
**Other Categories of Investigation**  
*April 1, 1987 Through September 30, 1987*



**Pending Cases** As of September 30, 1987, we had 1,499 investigation cases either in process or awaiting investigation. Of these, 645 were FBI/other cases, 612 were cases of the OIG, and 242 were completed cases pending with the U.S. Attorney.

**Closed Cases** The OIG closed 641 investigation cases during the reporting period. The 641 cases closed involved 770 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**  
*April 1, 1987 Through September 30, 1987*



The OIG referred 113 investigation cases for prosecutive consideration as follows:

Referred by OIG to:	No. of Cases
FBI (Prima Facie-OIG Investigation)	5
FBI (No OIG Investigation)	49
Department of Justice	59
Total	<u>113</u>

### Investigation Cases Referred for Prosecution

The OIG conducts investigations alone and jointly with other investigative agencies. In addition, the OIG refers cases to other Federal, State, and local agencies and monitors investigations and prosecutions by these agencies without providing significant investigative assistance. The following table summarizes the results achieved through investigations involving HUD programs.

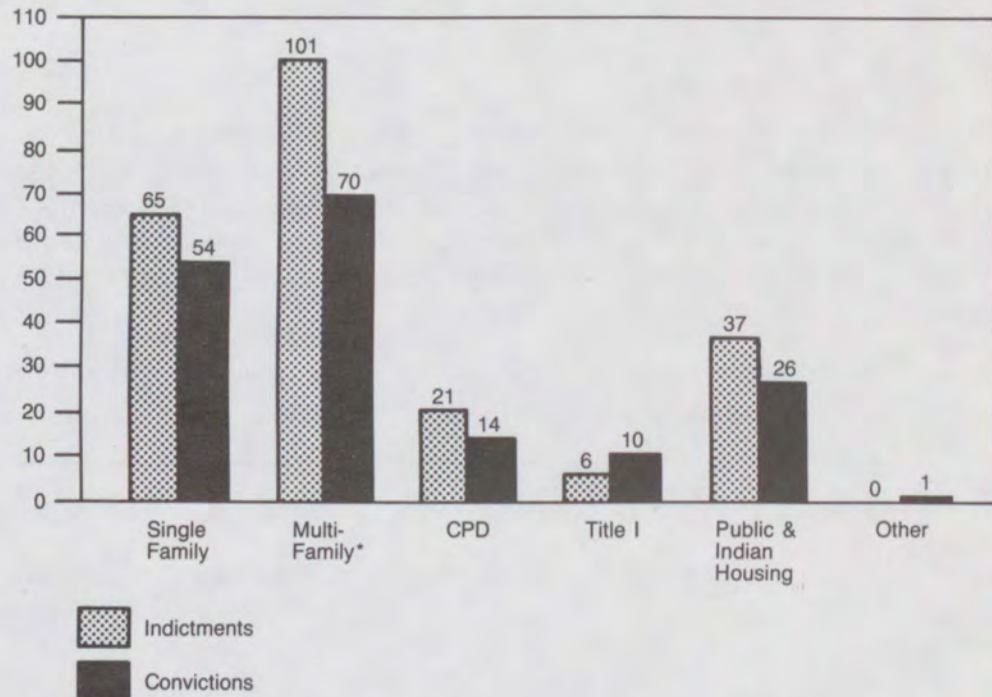
### Prosecutions and Recoveries

	OIG/ Joint Cases	Others Alone	4/1/87-9/30/87 Total	FY 1987 Total
Cash Recoveries	\$3,674,120	\$1,678,807	\$5,352,927	\$7,314,365
Total Fines	\$297,445	\$406,005	\$703,450	\$949,546
Persons/Firms Indicted	149	81	230	364
Persons/Firms Convicted (Including pre- trial diversions)	124	51	175	329
Total Years Prison Sentences	104	53	157	353
Total Years Suspended/Probated Sentences	469	204	673	1,092

The following table illustrates the program areas in which indictments and convictions (including pretrial diversions) occurred during the past 6 months.

### Prosecutions

April 1, 1987 Through September 30, 1987



\*The cases prosecuted in the multifamily area include cases of individual tenants in HUD's Rental Assistance Programs.

## Chapter 8

### AUDIT RESOLUTION AND FOLLOW-UP

Office of Management and Budget Circular A-50 Revised emphasizes that the audit resolution and follow-up process is an important part of good management. Corrective action taken by management on audit findings and recommendations is essential to improving the efficiency and effectiveness of an agency's operations.

We continue to focus attention on obstacles to timely and effective audit resolution and follow-up. Our long-range audit plan identifies audit resolution as a significant issue area and includes a number of planned actions to address various aspects of the audit resolution and follow-up process.

Audit reports discussed in previous Semiannual Reports and which contain significant recommendations that are not fully implemented are discussed in this section. Target dates for completed action are shown, when applicable. This list does not include reports which contained monetary recommendations if satisfactory repayment plans have been established even though all monies have not been completely recovered. Four reports are highlighted below, followed by the list.

- Development and Management of Indian Housing. We discussed this issue in our Semiannual Report for the period ending March 31, 1986. The development of Indian housing is a slow and costly process; it is also complex and poorly controlled. Once developed, the housing is not well-managed. Therefore, the Indian housing program is being subjected to waste and abuse.

Following established guidelines, it takes 40 months from the time development funds are appropriated until a housing unit is occupied. The development process is further lengthened by the poor controls that are maintained over key aspects of the process including unit allocations, project planning, fund advances, budget and cost controls, and project financing. The most significant delays occur from the time funding is appropriated until construction actually starts.

In addition to being financially troubled, the Indian housing authorities (IHAs) that we reviewed generally were experiencing serious management problems covering all facets of their operations. With the exception of the Navajo Housing Authority, tenant management practices were very weak. Proper rents were not being charged, and much of the rent that was being charged was not collected. Maintenance was generally poor

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



because of the weak rental collection practices as well as the inability of the IHAs to properly manage their maintenance functions. The IHAs also failed to reduce utility consumption and, in some instances, utility costs actually increased after new heating systems were installed. Cash shortages, travel abuse and procurement problems were not uncommon. Five of the IHAs were so poorly managed that their ability to provide decent, safe and sanitary housing is being or will be affected.

The Office of Public and Indian Housing (OPIH) expressed general agreement with our findings and recommendations and indicated it is trying to expedite IHA housing development and improve IHA management. It advised us that certain actions were being taken, including, but not limited to, performance standards for awarding dwelling units, automated cash management controls, and a policy to recapture excess funds timely. However, OPIH still has not addressed all of the recommendations in our two findings. (Audit Report No. 86-TS-101-0018.)

- Development Project, Chicago Housing Authority. We discussed this project in our Semiannual Reports for the periods ending March 31, 1986, and March 31, 1987. 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. The Chicago Housing Authority requested an increase in development costs from \$26.1 million to \$43.1 million to finish the project. We found this budget to be overstated and recommended a reduction of about \$13.3 million. We also recommended splitting off the elderly phase of the development project, thereby reducing capitalized interest for the project by over \$3.1 million. The Department agreed with our position. A revised development cost budget reducing development costs and splitting off the elderly project was sent to the Authority on August 8, 1986. The Authority did not sign the revised budget despite numerous follow-up attempts by the local HUD office.

On August 14, 1987, the Court, in *Gautreaux vs. Pierce*, tentatively appointed a receiver to develop this and nine other Chicago Housing Authority "scattered site" public housing projects contingent upon the receiver's filing a notice with the Court that there is liability insurance in force.

- Title I Property Improvement Loan Insurance Program (Dealer Loans). Our Semiannual Reports for the periods ending March 31, 1986, and March 31, 1987, highlighted serious problems in HUD's Title I Property Improvement Loan Insurance Program. We estimated that over 5,900 loans valued at \$3.5 million were poorly underwritten during our 6-month audit period. We recommended that the dealer loan portion of the Title I Program be

terminated because of its vulnerability to misuse. HUD's Office of Housing disagreed with our recommendation. The program office furnished alternative solutions in mid-August 1987, but did not adequately address our concerns over the lack of checks and balances needed when a home improvement contractor/product dealer is allowed to originate the related loan. HUD's Office of Housing has proposed a study to evaluate the weaknesses in the dealer loan portion of the program. We will analyze the study results to determine whether the alternative solutions proposed by the Office of Housing will overcome the problems that our recommendations addressed. (Audit Report No. 86-TS-122-0010.)

- Detroit Housing Department (DHD). Detroit's major problems as disclosed in our 1983 and 1987 audit reports concerned the deteriorating condition of its housing stock and the number of vacant units. Headquarters executed a Memorandum of Understanding with the DHD in May 1987 to address: maintenance activities; inventory control; demolition and disposition strategies; a comprehensive occupancy plan to reduce vacancies; and a comprehensive modernization plan. Further, the Memorandum of Understanding stated that "failure on the part of the Detroit Housing Department to take all possible actions within their control to implement this Understanding will constitute sufficient basis for a finding of lack of administrative capability." The comprehensive occupancy plan to reduce vacancies had not been completed at September 30, 1987. The DHD has not reduced the number of vacant units. The number of vacancies has increased from 25 percent in Fiscal Year 1982 to 36 percent and 41.9 percent in Fiscal Years 1986 and 1987, respectively. Further, the comprehensive plan for modernization had not been completed at September 30, 1987. In 1982 HUD provided Detroit \$755,000 for demolition of units at the Parkwide project. At September 30, 1987, about \$600,000 remained unobligated. In September 1987, Detroit requested an extension for obligating Fiscal Year 1983 and 1984 funds. Headquarters had instructed the Field Office to consider recapturing the modernization funds by October 2, 1987, if the DHD had not made significant progress in obligating modernization funds. The DHD has not responded to the 1986 audit report. The Field Office expected the response in June 1987.

In a memorandum dated June 2, 1987, the General Deputy Assistant Secretary for Public and Indian Housing informed the Office of Inspector General that the Department is committed to taking decisive action in the event of the DHD's willful or negligent failure to show steady progress in improving its Low-Income Housing Program. However, as of September 30, 1987, the Department had not taken any action against the DHD. (Audit Report No. 87-CH-201-1007.)

Report Number	Title	Report Issue Date	Target Date
82-PH-202-2270	The Philadelphia Housing Authority Philadelphia, Pennsylvania	05/28/82	<u>1</u> /
84-AO-108-0003	Review of HUD's Consolidated Supply Program	03/14/84	<u>2</u> /
84-PH-201-2303	Public Housing Agency, Philadelphia, Pennsylvania	08/10/84	<u>1</u> /
85-NY-241-1004	CDBG, San Juan, Puerto Rico	10/26/84	<u>3</u> /
85-BO-201-1004	Public Housing Agency - Section 8 Moderate Rehabilitation Program, Boston, Massachusetts	02/15/85	12/31/87
85-DE-202-1003	Low-Income Housing Program, Crow Creek Housing Authority	04/26/85	<u>6</u> /
85-NY-241-1054	CDBG, Niagara Falls, New York	07/03/85	<u>3</u> /
85-SE-112-0003	Development of Indian Housing, Region X	07/12/85	<u>6</u> /
85-PH-242-1013	Urban Development Action Grant, Baltimore, Maryland	08/09/85	<u>2</u> /
86-SF-203-1002	Rehabilitation Program, Oakland, California	11/15/85	<u>1</u> /
86-SF-212-1003	Pittsburg Plaza Project, Pittsburg, California	11/29/85	10/30/87
86-SF-214-1005	The Western Group, Fresno, California	12/17/85	12/31/87
86-AT-203-1006	Section 8 Moderate Rehabilitation Program Chattanooga, Tennessee	12/18/85	<u>6</u> /
86-CH-202-1003	Public Housing Agency, Pontiac, Michigan	01/10/86	01/31/88
86-NY-242-1019	UDAG and Low-Income Housing, City of Salem, New Jersey	01/21/86	<u>1</u> /
86-KC-211-1005	Hidden Valley Estates, Wentzville, Missouri	02/19/86	<u>4</u> /
86-SE-201-1003	Low-Income and Section 8 Moderate Rehabilitation Programs, Seattle, Washington	02/21/86	<u>4</u> /
86-PH-249-1003	Urban Redevelopment Authority, Pittsburgh, Pennsylvania	02/26/86	12/07/87
86-TS-122-0010	Title I Property Improvement Loan Insurance Program (Dealer Loans)	02/28/86	<u>5</u> /

Report Number	Title	Report Issue Date	Target Date
86-CH-201-1005	Cuyahoga Metro Housing Authority, Cleveland, Ohio	03/14/86	<u>2</u> /
86-SF-203-1014	Section 8 Existing Housing Program, Berkeley, California	03/27/86	<u>2</u> /
86-TS-101-0011	Development Project, Chicago Housing Authority	03/27/86	<u>5</u> /
86-TS-112-0012	Title X Mortgage Insurance for Land Development Program	03/31/86	<u>6</u> /
86-TS-101-0013	National Report on Computation of Target Investment Income and Allowable Utility Expenses Under Performance Funding System	03/31/86	12/31/87
86-KC-241-1008	CDBG Activities, Jobs Bill, St. Louis, Missouri	04/24/86	<u>4</u> /
86-AT-203-1010	Section 8 Program, Nashville, Tennessee	05/01/86	<u>6</u> /
86-NY-219-1029	Property Disposition, San Juan, Puerto Rico	05/06/86	<u>1</u> /
86-KC-241-1009	CDBG Activities, St. Louis, Missouri	06/11/86	<u>1</u> /
86-TS-101-0018	The Development and Management of Indian Housing	06/19/86	<u>5</u> /
86-TS-111-0019	Deposit and Use of Reserve for Replacement and Residual Receipts Funds	06/24/86	<u>6</u> /
86-AT-214-1013	Tenant Income Comparisons, National Coalition for Housing Partnerships	07/02/86	<u>6</u> /
86-SF-201-1019	Section 8 Existing Housing Program, Los Angeles, California	07/11/86	<u>4</u> /
86-AT-214-1014	Tenant Income Comparisons, Metric Property Services, Inc., Atlanta, Georgia	07/17/86	<u>6</u> /
86-PH-241-1008	Effectiveness of the City of Philadelphia's Monitoring of Its CDBG Program, Philadelphia, Pennsylvania	07/24/86	<u>6</u> /
86-KC-241-1012	CDBG Activities, St. Louis, Missouri	08/07/86	<u>1</u> /
86-AO-145-0006	Review of CPD Technical Assistance Program	08/15/86	<u>6</u> /
86-BO-202-1017	Housing Authority, Providence, Rhode Island	09/15/86	<u>2</u> /

Report Number	Title	Report Issue Date	Target Date
86-CH-201-1802	Housing Authority, Indianapolis, Indiana	09/24/86	<u>2</u> /
86-AO-279-1014	Review of Combined Services Agreement with FNMA, Washington, D.C.	09/26/86	<u>1</u> /
87-CH-202-2049	Housing Authority, East St. Louis, Illinois	11/04/86	<u>2</u> /
87-NY-211-1014	Dayton Operating Company, Dayton Seaside Associates #2 and Dayton Seaside Associates #3, Queens, NY	11/20/86	<u>1</u> /
87-SF-212-1002	Concord Senior Housing Foundation, Pasadena, California	11/21/86	10/01/87
87-SF-212-1003	Sunnyhills Apartments, Milpitas, California	12/01/86	<u>1</u> /
87-AT-214-1003	Paradise Management, Inc., Atlanta, Georgia	12/03/86	<u>6</u> /
87-AO-161-0001	HUD's Implementation of OMB Cir. A-123, Cir. A-127 & Federal Managers' Financial Integrity Act of 1982	12/12/86	12/01/87
87-FW-212-1002	Calvary Arms Apartments, Dallas, Texas	12/12/86	04/01/88
87-PH-203-1002	Section 8 New Construction & Substantial Rehabilitation Program, Maryland Community Development Administration, Annapolis, Maryland	12/22/86	<u>6</u> /
87-CH-212-1003	Country Way Apartments, Saginaw, Michigan	12/24/86	11/12/87
87-NY-244-1018	Community Development Block Grant, Charlotte Amalie, Virgin Islands	01/22/87	<u>1</u> /
87-NY-241-1019	Community Development Block Grant, Bayamon, PR	02/13/87	<u>3</u> /
87-CH-241-2293	CDBG Activities, Chicago, Illinois	02/25/87	12/31/88
87-PH-112-0001	Section 202 Fund Reservation Application Processing, Fiscal Year 1985	03/11/87	<u>6</u> /
87-SF-103-0001	Special Claims Under the Section 8 Housing Assistance Payments Program	03/13/87	<u>6</u> /
87-CH-201-1007	Low-Income Housing Program, Detroit, Michigan	03/24/87	<u>5</u> /
87-BO-111-0002	Repairs on Multifamily Projects in HUD's Possession	03/30/87	10/15/87

Report Number	Title	Report Issue Date	Target Date
87-BO-203-1011	Section 8 New Construction and Substantial Rehabilitation Program, Massachusetts Housing Finance Agency, Boston, Massachusetts	03/30/87	12/31/87
87-BO-212-1012	Franklin Park I, Inc., and Franklin Park II, Inc., Boston, Massachusetts	03/31/87	1/
87-CH-103-0002	Special Claims Under the Section 8 Housing Assistance Payments Program	03/31/87	12/31/87

Footnotes:

- 1/ No repayment plan established for sustained monetary amounts.
- 2/ Promised implementation dates not met.
- 3/ Auditee attempting to document costs to avoid repaying sustained monetary amounts.
- 4/ Under review by Headquarters officials as prescribed by HUD Audits Management System.
- 5/ Status described in narrative at beginning of this chapter.
- 6/ Findings not resolved as of 9/30/87.

## Appendix 1

### AUDIT REPORTS ISSUES

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 those reports.

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#### Internal Audit Reports

Report Number	Report Title	Issue Date
<i>Housing</i>		
87-AT-121-0003	Single Family Loans Processed by the Columbia Office	09/18/87
87-BO-101-0003	Monitoring of the Comprehensive Improvement Assistance Program	09/30/87
87-CH-111-0003	Repairs and Rent Increases on Multifamily Projects in HUD's Possession	07/17/87
87-CH-121-0004	Insured Housing Program, Chicago Single Family Activities	07/31/87
87-CH-121-0005	Single Family Operations - Flint, Michigan	09/29/87
87-KC-101-0001	Management of Assisted Housing Activities	09/11/87
87-NY-111-0002	Repairs and Rent Increases on Multifamily Projects in HUD's Possession	07/14/87
87-PH-112-0002	FY 1986 Section 202 Application Processing for Fund Reservation Approval	04/07/87
87-PH-103-0003	Special Claims Under the Section 8 Program	06/05/87
87-SF-123-0002	Sacramento Office's Administration of Area Management Brokers	06/10/87
87-SF-121-0003	Summary of Results of Six Los Angeles Mortgagee Audits and Follow-up Review of Los Angeles Field Office	08/07/87
87-SF-111-0004	HUD Monitoring of Villa San Pedro Apartments	09/25/87
87-TS-121-0003	Review of U.S. Shelter Cases - Columbia, South Carolina	05/21/87
87-TS-101-0004	Development of Allowances for Tenant-Purchased Utilities in Region IV	05/29/87
87-TS-103-0005	Summarization of External Audit Results on the Section 8 Existing Program	05/29/87
87-TS-103-0006	Review of Special Claims in the Section 8 Program	07/30/87

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**Internal Audit Reports**

<b>Report Number</b>	<b>Report Title</b>	<b>Issue Date</b>
<i>Community Planning and Development</i>		
87-AO-144-0002	Report on Adequacy of Section 312 Loan Servicing	04/29/87
<i>Administration</i>		
87-AO-169-0201	Liquidating Programs Fund	08/31/87
87-AO-169-0202	Mobile Homes Inspection and Monitoring Program	08/21/87
87-AO-169-0203	Low Rent Public Housing Program Revolving Fund	09/30/87
87-FW-161-0001	Performance Funding System Obligations	05/21/87

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**External Audit and Accounting Systems Evaluation Reports**

<b>Report Number</b>	<b>Report Title</b>	<b>Location</b>	<b>Issue Date</b>
<i>Housing</i>			
87-AT-202-1008	Low-Income Housing Programs	Monroe GA	04/13/87
87-AT-212-1014	Queen City Investors III-Bent Oak Apartments	Salisbury NC	07/23/87
87-AT-202-1019	Conventional and Section 8 Low-Income Housing Programs	Fort Payne AL	09/09/87
87-AT-202-1020	Housing Authority	Russellville KY	09/17/87
87-AT-202-1021	Housing Authority	Eastman GA	09/17/87
87-AT-202-1022	Housing Authority	Rogersville TN	09/28/87
87-CH-201-1008	Low-Income Housing Program	Flint MI	05/29/87
87-FW-212-1004	Willow Tree Apartments	Grand Prairie TX	09/18/87
86-FW-202-1006*	Housing Authority - Fund Diversions	Jefferson TX	04/20/87
86-FW-202-1007*	Housing Authority - Fund Diversions	Marshall TX	04/20/87
87-NY-209-1022	Low-Income Housing and Section 8 Existing Programs	Carteret NJ	05/06/87

\* Delayed release report



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**External Audit and Accounting Systems Evaluation Reports**


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<b>Report Number</b>	<b>Report Title</b>	<b>Location</b>	<b>Issue Date</b>
83-NY-212-1051*	Cupey Bajo Nursing Home, Inc.	San Juan PR	06/01/87
87-PH-212-1013	Trenton Terrace Apartments	Washington DC	04/28/87
87-SE-209-1007	Cook Inlet Housing Authority	Anchorage AL	09/29/87
87-SF-214-1006	Park Management Company	Las Vegas NV	05/05/87
87-SF-214-1009	G And K Management Co., Inc.	Culver City CA	06/25/87
87-SF-212-1010	Villa San Pedro Apartments, Inc.	San Jose CA	07/09/87
87-SF-214-1011	Young Kim Management Company	Los Angeles CA	07/15/87
87-SF-212-1012	Cedarwood Apartments	Columbia SC	07/28/87
87-SF-212-1013	College Town Apartments	Sacramento CA	09/11/87
87-TS-221-1017	National Pacific Mortgage Corporation	Cerritos CA	09/30/87
87-TS-221-1018	Fleet Mortgage Corporation	Chicago IL	04/27/87
87-TS-221-1019	Waterfield Financial Corporation	San Antonio TX	04/28/87
87-TS-221-1020	First City Mortgage, Inc.	Jackson MS	05/19/87
87-TS-221-1021	Commonwealth Mortgage Company	Rolling Meadows IL	05/26/87
87-TS-221-1022	Norwest Mortgage, Inc.	Oklahoma City OK	06/03/87
87-TS-221-1023	US Mortgage Company	Denver CO	06/15/87
87-TS-229-1024	Briercroft Service Corporation	Lubbock TX	06/24/87
87-TS-221-1025	Norwest Mortgage, Inc.	Waltham MA	07/17/87
87-TS-221-1026	First State Mortgage Company	Cerritos CA	08/14/87
87-TS-221-1027	Anchor Mortgage Corporation	St. Petersburg FL	09/08/87
87-TS-221-1028	Foster Mortgage Corporation	Colorado Springs CO	09/08/87
87-TS-221-1029	Centurion Mortgage Company	Fort Worth TX	09/28/87
87-TS-221-1030	Prairie State Mortgage Co., Inc.	Westchester IL	09/28/87

\* Delayed release report

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**External Audit and Accounting Systems Evaluation Reports**


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<b>Report Number</b>	<b>Report Title</b>	<b>Location</b>	<b>Issue Date</b>
<i>Community Planning and Development</i>			
87-AT-259-1010	Rental Rehabilitation Program	Florence AL	05/12/87
87-AT-259-1011	Rental Rehabilitation Program	Greenville SC	05/14/87
87-AT-259-1012	Rental Rehabilitation Program	Lexington-Fayette KY	07/10/87
87-AT-248-1013	Accounting System Evaluation	Belle Glade FL	07/17/87
87-AT-248-1015	Pro-Mark, Inc.	Jackson MS	07/23/87
87-AT-248-1016	Accounting System Evaluation	Fayette MS	08/18/87
87-AT-248-1018	Accounting System Evaluation	Gretna FL	09/09/87
87-BO-259-1013	Rental Rehabilitation Program	Boston MA	05/20/87
87-BO-241-1015	Community Development Block Grant Program	New Haven CT	09/14/87
87-CH-241-1009	Community Development Block Grant Program	Milwaukee WI	07/14/87
87-CH-259-1010	Rental Rehabilitation Program	Chicago IL	07/22/87
87-FW-259-1003	Rental Rehabilitation Program	New Orleans LA	04/23/87
87-KC-259-1004	Rental Rehabilitation Program	South Sioux City NE	07/07/87
87-KC-259-1005	Rental Rehabilitation Program	Des Moines IA	08/04/87
87-NY-241-1024	Community Development Programs	Schenectady NY	08/14/87
87-NY-259-1025	Rental Rehabilitation Program	Ponce Municipio PR	07/27/87
87-NY-241-1026	Community Development Block Grant Program	Carolina Municipio PR	08/06/87
87-NY-248-1028	Financial Management System Evaluation	Walton NY	09/11/87
87-NY-248-1029	Financial Management System Evaluation	Stillwater Town NY	09/11/87
87-NY-248-1031	Financial Management System Evaluation	Schodack NY	09/21/87

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**External Audit and Accounting System Evaluation Reports**


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<b>Report Number</b>	<b>Report Title</b>	<b>Location</b>	<b>Issue Date</b>
87-NY-248-1032	Financial Management System Evaluation	Schuylerville NY	09/21/87
87-NY-248-1033	Financial Management System Evaluation	Malone NY	09/22/87
87-NY-241-1034	Community Development Block Grant Program	Camden NJ	09/29/87
87-PH-241-1014	Effectiveness Of Jobs Bill Program	Philadelphia PA	05/26/87
87-PH-249-1015	Rental Rehabilitation Program	West Chester PA	07/23/87
87-SF-259-1014	Rental Rehabilitation Program	San Diego CA	09/30/87
<i>Administration</i>			
87-AO-261-1009	Dunnells, Duval, Bennett & Porter	Washington DC	06/08/87
87-AO-262-1010	National Conference of States on Building Codes and Standards, Inc.	Herndon VA	07/16/87
87-AO-261-1011	National Council For Urban Economic Development	Washington DC	08/26/87
87-AO-261-1012	National American Indian Housing Council	Washington DC	09/30/87
87-AT-261-1009	Auburn University, Alabama Cooperative Extension Service	Auburn AL	04/17/87
87-AT-261-1017	Policy Management Systems Corporation	Columbia SC	08/26/87
87-BO-262-1014	Bethany Homes, Inc.	Haverhill MA	08/14/87
87-DE-261-1008	B-H Property Management, LTD	Colorado Springs CO	04/23/87
87-FW-261-1005	Lomas & Nettleton Co.	Dallas TX	09/25/87
87-NY-262-1023	South Bronx 2000 Local Development Corporation	New York NY	07/07/87
87-NY-262-1027	NW Bronx Community and Clergy Coalition	New York NY	09/02/87
87-NY-262-1030	South Bronx Consortium	New York NY	09/17/87

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**External Audit and Accounting System Evaluation Reports**


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<b>Report Number</b>	<b>Report Title</b>	<b>Location</b>	<b>Issue Date</b>
87-PH-261-1016	Online Service Corporation	Philadelphia PA	09/16/87
87-PH-261-1017	Associated Enterprises, Inc.	Annapolis MD	09/24/87
87-SE-261-1006	Sextant Consultants, Inc.	Portland OR	09/18/87
87-SF-261-1007	Association of Bay Area Governments	Oakland CA	05/26/87
87-SF-262-1008	Association of Bay Area Governments	Oakland CA	05/29/87

## 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 Mortgagor 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
- 86-1 FTS Abuse
- 87-1 Microcomputer Security

### 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
- P-86-5 Computer Matching
- P-86-6 Rehabilitation Activities
- P-86-7 Avoid Loan Fraud
- P-87-1 Section 8 Moderate Rehabilitation Program
- P-87-2 GNMA Mortgage-Backed Securities
- P-87-3 Indian Housing Authority Commissioners and the Low-Income Indian Housing Programs
- P-87-4 Fee Appraisers
- P-87-5 Monitoring Subrecipients in CDBG Program
- P-87-6 Preventing Fraud in HUD's Single Family Insurance Programs
- P-87-7 Fraud in Single Family Loan Originations

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

Director, Fraud Control Division  
 Office of Inspector General, HUD  
 451 Seventh Street, S.W., Room 8254  
 Washington, D.C. 20410

To Report Fraud, Waste, or Mismanagement  
in HUD-Funded Activities,  
Call the HUD HOTLINE



U.S. Department of Housing and Urban Development  
Washington, D.C. 20410-0000

November 1987  
HUD-1126-IG

